YORKEY

Stock Code : 2788

YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.

精熙國際(開曼)有限公司*

(incorporated in the Cayman Islands with limited liability)

Annual Report 2018

* For identification purpose only

Contents

Corporate Information

Executive Directors

Lai I-Jen *(Chairman)*
Kurihara Toshihiko *(Chief Executive Officer)*

Non-Executive Director

Wu Shu-Ping

Independent Non-Executive Directors

Lin Meng-Tsung
Liu Wei-Li
Wang Yi-Chi

Company Secretary

Wong Tak Yee

Registered Office

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman KY1-1111
Cayman Islands

Place of Business in Hong Kong

Workshops 1-2, 6th Floor
Block A, Goldfield Industrial Centre
1 Sui Wo Road
Shatin
New Territories
Hong Kong

Place of Business in the PRC

No. 2 Xiaobian Industrial District
Changan Town
Dongguan City
Guangdong Province
The PRC

Auditor

Deloitte Touche Tohmatsu

Principal Bankers

CTBC Bank Co., Ltd.
Bank SinoPac
China Construction Bank
China Merchants Bank
Industrial Bank

Principal Share Registrar and Transfer Office

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road, P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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

Stock Code

2788

Chairman's Statement

Annual Results

The Group's revenue for the financial year ended 31 December 2018 ("**FY2018**") was approximately US$69,703,000, representing a decrease of approximately 20.2% as compared with US$87,329,000 for the previous year. The Group's net profit for FY2018 was approximately US$7,708,000, representing an increase of approximately 33.4% as compared with US$5,780,000 in 2017.

Dividends

The board of directors of the Company (the "**Board**" and "**Directors**" respectively) proposed to declare a final dividend of HK$0.035 per share out of the Company's profits. Determined to make better return to the shareholders, the Board further proposed to declare a special dividend of HK$0.1 per share out of the Company's share premium account. Subject to approval of the shareholders for the final and special dividends, the Company expects to maintain a stable and sound financial position subsequent to the dividends distributions.

Business Review and Outlook

The Group is principally engaged in the manufacturing and sales of plastic and metallic parts and components of optical and opto-electronic products and the manufacturing and sales of molds and cases, including plastic and metallic parts and components of digital still cameras ("**DSCs**"), action cameras, copier-based multifunction peripherals, surveillance cameras, projectors and advanced TVs, etc.

Chairman's Statement

The Group recorded revenue of US$69,703,000 in FY2018, representing a decrease of approximately 20.2% as compared with US$87,329,000 in the previous financial year. However, the Group recorded net profit of US$7,708,000 in FY2018, representing an increase of approximately 33.4% as compared with US$5,780,000 in the corresponding period in the previous year. The change in net profit of the Group is due to multiple factors, which mainly include: (1) the decrease in revenue, which was mainly due to the decrease in revenue derived from sale of components for DSCs and action cameras, etc., as a result of the weak state of the DSCs industry; (2) the decrease in gross profit during the period as compared with that in the corresponding period in the previous year, which was mainly attributable to the decrease in revenue and the reduced efficiency in economies of scale; (3) as the functional currency of a subsidiary of the Company is Renminbi whilst certain financial assets of such subsidiary are denominated in United States Dollars, due to the depreciation of Renminbi against United States Dollars for the period, the Group recorded exchange gain for the period, compared with recorded exchange loss for the corresponding period in the previous year; (4) no occurrence similar to the related losses arising upon disposal of Pioneer Yorkey do Brasil Ltda. ("**PYBL**") in the corresponding period in the previous year which was an one-off event was recorded for the period. For further details, please refer to the paragraph headed "Obligation Related to Interest in an Associate" on page 9 in the 2017 annual report of the Company; and (5) decrease in income tax expense.

Despite the decrease in revenue and gross profit, during FY2018, (i) the Group recorded exchange gain; (ii) no event similar to the disposal of PYBL had been recorded; and (iii) income tax expense had decreased. Hence, the net profit of the Group in FY2018 amounted to US$7,708,000, representing an increase of approximately 33.4% from US$5,780,000 in the previous financial year.

During FY2018, the Group continued to invest in technology and quality enhancement while high regard was paid to corporate governance for higher governance level. The concerted efforts of its staff have finally led to the appreciation and endorsement by the Group's customers for the product quality and advanced technology attained by the Group. The Group will keep up its commitment to the actualisation of its core value. In addition, the Group will respond to changes in the industry by continuing its efforts in product diversification and actively developing components for surveillance cameras, advanced TVs and projectors, etc. It will continue to focus its efforts on product diversification to increase its competitiveness.

According to statistics announced by the Camera & Imaging Products Association ("**CIPA**"), the shipment volume of DSCs for FY2018 decreased by approximately 22.2% as compared with that in the previous financial year. Furthermore, in light of the weak market, some Japanese brand manufacturers have announced that they would scale down production or withdraw from the compact DSCs market. The Group's revenue derived from sale of components for DSCs accounts for a

Chairman's Statement

high proportion of the overall revenue, whilst the operating environment continues to be challenging. The core competitiveness of the Group lies in its highly sophisticated module technology and its manufacturing technology and capabilities which earns its customers' trust. The Group provides "one-stop" services as the basis to step up its research and development efforts on new products (including components for surveillance cameras, advanced TVs and projectors, etc.) to maintain its competitive edge.

Looking ahead to 2019, the operating environment continues to be challenging and the uncertainties in the external economic environment remain high. As Sino-US trade friction continues to intensify, it poses uncertainties to the global economic landscape. The DSCs industry remains weak and the Group's revenue derived from sale of components for DSCs accounts for a high proportion of the overall revenue. Due to the impact from the shrinkage in the scale of the DSCs industry that resulted in reduced efficiency in economies of scale, the Group is faced with considerable cost pressures. The Group will respond with optimised capability and improved efficiency, and will diversify its product portfolio and develop products for other applications. At the same time, the Group will continue to comply with relevant regulations in respect of environmental protection and corporate governance.

Acknowledgement

On behalf of the Board, I would like to take this opportunity to extend my sincere thanks to our shareholders, customers and suppliers for their continuous support, as well as the management team and staff of the Group for their hard work and contributions in the past year.

LAI I-Jen
Chairman

Management Discussion and Analysis

Important

The final results for FY2018 set out in this annual report are based on audited financial information prepared under Hong Kong Financial Reporting Standards. As financial results are subject to fluctuations and affected by a number of factors, the Group's financial results for any past period should not be taken as indicative of any expected performance of the Group for any future period.

This annual report contains statements with respect to the operating conditions and business prospects of the Company which are based on currently available information. Such statements do not constitute guarantees of the future operating performance of the Group. If due to any unexpected factors, including, but are not limited to, changes in economic conditions, shifts in customer demands and changes in laws and regulatory policies, which may cause the Group's actual results to differ from those expressed in the statements, the Group undertakes no obligation to update or revise any such statements to reflect subsequent circumstances. The Group will, however, comply with all disclosure requirements stipulated by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

Operational and Financial Review

The Group is principally engaged in the manufacturing and sales of plastic and metallic parts and components of optical and opto-electronic products and manufacturing and sales of molds and cases, including plastic and metallic parts and components of DSCs, action cameras, copier-based multifunction peripherals, surveillance cameras, projectors and advanced TVs, etc.

The Group recorded revenue of US$69,703,000 in FY2018, representing a decrease of approximately 20.2% as compared with US$87,329,000 in the previous financial year. However, the Group recorded net profit of US$7,708,000 in FY2018, representing an increase of approximately 33.4% as compared with US$5,780,000 in the corresponding period in the previous year. The change in net profit of the Group is due to multiple factors, which mainly include: (1) the decrease in revenue, which was mainly due to the decrease in revenue derived from sale of components for DSCs and action cameras, etc., as a result of the weak state of the DSCs industry; (2) the decrease in gross profit during the period as compared with that in the corresponding period in the previous year, which was mainly attributable to the decrease in revenue and the reduced efficiency in economies of scale; (3) as the functional currency of a subsidiary of the Company is Renminbi whilst certain financial assets of such subsidiary are denominated in United States Dollars, due to the depreciation of Renminbi against United States Dollars for the period, the Group recorded exchange gain for the period, compared with recorded exchange loss for the corresponding period in the previous year; (4) no occurrence similar to the related losses arising upon disposal of PYBL in the corresponding period in the previous year which was an one-off event was recorded for the period. For further details, please refer to the paragraph headed "Obligation Related to Interest in an Associate" on page 9 of the 2017 annual report of the Company; and (5) decrease in income tax expense.

Despite the decrease in revenue and gross profit, during FY2018, (i) the Group recorded exchange gain; (ii) no event similar to the disposal of PYBL had been recorded; and (iii) income tax expense had decreased. Hence, the net profit of the Group in FY2018 amounted to US$7,708,000, representing an increase of approximately 33.4% from US$5,780,000 in the previous financial year.

Management Discussion and Analysis

During FY2018, the Group continued to invest in technology and quality enhancement while high regard was paid to corporate governance for higher governance level. The concerted efforts of its staff have finally led to the appreciation and endorsement by the Group's customers for the product quality and advanced technology attained by the Group. The Group will keep up its commitment to the actualisation of its core value. In addition, the Group will respond to changes in the industry by continuing its efforts in product diversification and actively developing components for surveillance cameras, advanced TVs and projectors, etc. It will continue to focus its efforts on product diversification to increase its competitiveness.

Key Relationships with Customers, Suppliers and Employees

The Group places great importance on building a mutually beneficial relationship with its customers by offering competitively priced products to them, which in turn has helped to nurture a closer relationship with the Group's customers. The Group's largest customer and top five customers accounted for approximately 15.1% and 52.4% of its revenue for FY2018, respectively. The top five customers include internationally renowned brands which have had a long history of substantial business dealings with the Company. The Group offers credit terms ranging from an average of 60 days to 120 days to the top five customers, which is in line with those offered to other customers, except for a few customers who are offered longer credit term.

As of 31 December 2018, allowance for credit losses for all customers amounted to approximately US$1,000 as compared with US$16,000 as at 31 December 2017.

The Group cooperates with its suppliers and purchases various raw materials and materials from them at competitive prices. The aggregate purchases attributable to the Group's largest supplier and the top five suppliers accounted for approximately 6.4% and 25.8% of the Group's total purchases for FY2018, respectively.

The Group has implemented and maintained sound and effective systems of internal control and enterprise risk management to assess and monitor relevant potential risks.

Employment, Training and Development

As at 31 December 2018, the Group had a total of 1,960 employees (as at 31 December 2017: 2,124 employees). Staff costs incurred for FY2018 amounted to US$20,535,000 (2017: US$24,128,000).

The emolument of the employees of the Group is determined on the basis of their performance, qualifications and work competence. In addition, other benefits including allowances and subsidies are offered to employees for accommodation needs and continuous education; and discretionary bonus is granted to employees with good performance. All employees are entitled to social insurance and other paid leaves in addition to annual leaves such as marriage, maternity and bereavement leaves. Employees are important assets to the Group. Performance appraisal measures are in place to facilitate the conveyance of advocated values and behavioral standards to every staff member who would then know clearly about the requirement standards of the Group. The Group's staff are also encouraged to carry out the operating strategies and achieve the targets set by the Company.

Management Discussion and Analysis

The Group places high value on its staff and ensures that a fair and just promotion system is in place and has established sound environment, health and safety policies to ensure that the Group remains competitive in the market to attract various talents. The Group has implemented a long-term and stable human resource policy to attract and retain quality talents and to provide incentives for its staff to enhance performance with commitment to employee training and development on a regular basis in order to maintain the quality of its products.

Revenue

The Group's revenue for FY2018 was US$69,703,000, representing a decrease of approximately 20.2% as compared with US$87,329,000 in the previous financial year, mainly due to the decrease in revenue derived from sale of components for DSCs and action cameras, etc., as a result of the weak state of the DSCs industry.

The Group's revenue for FY2018 was mainly derived from the sale of components for DSCs which contributed to approximately 58.9% of its revenue (excluding action cameras). However, according to statistics announced by CIPA, the shipment volume of DSCs for FY2018 decreased by approximately 22.2% as compared with that in the previous financial year.

Gross Profit

The Group's gross profit for FY2018 was US$17,943,000 and the gross profit margin was approximately 25.7% (2017: gross profit of US$25,253,000 and gross profit margin of approximately 28.9%), representing a decrease of US$7,310,000 as compared with those in the previous financial year. Such decrease was mainly attributable to the decrease in revenue and the reduced efficiency in economies of scale.

Other Gains and Losses

In FY2018, other gains of the Group amounted to US$4,027,000 (comprised bank interest income of US$1,879,000, rental income of US$504,000, exchange gain of US$1,586,000, net reversal of impairment loss on trade receivables of US$39,000 and miscellaneous income of US$19,000). In the financial year ended 31 December 2017, other losses of the Group amounted to US$2,199,000 (comprised other gains from bank interest income of US$1,381,000, rental income of US$500,000, reversal of impairment loss on trade receivables of US$114,000, miscellaneous income of US$15,000 and recognition of accumulated currency realignment of US$4,209,000 upon liquidation of PYBL as other loss). The increase in bank interest income was mainly due to the increase in United States Dollars denominated term deposit rates. As the functional currency of a subsidiary of the Company is Renminbi whilst certain financial assets of such subsidiary are denominated in United States Dollars, due to the depreciation of Renminbi against United States Dollars in FY2018, the Group recorded exchange gain for FY2018, compared with recorded exchange loss in the previous financial year.

Operating Expenses

The operating expenses of the Group include distribution costs, administrative expenses and research and development expenses. In FY2018, operating expenses of the Group amounted to US$12,757,000, representing a decrease of US$3,540,000 as compared with US$16,297,000 in the previous financial year. Such decrease was mainly due to the exchange loss of US$2,415,000 recorded in the previous financial year and the liquidation cost of PYBL accrued in the previous financial year.

Management Discussion and Analysis

Net Profit

The Group's net profit for FY2018 was US$7,708,000 and the net profit margin was approximately 11.1% (2017: net profit of US$5,780,000 and net profit margin of approximately 6.6%), representing an increase of approximately 33.4% as compared with those in the previous financial year. Such increase was mainly due to the decrease in revenue leading to the decrease in gross profit which was partially offset by the increase in other gains, decrease in operating expenses, and the decrease in income tax expense.

Liquidity and Financial Resources

As at 31 December 2018, the Group had current assets of US$110,030,000 (2017: US$122,684,000) and current liabilities of US$22,802,000 (2017: US$24,828,000). The current ratio of the Group was approximately 483% (2017: approximately 494%).

As at 31 December 2018, the Group had cash at bank and on hand of US$93,945,000 (as at 31 December 2017: US$104,827,000), and zero bank borrowing. Net cash decreased by US$10,882,000 from 31 December 2017.

Net cash inflow from operating activities for FY2018 was US$7,120,000.

Net cash inflow from investing activities for FY2018 was US$310,000, which comprised (i) interest received of US$1,879,000, and (ii) cash outflow from capital expenditure in various business divisions of the Group of US$1,569,000.

Net cash outflow used in financing activities for FY2018 was US$17,922,000, which comprised (i) cash dividend paid during FY2018 of US$17,842,000, and (ii) repurchase of shares of US$80,000.

Effect of foreign exchange rate changes for FY2018 was US$390,000.

Possible Risks and Uncertainties Facing the Group

Foreign Currency Risk

Foreign currency risk refers to the risks associated with the foreign exchange rate movements on the financial results and cash flows of the Group. The Group is mainly exposed to currencies of Hong Kong Dollars, Japanese Yen and Renminbi. The gains of the Group are mainly settled in United States Dollars, while others are in Renminbi, Hong Kong Dollars and Japanese Yen. The expenses of the Group are mainly paid in Renminbi, while others are in United States Dollars, Hong Kong Dollars and Japanese Yen. The exchange rate fluctuation between Hong Kong Dollars and United States Dollars is not significant as the exchange rates are pegged to each other. There was exchange gain associated with Japanese Yen denominated net assets due to appreciation of Japanese Yen against United States Dollars during FY2018, although the amount was minimal. As the functional currency of a subsidiary of the Company is Renminbi, during FY2018, the Group recorded exchange gain due to depreciation of Renminbi against United States Dollars. In order to reduce foreign currency risk, the management of the Group will continue to monitor its foreign currency position, using natural hedge technique and managing its foreign currency risk by means such as management of transactional currencies.

Capital Risk

The capital risk management of the Group is set out in note 23 on page 125.

Financial Risk

The financial risk management of the Group is set out in note 24 on pages 125 to 132.

Management Discussion and Analysis

Business Risk

The Group's revenue is mainly generated from the sale of components for DSCs. The weak state of the DSCs industry during FY2018 resulted in the shrinkage in the scale of revenue, which led to the decrease in revenue generated from the sale of components for DSCs of the Group. The weak state of the DSCs industry may continue to have an adverse impact on revenue and profit. The Group's top five customers accounted for approximately 52.4% of its revenue for FY2018, and the Group's revenue and profit are affected by the performance of such customers. Therefore, the Group will strive to expand its customer base and develop the application of diversified products, including components for surveillance cameras, advanced TVs and projectors, etc. Meanwhile, the Group will pay attention to and strengthen expenses control to enhance its competitiveness.

Since the Group's production facilities are located in the People's Republic of China (the "**PRC**"), the high staff turnover rate may have an adverse impact on its profit. The Group will respond with optimised capability and improvement in automation and efficiency as a guarantee for product quality and expenses control. As Sino-US trade friction continues to intensify, posing uncertainties to the global economic landscape, the management of the Group will continue to monitor its impact on the Group as well as its business operations and financial conditions.

Regulation and Compliance Risk

The Group is exposed to legal and regulatory risks in Hong Kong and in the PRC. Such risks might have significant impacts on the financial conditions, operations and business prospects of the Group. The investments of the Group at present or in the future might be affected by changes in local, national or international political, social, legal, tax, regulatory, shareholder and environmental requirements from time to time that could result in an additional or unforeseen increase in operating expenses and capital expenditures, and hence may adversely affect the Group's revenues and profits.

The Group keeps monitoring regulatory developments and where necessary, will obtain professional advice in respect of the updated regulatory changes.

Contingent Liabilities

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

Capital Commitment

As at 31 December 2018, the capital commitment of the Group was US$11,000 (2017: US$71,000).

Significant Investment

The Group held no significant investment for FY2018.

During the financial year ended 31 December 2016, the Group acquired a property located at Workshops 01-09 on 26th Floor & Flat Roof Above the 26th Floor, CRE Centre, No. 889 Cheung Sha Wan Road, Kowloon, Hong Kong, at a purchase price of HK$42,800,000. The property is an industrial property with a gross area of approximately 8,854 square feet.

The property is currently leased to an independent third party.

Management Discussion and Analysis

Material Acquisition and Disposal of Subsidiaries

The Group did not have any material acquisition or disposal of subsidiaries during FY2018 (2017: Nil).

Pledge of Assets

There was no pledge of the Group's assets as at 31 December 2018 and 2017, respectively.

Outlook

According to statistics announced by CIPA, the shipment volume of DSCs for FY2018 decreased by approximately 22.2% as compared with that in the previous financial year. Furthermore, in light of the weak market, some Japanese brand manufacturers have announced that they would scale down production or withdraw from the compact DSCs market. The Group's revenue derived from sale of components for DSCs accounts for a high proportion of the overall revenue, whilst the operating environment continues to be challenging. The core competitiveness of the Group lies in its highly sophisticated module technology and its manufacturing technology and capabilities which earns its customers' trust. The Group provides "one-stop" services as the basis to step up its research and development efforts on new products (including components for surveillance cameras, advanced TVs and projectors, etc.) to maintain its competitive edge.

Looking ahead to 2019, the operating environment continues to be challenging and the uncertainties in the external economic environment remain high. As Sino-US trade friction continues to intensify, it poses uncertainties to the global economic landscape. The DSCs industry remains weak and the Group's revenue derived from sale of components for DSCs accounts for a high proportion of the overall revenue. Due to the impact from the shrinkage in the scale of the DSCs industry that resulted in reduced efficiency in economies of scale, the Group is faced with considerable cost pressures. The Group will respond with optimised capability and improved efficiency, and will diversify its product portfolio and develop products for other applications. At the same time, the Group will continue to comply with relevant regulations in respect of environmental protection and corporate governance.

Final Dividend

The Board proposed to declare and distribute to the shareholders a final dividend of HK$0.035 per share. It is expected that the final dividend will be paid on or before 1 August 2019.

Special Dividend

Determined to make better return to the shareholders, the Board proposed to declare and distribute to the shareholders a special dividend of HK$0.1 per share out of the Company's share premium account. It is expected that the special dividend will be paid on or before 26 August 2019.

Including the interim dividend of HK$0.035 per share paid to the shareholders on Wednesday, 3 October 2018 and the final dividend and special dividend to be paid in the future, total dividend paid to the shareholders for FY2018 will be HK$0.17 per share, bringing a dividend payout ratio of approximately 231%.

Profile of Directors and Senior Management

Executive Directors

Mr. LAI I-Jen (賴以仁), aged 70, joined the Group in December 2005 and is an executive director and the chairman of the Company. He is also the chairman of Yorkey Optical Technology Limited, a direct wholly-owned subsidiary of the Company. Mr. Lai has over 30 years of experience in the manufacturing and sales of optical components and opto-electronic products. Mr. Lai is currently the chairman of Asia Optical Co., Inc. ("**Asia Optical**", an indirect substantial shareholder of the Company), a company listed on the Taiwan Stock Exchange. Asia Optical is principally engaged in the design, manufacturing and sales of optical parts and components and opto-electronic products.

Mr. Lai is also currently the chairman and chief operating manager of Asia Tech Image Inc. ("**Asia Tech**"), a company listed on the Taiwan's GreTai Securities Market and holds directorship in various companies. Asia Tech is held by Asia Optical as to 26.2%, and is principally engaged in the trading of image sensor and electronic related parts and components.

Mr. Lai has substantial experiences and international vision in business management, marketing and global logistics.

Mr. KURIHARA Toshihiko (栗原俊彥), aged 65, joined the Group in July 2016 and is an executive director and the Chief Executive Officer of the Company. He is also a director of Yorkey Optical Technology Limited, a direct wholly-owned subsidiary of the Company, the chairman of Dongguan Yorkey Optical Machinery Components Ltd., an indirect wholly-owned subsidiary of the Company and a director of Click Away Services Limited, an indirect wholly-owned subsidiary of the Company. Mr. Kurihara graduated from Sophia University with a major in mechanical engineering and has over 30 years of experience in the optical disk pickup industry. Prior to joining the Group, Mr. Kurihara has served various positions in Pioneer Corporation ("**Pioneer**"), a company listed in Japan which manufactures and sells audio and video equipment for household, industrial, and automobile use. Mr. Kurihara joined Pioneer in 1977 and had served in many managerial positions in the pickup development and sales department of Pioneer from April 1992 to September 2009. Subsequently, from October 2009 to April 2012, Mr. Kurihara served as the chief executive officer of Pioneer Digital Design and Manufacturing Corporation, a joint venture of Pioneer and Sharp. He was an executive officer of Pioneer from June 2012 to June 2015. Mr. Kurihara was a consultant of Pioneer from June 2015 to June 2016. He had served as a director of Fortune Lands International Limited ("**Fortune Lands**"), the trustee of The Yorkey Employees' Trust, since June 2017 and resigned in February 2018.

Profile of Directors and Senior Management

Non-Executive Director

Ms. WU Shu-Ping (吳淑品), aged 56, joined the Group in December 2005 and is a non-executive director of the Company. Ms. Wu is currently a director of Asia Optical and a director and an executive manager of Asia Tech and holds directorship in various companies. She had been successfully involved in the listing, overseas financing and merger & acquisition projects of Asia Optical.

Independent Non-Executive Directors

Mr. LIN Meng-Tsung (林孟宗), aged 45, was appointed as an independent non-executive director of the Company in June 2017. Mr. Lin is also the chairman of the audit committee, nomination committee and remuneration committee of the Company. Mr. Lin graduated from Feng Chia University in Taiwan majoring in accounting and is a qualified accountant and bookkeeper in Taiwan. Mr. Lin had served in an international accounting firm from July 1997 to August 2011, during which he was mainly responsible for providing auditing and taxation services to listed companies and corporations. He is currently a certified public accountant and the director of Kung Long Certified Public Accountants (廣隆會計師事務所) in Taiwan. Mr. Lin had served as a director of Fortune Lands since June 2017 and resigned in October 2017.

Mr. LIU Wei-Li (劉偉立), aged 38, was appointed as an independent non-executive director of the Company in June 2017. Mr. Liu is also a member of the audit committee, nomination committee and remuneration committee of the Company. Mr. Liu received a master of laws for science and technology and a bachelor of science degree in engineering from National Tsing Hua University of Taiwan, as well as an LL.M. degree from Stanford University. Mr. Liu is a lawyer qualified in both Taiwan and the New York State, and is a patent agent of Taiwan. He had many years of experience with international law firms. Mr. Liu is now a counsel at LCC Partners Law Office. Mr. Liu's areas of expertise are intellectual property, cross-border investment, venture capital and commercial litigation. With an engineering background, he has extensive experience in providing solutions for technology companies as well as for start-up companies.

Mr. WANG Yi-Chi (王逸琦), aged 47, was appointed as an independent non-executive director of the Company in May 2012. Mr. Wang is also a member of the audit committee, nomination committee and remuneration committee of the Company. Mr. Wang holds a doctoral degree in industrial engineering from Mississippi State University in the United States. His areas of expertise are lean enterprise transformation and gemba kaizen. Mr. Wang has published numerous research articles in some international journals and he is currently a full-time professor with the Department of Industrial Engineering and Systems Management at Feng Chia University in Taiwan. Mr. Wang had served as a director of Fortune Lands since March 2013 and resigned in October 2017.

Profile of Directors and Senior Management

Senior Management

Mr. CHAN Sun-Ko (詹孫科), aged 50, is the deputy general manager of Dongguan Yorkey Optical Machinery Components Ltd. (an indirect wholly-owned subsidiary of the Company), and assists the Chief Executive Officer in undertaking various duties. Mr. Chan is the head of each of the mould technology department, metal stamping department, plastic injection and moulding department, surface treatment processing department, assembly department, cases and bags department, quality assurance division and sales and marketing department of the Group. Mr. Chan had worked in other companies in the plastic moulding industry and has more than 20 years of experience in this industry. He is responsible for overseeing production, technique and quality for the Group. He joined the Group in July 1998.

Ms. LIANG Li-Li (梁黎黎), aged 42, joined the Group in March 2005. Ms. Liang is currently a senior manager of the Group's finance department and is responsible for accounting work.

Ms. WONG Tak Yee (黃德儀), was appointed as the Company Secretary of the Company with effect from 30 March 2017. Ms. Wong is a director of the Corporate Services Division of Tricor Services Limited ("**Tricor**"), which is a global professional services provider specialising in integrated business, corporate and investor services. Ms. Wong has over 25 years of experience in the corporate secretarial field. She has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Wong is a Chartered Secretary and a Fellow of both The Hong Kong Institute of Chartered Secretaries ("**HKICS**") and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She is a holder of the Practitioner's Endorsement from HKICS. Ms. Wong holds a Master of Arts degree from The Hong Kong Polytechnic University. Prior to joining Tricor, Ms. Wong was a senior manager of Company Secretarial Services with Deloitte Touche Tohmatsu in Hong Kong, where she had provided company secretarial and share registration services to its clients.

Report of the Directors

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

Principal Activities

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 26 to the consolidated financial statements on page 133.

Business Review

An analysis of the Group's revenue and operating segments for the year ended 31 December 2018 are set out in note 5 to the consolidated financial statements on pages 106 to 107. A fair evaluation on the Group's operation, including the description of principal risks and uncertainties facing the Group are set out in the section headed "Management Discussion and Analysis" on pages 9 to 10.

Financial Key Performance Indicators

The following table shows the key financial ratios indicating the performance of the Group:

Financial year ended 31 December	2018	2017
Gross profit margin (%)[1]	**25.7**	28.9
Net profit margin (%)[2]	**11.1**	6.6
Return on assets (%)[3]	**7.5**	5.5

At 31 December	2018	2017
Gearing ratio (%)[4]	**0**	0
Current ratio (%)[5]	**483**	494
Average trade receivables collection period (days)[6]	**63**	61
Average trade payables repayment period (days)[7]	**84**	79

Notes:

1. Gross profit margin = Gross profit/Revenue x 100%

2. Net profit margin = Net profit/Revenue x 100%

3. Return on assets = Net profit before tax/Total assets

4. Gearing ratio = Net debt/Equity attributable to owners of the Company

5. Current ratio = Current assets/Current liabilities

6. Average trade receivables collection period = (Average trade receivables/Revenue) x 365. Detailed analysis on trade receivables is set out in note 15 to the consolidated financial statements on pages 118 to 120.

7. Average trade payables repayment period = (Average trade payables/Cost of goods sold) x 365. Detailed analysis on trade payables is set out in note 18 to the consolidated financial statements on pages 121 to 122.

Report of the Directors

Environmental Policy and Performance

As society places more importance on corporate social responsibility, the Group realises the importance of a sustainable business operation. As we mainly utilise natural resources from our environment for the manufacturing of our optical and opto-electronic product related parts and components, we are aware of the important role and responsibility in protecting the environment and maintaining environmental sustainability.

The Group is committed to environmental protection. Therefore, we have formulated an environmental policy and implemented the ISO 14001 environmental management system to lead our business operations in a more environmentally friendly manner in order to effectively manage the environmental issues in our operations. In addition, through replacing old equipment, pursuing cleaner means of production and improving resource efficiency, we have reduced the use of resources and the pollutants emission to minimise the impact on the environment arising from our operations. These measures enable the Group to continue to improve its environmental performance.

Further details are set out in the section headed "Environmental, Social and Governance Report" of this annual report.

Compliance with Relevant Laws and Regulations

During FY2018, there was no evidence of non-compliance with the relevant laws and regulations that have significant impacts on the Group as far as the Board is aware.

Key Relationships with Customers, Suppliers and Employees

Customers

The Group places great importance on building a mutually beneficial relationship with its customers by offering competitively priced products to them, which in turn has helped to nurture a closer relationship with the Group's customers. The Group's largest customer and top five customers accounted for approximately 15.1% and 52.4% of its revenue for FY2018, respectively. The top five customers include internationally renowned brands which have had a long history of substantial business dealings with the Company. The Group offers credit terms ranging from an average of 60 days to 120 days to the top five customers, which is in line with those offered to other customers, except for a few customers who are offered longer credit term.

As of 31 December 2018, allowance for credit losses for all customers amounted to approximately US$1,000 as compared with US$16,000 as at 31 December 2017.

Report of the Directors

Suppliers

The Group cooperates with its suppliers and purchases various raw materials and materials from them at competitive prices. The aggregate purchases attributable to the Group's largest supplier and the top five suppliers accounted for approximately 6.4% and 25.8% of the Group's total purchases for FY2018, respectively.

The Group has implemented and maintained sound and effective systems of internal control and enterprise risk management to assess and monitor relevant potential risks.

Employment, Training and Development

As at 31 December 2018, the Group had a total of 1,960 employees (as at 31 December 2017: 2,124 employees). Staff costs incurred for FY2018 amounted to US$20,535,000 (2017: US$24,128,000).

The emolument of the employees of the Group is determined on the basis of their performance, qualifications and work competence. In addition, other benefits including allowances and subsidies are offered to employees for accommodation needs and continuous education; and discretionary bonus is granted to employees with good performance. All employees are entitled to social insurance and other paid leaves in addition to annual leaves such as marriage, maternity and bereavement leaves. Employees are important assets to the Group. Performance appraisal measures are in place to facilitate the conveyance of advocated values and behavioral standards to every staff member who would then know clearly about the requirement standards of the Group. The Group's staff are also encouraged to carry out the operating strategies and achieve the targets set by the Company.

The Group places high value on its staff and ensures that a fair and just promotion system is in place and has established sound environment, health and safety policies to ensure that the Group remains competitive in the market to attract various talents. The Group has implemented a long-term and stable human resource policy to attract and retain quality talents and to provide incentives for its staff to enhance performance with commitment to employee training and development on a regular basis in order to maintain the quality of its products.

Results

The results of the Group for the year are set out in the consolidated statement of profit or loss and other comprehensive income on page 79 of this annual report.

Five Year Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 136 of this annual report.

Dividends

The Board proposed to declare and distribute to the shareholders a final dividend of HK$0.035 per share. It is expected that the final dividend will be paid on or before 1 August 2019.

Determined to make better return to the shareholders, the Board proposed to declare and distribute to the shareholders a special dividend of HK$0.1 per share out of the Company's share premium account. It is expected that the special dividend will be paid on or before 26 August 2019.

Report of the Directors

Including the interim dividend of HK$0.035 per share paid to the shareholders on Wednesday, 3 October 2018 and the final dividend and special dividend proposed to be paid, total dividend paid to the shareholders for FY2018 will be HK$0.17 per share, bringing a dividend payout ratio of approximately 231%.

Share Capital

Details of the movements in the issued share capital of the Company during FY2018 are set out in note 19 to the consolidated financial statements on pages 122 to 123.

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2018 amounted to US$76,710,000.

Reserves

Details of the movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 81 and note 27 to the consolidated financial statement on pages 134 to 135.

Investment Properties

During the financial year ended 31 December 2016, the Group acquired a property located at Workshops 01-09 on 26th Floor & Flat Roof Above the 26th Floor, CRE Centre, No. 889 Cheung Sha Wan Road, Kowloon, Hong Kong, at a purchase price of HK$42,800,000. The property is an industrial property with a gross area of approximately 8,854 square feet.

The property is currently leased to an independent third party.

Property, plant and equipment

Details of the movement in property, plant and equipment of the Group during FY2018 are set out in note 12 to the consolidated financial statements on pages 115 to 116.

Major Customers and Suppliers

The aggregate sales attributable to the Group's largest customer and the five largest customers accounted for approximately 15.1% and 52.4% of the Group's total revenue for FY2018, respectively.

The aggregate purchases attributable to the Group's largest supplier and the five largest suppliers accounted for approximately 6.4% and 25.8% of the Group's total purchases for FY2018, respectively.

To the best knowledge of the Directors and their respective associates, none of them are aware of any shareholder who owns more than 5% of the issued share capital of the Company and has any interest in any of the top five customers and suppliers of the Group for FY2018.

Report of the Directors

Directors and Directors' Service Contracts

During FY2018 and up to the date of this annual report, the Directors were:

Executive Directors:

Mr. Lai I-Jen *(Chairman)*
Mr. Kurihara Toshihiko *(Chief Executive Officer)*

Non-executive Director:

Ms. Wu Shu-Ping

Independent non-executive Directors:

Mr. Lin Meng-Tsung
Mr. Liu Wei-Li
Mr. Wang Yi-Chi

The biographical details of the Directors are set out on pages 12 to 13 of this annual report.

Mr. Lai I-Jen (executive Director) entered into a letter of appointment with the Company for a term of 1 year commencing from 7 June 2013. Mr. Kurihara Toshihiko (executive Director) entered into a service contract with the Company for a term of 1 year commencing from 10 March 2017. The letter of appointment and the service contract will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

The non-executive Director, Ms. Wu Shu-Ping, has been appointed for an initial term of 1 year commencing from 20 December 2005 and shall continue thereafter until terminated by not less than three months' prior notice in writing served by either party on the other. In addition, Ms. Wu's appointment is subject to retirement by rotation in accordance with the Company's Articles of Association.

Mr. Wang Yi-Chi (independent non-executive Director) has been appointed for a term of 1 year commencing from 24 May 2012. Each of Mr. Lin Meng-Tsung (independent non-executive Director) and Mr. Liu Wei-Li (independent non-executive Director) has been appointed for a term of 1 year commencing from 15 June 2017. In addition, the appointment of each of the independent non-executive Directors is subject to retirement by rotation in accordance with the Company's Articles of Association.

Other than disclosed above, none of the Directors has entered or has proposed to enter into any service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employing company within one year without payment of compensation (other than statutory compensation)).

Report of the Directors

The Company had received written confirmations from each of the Company's independent non-executive Directors of their independence and considered all independent non-executive Directors to be independent. Despite respective directorship of Mr. Wang Yi-Chi held from March 2013 to October 2017 and Mr. Lin Meng-Tsung held from June 2017 to October 2017 at Fortune Lands International Limited ("**Fortune Lands**"), the trustee of The Yorkey Employees' Trust, the Company considered the said independent non-executive Directors to be independent taking into account the fact that the main duty of holding such directorship at Fortune Lands was to consider rewarding the Group's employees which the Company was of the view that it did not have an impact on their independence. In accordance with the provisions of the Company's Articles of Association, Mr. Lai I-Jen, Mr. Kurihara Toshihiko, Ms. Wu Shu-Ping, Mr. Lin Meng-Tsung, Mr. Liu Wei-Li and Mr. Wang Yi-Chi will retire from the Board at the forthcoming annual general meeting and being eligible, will offer themselves for re-election. Details of Directors' emoluments on a named basis are set out in note 7 to the consolidated financial statements on pages 109 to 111 of this annual report.

Directors and Chief Executive's Interests in Shares

As at 31 December 2018, the interest or short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SFO**") which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision 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 Issuers (the "**Model Code**") to be notified to the Stock Exchange and the Company, are set out below:

1. Long positions in the shares, underlying shares and debentures of the Company

As at 31 December 2018, none of the Directors or chief executive of the Company had any long position in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

Report of the Directors

2. **Short positions in the shares, underlying shares and debentures of the Company and interests and short positions in the shares, underlying shares and debentures of the Company's associated corporation**

   As at 31 December 2018, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any interest or short position in the shares, underlying shares or debentures of the Company's associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Stock Exchange and the Company pursuant to the Model Code.

   At no time during FY2018 was the Company, its subsidiaries or its associated companies a party to any arrangement to enable the Directors (including their spouse and children under 18 years of age) to acquire benefits by an acquisition of shares or underlying shares, or debentures of, the Company or its associated corporation.

Directors' Interest in Contracts of Significance

Save as disclosed in note 25 to the consolidated financial statements, no significant contract to which the Company or any of its subsidiaries was a party and in which a director of the Company had material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Rights to Acquire Shares

At no time during FY2018 was the Company, its substantial shareholders or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

Substantial Shareholders

As at 31 December 2018, the interests or short positions of every person, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

Report of the Directors

1. Long position in the shares and underlying shares of the Company

Name of shareholder of the Company	Type of interest	Number of shares/ Underlying shares in the Company	Percentage of the issued share capital in the Company
Asia Optical International Ltd.	Beneficial owner	186,833,000	22.77%
Asia Optical Co., Inc.	Interest in a controlled corporation	226,833,000 *(Note 1)*	27.64%
Ability Enterprise (BVI) Co., Ltd.	Beneficial owner	143,817,000	17.53%
Ability Enterprise Co., Ltd.	Interest in a controlled corporation	143,817,000 *(Note 2)*	17.53%
Fortune Lands International Limited	Founder of discretionary trust	113,000,000 *(Note 3)*	13.77%
Mr. Chan Sun-Ko	Interest in a controlled corporation	113,000,000 *(Note 4)*	13.77%
Ms. Wu Bo-Yan	Interest of a spouse	113,000,000 *(Note 5)*	13.77%
Mr. David Michael Webb	Interest in a controlled corporation; beneficial owner	56,800,000 *(Note 6)*	6.92%

Note 1: Asia Optical Co., Inc. holds 100% direct interest in the issued share capital of Asia Optical International Ltd. ("**AOIL**") and Richman International Group Co., Ltd. ("**Richman**"), which holds 186,833,000 shares and 40,000,000 shares in the Company respectively, and therefore is taken to be interested in an aggregate of 226,833,000 Shares held by AOIL and Richman.

Note 2: Ability Enterprise Co., Ltd. holds 100% direct interest in the issued share capital of Ability Enterprise (BVI) Co., Ltd. ("**Ability Enterprise BVI**"), and therefore is taken to be interested in an aggregate of 143,817,000 shares in the Company held by Ability Enterprise BVI.

Report of the Directors

Note 3: As recorded in the register required to be kept under section 336 of the SFO, Fortune Lands International Limited ("**Fortune Lands**") is the founder of The Yorkey Employee's Trust and is the registered owner of 113,000,000 shares in the Company which it held as trustee of The Yorkey Employees' Trust.

Note 4: As recorded in the register required to be kept under section 336 of the SFO, Mr. Chan Sun-Ko, being the sole shareholder of Fortune Lands, is taken to be interested in an aggregate of 113,000,000 shares in the Company held by Fortune Lands.

Note 5: As recorded in the register required to be kept under section 336 of the SFO, Ms. Wu Bo-Yan, the spouse of Mr. Chan, is taken to be interested in an aggregate of 113,000,000 shares in the Company in which Mr. Chan is interested.

Note 6: Mr. David Michael Webb ("**Mr. Webb**") holds 100% direct interest in the issued share capital of Preferable Situation Assets Limited ("**Preferable Situation**"), which holds 37,615,671 shares in the Company, and therefore is taken to be interested in the 37,615,671 shares in the Company held by Preferable Situation. Mr. Webb also holds 19,184,329 shares in the Company as beneficial owner.

Save as disclosed above, as at 31 December 2018, the Company had not been notified of any long position being held by any persons, other than a director or chief executive of the Company, in the shares or underlying shares in the Company which would be recorded in the register required to be kept under section 336 of the SFO.

2. Short positions in the shares and underlying shares of the Company

As at 31 December 2018, the Company had not been notified of any short position being held by any substantial shareholder in the shares or underlying shares in the Company which would be recorded in the register required to be kept under section 336 of the SFO.

Share Option Scheme

A share option scheme was conditionally adopted by the shareholders' written resolution of the Company dated 18 January 2006 and had expired on 17 January 2016 and no new share option scheme has been adopted by the Company.

Remuneration of Senior Management

During the financial year ended 31 December 2018, remuneration payable to the four senior management members of the Group (the biographical details of which are disclosed in the section headed "Profile of Directors and Senior Management" in this annual report) falls within the following bands:

	Number of Senior Management
US$0 – US$50,000 *(note)*	2
US$50,001 – US$100,000	1
US$100,001 – US$150,000	0
US$150,001 – US$200,000	1
	4

Note: One of the two senior management members of the Group resigned with effect from 30 June 2018.

Report of the Directors

Continuing Connected Transactions

During the financial year ended 31 December 2018, the Group had the following connected transactions that were subject to the reporting requirements under the Listing Rules for disclosure in this annual report.

1. Lease of property by Dongguan Yorkey Optical Machinery Components Ltd ("Dongguan Yorkey") to Dongguan Guang Tong Business Machines Co., Ltd. ("Dongguan Guang Tong")

On 25 March 2015, Dongguan Yorkey, an indirect wholly-owned subsidiary of the Company, as landlord and Dongguan Guang Tong, as tenant, renewed the supplemental lease agreement pursuant to which Dongguan Guang Tong has agreed to lease the relevant property located at Xiao-bian, the Second Industrial Zone, Chang-an town, Dong-guan city, Guangdong, China, with a maximum area of 3,523.8528 square metres for production use and a maximum area of 2,509.9712 square metres for dormitory use for a term commencing from 1 January 2016 to 31 December 2018. Monthly rental is calculated based on the actual space used by Dongguan Guang Tong.

Dongguan Guang Tong is wholly owned by Ever Pine International Limited, which is held by Ability Enterprise BVI as to approximately 34.65%. As such, Ability Enterprise BVI indirectly holds 34.65% of the equity interests in Dongguan Guang Tong. Dongguan Guang Tong is an associate of Ability Enterprise BVI and hence, a connected person of the Company for the purposes of the Listing Rules.

For the financial year ended 31 December 2018, the rental income received from Dongguan Guang Tong amounted to approximately US$268,000.

2. Sale of plastic parts and components from Dongguan Yorkey to Dongguan Guang Tong

On 25 March 2015, Dongguan Yorkey and Dongguan Guang Tong renewed the supplemental DY agreement ("**Renewed Supplemental DY Agreement**") pursuant to which Dongguan Yorkey agreed to sell plastic parts and components to Dongguan Guang Tong for a term commencing from 1 January 2016 to 31 December 2018.

Entering into the Renewed Supplemental DY Agreement will benefit the Group from the enhancement of the Group's sales portfolio through selling plastic parts and components to Dongguan Guang Tong.

For the financial year ended 31 December 2018, the Group's sales of plastic parts and components to Dongguan Guang Tong amounted to approximately US$25,000.

Report of the Directors

3. Engagement of Dongguan Guang Tong for SMT processing by Dongguan Yorkey

On 25 March 2015, Dongguan Yorkey and Dongguan Guang Tong entered into the DY processing agreement whereby Dongguan Yorkey agreed the engagement of Dongguan Guang Tong for SMT processing for a term commencing from 1 January 2016 to 31 December 2018.

As the Group does not possess SMT processing capacity, and after considering that Dongguan Guang Tong is a large SMT processing plant and has been conducting business with Japanese customers in the past, its quality, cost, and delivery should be able to meet the Group's requirements; and as it leased a plant from the Group, the engagement can save transportation costs and reduce inventories.

For the financial year ended 31 December 2018, the engagement of Dongguan Guang Tong for SMT processing by the Group amounted to nil.

4. Lease of property by Dongguan Sintai Optical Co., Ltd. ("Dongguan Sintai") to Dongguan Yorkey

On 25 March 2015, Dongguan Yorkey, as tenant and Dongguan Sintai, as landlord, renewed the lease agreement pursuant to which Dongguan Sintai agreed to lease the relevant property located at Xiao-bian, the Second Industrial Zone, Chang-an town, Dong-guan city, Guangdong, China, with a maximum area of 20,719.13 square metres for production use and a maximum area of 4,653.38 square metres for dormitory use for a term commencing from 1 January 2016 to 31 December 2018. Monthly rental is calculated based on the actual space used by Dongguan Yorkey.

Dongguan Sintai is a wholly-owned subsidiary of AOIL, a substantial shareholder of the Company, and hence a connected person of the Company.

For the financial year ended 31 December 2018, the rental paid to Dongguan Sintai amounted to approximately US$1,159,000.

Report of the Directors

5. Engagement of Shenzhen Sintai Optical Co., Ltd. ("Shenzhen Sintai") for plating and surface treatment processing by Dongguan Yorkey

On 16 December 2015, Dongguan Yorkey and Shenzhen Sintai entered into a process plating agreement pursuant to which Dongguan Yorkey agreed to the engagement of Shenzhen Sintai for plating and surface treatment processing. The term will last from 1 January 2016 until 31 December 2018.

Shenzhen Sintai is a wholly-owned subsidiary of AOIL, a substantial shareholder of the Company, and hence a connected person of the Company.

As the Group does not possess plating and surface treatment processing production line, and after considering that Shenzhen Sintai is located closely to the local district of the Group, the Group can save transportation costs and improve efficiency through the engagement of Shenzhen Sintai.

For the financial year ended 31 December 2018, the total amount for the engagement of Shenzhen Sintai for plating and surface treatment processing amounted to approximately US$3,601,000.

The independent non-executive Directors have reviewed the continuing connected transactions and in their opinion, these transactions were entered into by the Group:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) in accordance with the terms of the agreements governing such transactions are fair and reasonable and are in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "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 its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 24 to 26 of this annual report in accordance with Listing Rule 14A.56. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Report of the Directors

Related Party Transactions and Continuing Connected Transactions

The related party transactions referred to in note 25 to the consolidated financial statements have also constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Management Contracts

Except for the connected transactions as stated in this directors' report, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Directors' Interest in Competing Business

As at 31 December 2018, none of the Directors or any of their respective associates (as defined in the Listing Rules) has engaged in any business that competes or may compete with the business of the Group, or has any other conflicts of interests with the Group.

Permitted Indemnity Provision

A permitted indemnity provision for the benefit of the Directors and officers of the Group is currently in force and was in force throughout the financial year ended 31 December 2018.

Throughout FY2018, the Company has taken out and maintained directors' and officers' liability insurance which provides appropriate cover for the Directors and officers of the Group.

The Company reported in the 2016 Annual Report that the insurer for the Directors' and Officers' Liability Policy (the "**D&O Policy**") has declined to provide coverage and that the Company would be seeking legal advice.

The Company has since received legal advice to the effect that in order for the Company to obtain any form of coverage under the D&O Policy in respect of the costs and fine paid in regard to the Securities and Futures Commission of Hong Kong investigation and the proceedings in the Market Misconduct Tribunal that it would be necessary for the Company to commence legal proceedings against the two responsible officers (i.e. Mr. Nagai Michio and Mr. Ng Chi Ching) who have since left the Company.

Having regard to the uncertainty in litigation, the time and costs to be incurred by the Company, the chances of any actual recoveries from Mr. Nagai and/or Mr. Ng and the effect/impact it would have on staff morale if the Company were to sue its former officers, the Company has made a 'commercial' decision not to take legal action against Mr. Nagai and/or Mr. Ng and to 'accept' the position taken by the insurer of not providing coverage under the D&O Policy.

The Company reported in the 2016 Annual Report that the insurer for the D&O Policy has declined to provide coverage for the claim raised by two shareholders of the Company (the "**Claim**") and that the Company would be seeking legal advice.

Report of the Directors

The Company has since received legal advice to the effect that there are merits to resist the insurer's contention that no coverage will be provided on the basis that the shareholders' Claim is regarded as a "Securities Claim" as defined in the D&O Policy.

Given the stance taken by the insurer, the Company will have to commence legal proceedings against the insurer in order to seek any coverage.

However, having regard to the amount of the Claim, the uncertainty in litigation, the time and costs to be incurred by the Company in bringing legal proceeding against the insurer (which costs can be costly), the Company has made a 'commercial' decision and has settled the Claim.

Emolument Policy

The emolument of the employees of the Group is determined on the basis of their performance, qualifications and work competence. The emolument policy of the senior management is set up by the Group with reference to industry standards and the positions they serve coupled with performance assessment mechanism implemented by the Group.

The emolument of the Directors are recommended by the remuneration committee of the Company and are decided by the Board, as authorised by shareholders at the annual general meeting.

Directors' Remuneration

The Director's fees, basic salaries and other allowances are disclosed in note 7 to the consolidated financial statements.

Save as disclosed in note 7 to the consolidated financial statements, in FY2018, no compensation was paid to or there was no compensation receivable by Directors or past Directors for the loss of office as a Director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group distinguishing between contractual and other payments.

Pension Schemes

The pension schemes of the Company and its subsidiaries are primarily in the form of contributions to the China statutory public welfare fund.

Sufficiency of Public Float

As at the latest practicable date prior to the issue of this annual report, to the best knowledge of the Directors and based on the information publicly available to the Company, there is a sufficient public float as required by the Listing Rules.

Report of the Directors

Purchase, Redemption or Sale of Listed Securities of the Company

During the financial year ended 31 December 2018, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares '000	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$'000
September	508	1.14	1.09	569
November	54	1.16	1.10	61
	562			630

	US$'000
Equivalent to	80

The repurchase of the Company's shares during FY2018 was effected by the Directors pursuant to the repurchase mandate granted by shareholders at the annual general meeting of the Company held on 15 June 2018, with a view to benefiting shareholders as a whole by enhancing the earnings per share of the Group.

The above ordinary shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the listed securities of the Company during FY2018.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under company laws in the Cayman Islands.

Auditor

A resolution to re-appoint Deloitte Touche Tohmatsu as auditor of the Company will be submitted at the forthcoming annual general meeting of the Company. There has been no changes in auditor for the preceding three years.

Report of the Directors

Dividend Policy

When considering the declaration and payment of dividends, the Board needs to consider potential opportunities and risks existing in the Company's operation and development as well as assess various factors, regardless of whether they are financial or operational, internal or external, in the past or the future, microeconomic or macroeconomic. In principle, the Company shall pay shareholders of the Company an annual cash dividend not lower than 70% of the combined profit attributable to equity owners of the Company in the current year. However, the determination to pay such dividends will be made at the discretion of the Board. The payment of dividends may be limited by legal restriction and by agreements that the Group may enter into in the future. There will be no assurance as to whether the dividend distribution will occur as intended, the amount of a dividend payment or the timing of such dividend payment. Any future declaration of dividends may or may not reflect the historical declarations of dividends and will be at the absolute discretion of the Board.

The Board will conduct supervision and review from time to time to ensure that the policy continues to satisfy the Company's needs and, at the same time, reflects current regulatory requirements and positive corporate governance practices, providing that the Company gives no assurance to pay dividends of any certain amount within any fixed period. The Board shall discuss amendments to this policy when necessary.

On behalf of the Board

LAI I-Jen
Chairman

20 March 2019

Corporate Governance Report

Corporate Governance Practices

The Group is committed to ensure high standards of corporate governance in the interest of its shareholders. The Directors also acknowledge that it is their responsibility for preparing the financial statements of the Group for the financial year ended 31 December 2018.

The Group has adopted the code provisions set out in the Code of Corporate Governance Practices (the "**Code**") as stated in Appendix 14 to the Listing Rules. The Company has reviewed each code provision set out in the Code and confirmed that save for those indicated in this annual report, it has fully complied with the Code during FY2018.

According to the code provision stated in section F.1.1 of the Code, the company secretary should be an employee of the Company and have knowledge of the Company's day-to-day affairs. Where the Company engages an external service provider as its company secretary, it should disclose the identity of a person with sufficient seniority (e.g. chief legal counsel or chief financial officer) at the Company whom the external provider can contact.

Ms. Wong Tak Yee ("**Ms. Wong**"), a director of Tricor Services Limited, an external service provider, has been appointed as the company secretary of the Company with effect from 30 March 2017. Ms. Wong's primary contact person at the Company is Mr. Kurihara Toshihiko, an executive director of the Company. For further details, please refer to the announcement of the Company dated 30 March 2017. Ms. Wong has complied with the relevant professional training requirements under Rule 3.29 of the Listing Rules.

To strengthen the Company's compliance with the Code in respect of compliance, risk management, internal control and relevant disclosure requirements, during FY2018, the Company has engaged an independent professional advisor to review the Company's corporate governance code, risk management processes and the relevant procedures for compliance with Part XIVA of the SFO. The Company continues to devote much efforts on formulating the sufficient corporate governance practices which it believes is crucial to its healthy growth and its business needs.

Directors' 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 own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiry to all Directors regarding any non-compliance with the Model Code for FY2018 and they all confirmed that they have fully complied with the required standard as set out in the Model Code.

Board of Directors

The Board currently comprises two executive Directors, one non-executive Director and three independent non-executive Directors.

The Board members for the financial year ended 31 December 2018 are:

Executive Directors

Mr. Lai I-Jen *(Chairman)*
Mr. Kurihara Toshihiko *(Chief Executive Officer)*

Non-Executive Director

Ms. Wu Shu-Ping

Corporate Governance Report

Independent Non-Executive Directors
Mr. Lin Meng-Tsung
Mr. Liu Wei-Li
Mr. Wang Yi-Chi

The Board has four scheduled meetings a year and meet at other times as and when required to review financial and internal control, risk management, company strategy and operating performance of the Group. Board minutes are kept by the secretary of the Company and are sent to the Directors for records and are open for inspection by the Directors. During FY2018, five board meetings were held and the attendance of each Director is set out below:

Name of director	Number of Meetings attended
Lai I-Jen *(Chairman)*	5/5
Kurihara Toshihiko *(Chief Executive Officer)*	5/5
Wu Shu-Ping	5/5
Lin Meng-Tsung	5/5
Liu Wei-Li	5/5
Wang Yi-Chi	5/5

The Board is responsible for ensuring that there is a competent executive management which is able to run the Company in a sound and efficient manner. The Board is also responsible for establishing the Company's business strategies and plans from time to time to ensure that the operations of the Company are conducted effectively whilst the Chief Executive Officer and senior management are responsible for strategic planning of the Company's various business units and day-to-day management and operations.

Each executive Director is delegated with individual authority and responsibility to oversee and monitor the operations of a specific business unit, and to implement the strategies and policies set by the Board. The roles of the chairman of the Board and the Chief Executive Officer are segregated and are not exercised by the same individual. During FY2018, the chairman of the Board held two meetings with the non-executive Directors (including the independent non-executive Directors) without the presence of the other executive Director. The Company has received written confirmations of independence from each of the independent non-executive Directors of their independence pursuant to Rule 3.13 of the Listing Rules. The Board is of the view that all the independent non-executive Directors are independent. Despite respective directorship of Mr. Wang Yi-Chi held from March 2013 to October 2017 and Mr. Lin Meng-Tsung held from June 2017 to October 2017 at Fortune Lands International Limited ("**Fortune Lands**"), the trustee of The Yorkey Employees' Trust, the Company considered the said independent non-executive Directors to be independent taking into account the fact that the main duty of holding such directorship at Fortune Lands was to consider rewarding the Group's employees which the Company was of the view that it did not have an impact on their independence. The independent non-executive Directors will provide independent opinion and share their knowledge and experience with the other members of the Board. All the independent non-executive Directors have appropriate professional qualifications or accounting or related financial management expertise.

Corporate Governance Report

The non-executive Director, Ms. Wu Shu-Ping, has been appointed for an initial term of 1 year commencing from 20 December 2005 and shall continue thereafter until terminated by not less than three months' prior notice in writing served by either party on the other, subject to re-election at the forthcoming annual general meeting in accordance with the Articles of Association of the Company and the relevant letter of appointment.

During FY2018, the Board had conducted appropriate internal control procedures and reviewed risk management strategies and policies of the Company to ensure that the Company runs its business in compliance with all legal and regulatory requirements with prudence and integrity.

Each proposed candidate of director of the Company is provided with presentation and training by the professional legal advisor of the Company prior to appointment to ensure that he/she is fully aware of his/her responsibilities under the Listing Rules and other applicable laws and regulations as a director of a listed company in Hong Kong.

Training for Directors

The Company has arranged and provided suitable training, placing an appropriate emphasis on the roles, functions and duties of its Directors to ensure that he/she has a proper understanding of the business and operations of the Company and is fully aware of his/her responsibilities under applicable laws, rules and regulations and the Listing Rules as well as the Group's various governance and internal control policies.

During FY2018, the Company has provided materials to all Directors regarding the business operations of the Group, overall economic conditions and applicable orders. In addition, the Company has provided information to its Directors from time to time to ensure that the Directors continue to make contribution to the Board and comply with the requirements of Paragraph A.6.5 of the Code in a fully informed and relevant manner. The Company has received the records of training from all Directors.

The Directors understand the importance of continuous professional development and are committed to participate in suitable training to develop their knowledge and skills.

Appointment, Re-election and Removal of Directors

The Company has established formal and transparent procedures for the appointment and succession planning of Directors.

Each of the Directors has entered into a service contract or a letter of appointment with the Company for a specific term. Such term is subject to his/her re-election at the next following annual general meeting upon retirement pursuant to relevant articles of the Articles of Association of the Company.

Corporate Governance Report

In accordance with the Articles of Association adopted by the Company on 24 May 2012, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. At each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement at an annual general meeting at least once every three years and being eligible to offer themselves for re-election.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The nomination committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

Remuneration Committee

The Company has established a remuneration committee with written terms of reference as suggested under the code provisions under the Code. The remuneration committee comprises three members, namely, Mr. Lin Meng-Tsung, Mr. Liu Wei-Li and Mr. Wang Yi-Chi, all of whom are independent non-executive Directors. The chairman of the remuneration committee is Mr. Lin Meng-Tsung. The remuneration committee will meet at least twice a year to determine the remuneration policy for Directors and senior management. During FY2018, three remuneration committee meetings were held and the attendance of each Director is set out below:

Name of director	Number of Meetings attended
Lin Meng-Tsung	3/3
Liu Wei-Li	3/3
Wang Yi-Chi	3/3

The Company has adopted the model of remuneration committee as described in code provision B.1.2(c)(ii) of the Code to make recommendations to the Board on the remuneration packages of Directors and senior management.

Corporate Governance Report

The principal responsibilities of the remuneration committee include making recommendations to the Board on the remuneration package of the Directors and the senior management to ensure that the remuneration offered is appropriate for the duties and responsibilities assumed and in line with the general market practice.

The work performed by the remuneration committee during FY2018 included determining the policy for the remuneration of Directors and senior management, making recommendations to the Board on the remuneration packages of Directors and the Chief Executive Officer, assessing performance of executive Directors and approving the terms of executive Directors' service contracts. Each member of the remuneration committee abstains from voting on any resolution concerning his own remuneration.

Remuneration of Directors

Details of the amount of Directors' emoluments are set out in note 7 to the consolidated financial statements.

Auditor's Remuneration

During FY2018, the fees paid/payable to the auditor, in respect of audit services provided by the auditor to the Group, was approximately US$218,000 and other non-audit services particularly for interim results review and tax compliance amounted to approximately US$77,000 and US$47,000, respectively, for the year under review.

Audit Committee

The Company has established an audit committee in compliance with Rule 3.21 of the Listing Rules with written terms of reference in compliance with the code provisions under the Code. The audit committee ensures adequate supervision of the Company's financial reporting processes, reviews the internal audit program and reports, ensures coordination between internal and external auditors, assesses the independence and appropriateness of the external auditors, and monitors the compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, as well as internal rules and procedures approved by the Board. The audit committee performed the above duties during FY2018.

As at 31 December 2018, the audit committee comprised three independent non-executive Directors, namely, Mr. Lin Meng-Tsung, Mr. Liu Wei-Li and Mr. Wang Yi-Chi. The chairman of the audit committee was Mr. Lin Meng-Tsung.

During FY2018, four audit committee meetings were held and the attendance of each Director is set out below:

Name of director	Number of Meetings attended
Lin Meng-Tsung	4/4
Liu Wei-Li	4/4
Wang Yi-Chi	4/4

Corporate Governance Report

At the meetings, the audit committee has reviewed the interim results for the six months ended 30 June 2018 and the consolidated financial statements of the Group for the financial year ended 31 December 2017. The final results for FY2018 were reviewed by the audit committee on 20 March 2019.

The Directors acknowledged their responsibility for preparing the consolidated financial statements for each financial period which give a true and fair view of the financial affairs of the Group.

Nomination Committee

The nomination committee was established on 16 March 2012 in accordance with the code provisions under the Code. Details of the duties and responsibilities of the nomination committee are set out in its terms of reference. The nomination committee is established primarily for the purpose of reviewing the structure, size and composition of the Board regularly, and making recommendations to the Board on nominations and appointment of Directors, and succession planning of Directors.

As at 31 December 2018, the nomination committee comprised three independent non-executive Directors, namely, Mr. Lin Meng-Tsung, Mr. Liu Wei-Li and Mr. Wang Yi-Chi. The chairman of the nomination committee was Mr. Lin Meng-Tsung.

During FY2018, two nomination committee meetings were held and the attendance of each Director is set out below:

Name of director	Number of Meetings attended
Lin Meng-Tsung	2/2
Liu Wei-Li	2/2
Wang Yi-Chi	2/2

The following is a summary of the work performed by the nomination committee during the year:

- reviewed the structure, size and composition of the Board and made recommendations to the Board on the Directors who should retire and make themselves available for re-election and election at the annual general meetings of the Company held on 15 June 2018 and to be held on 18 June 2019, pursuant to the Company's Articles of Association; and

- assessed the independence of all independent non-executive Directors.

Corporate Governance Report

Director Nomination Policy

The nomination committee comprised three independent non-executive Directors to ensure that decisions are in the Company's interest. The nomination committee conducts annual reviews on the structure, number and composition, including aspects such as skills, expertise and experience, of the Board to consider succession plans of board members, and conducts regular reviews. The Company has formulated a set of official and transparent procedures for nomination of directors. The nomination committee selects candidates suitably qualified to become Board members for the Board's consideration as additional directors or fill in directorship vacancy, with the final appointment being made by the Board. Selection criteria include but are not limited to considering the potential contributions a candidate can bring to the Board in terms of qualifications, skills, experience, independence, gender diversity and board diversity (please refer to the section headed "Board Diversity Policy" in the Corporate Governance Report of this annual report for details). The nomination committee shall seek suitable candidates in accordance with its board diversity policy among different candidates from circles outside of the Board as appropriate and possible. The factors mentioned above are for reference only and are not exhaustive, nor do they possess any determining effect. The nomination committee can determine to nominate any individual it deems fit.

The nomination committee will supervise and review the implementation of this policy from time to time to ensure that the policy continues to satisfy the Company's needs and, at the same time, reflects current regulatory requirements and positive corporate governance practices. Where necessary, the nomination committee will discuss any revisions to the policy, and recommend any such revisions to the Board for consideration and approval.

Board Diversity Policy

The Company has adopted the board diversity policy, the purpose of which is to achieve diversity and maintain a sustainable and balanced development. When determining the composition of the Board, the Company will consider board diversity with regard to factors including, but not limited to, gender, age, culture, ethnicity, educational background, expertise and experience, knowledge and skills, and any other factors that the Board considers relevant and appropriate to achieving board diversity. When determining appointments to the Board, the Company places great emphasis on merit principle and considers whether the strengths of such candidate complement other directors and broaden the skills and experience of the Board as a whole.

Measurable Objectives

The selection of candidates for the Board shall be based on a range of diversified factors, including but not limited to gender, age, culture, ethnicity, educational background, expertise and experience, knowledge and term of service. The decision shall ultimately be determined by the merits of the candidates and the contributions they can make to the Board.

Review and Supervision

The Board will review and supervise the implementation of the policy from time to time to ensure the effectiveness of the policy. Where necessary, the nomination committee will discuss any revisions to the policy, and recommend any such revisions to the Board for consideration and approval.

Corporate Governance Report

Assessment Results of Diversity

1. Capacity		Executive Directors	Non-Executive Director	Independent Non-Executive Directors
		2	1	3
2. Ethnicity			**Chinese**	**Non-Chinese**
			5	1
3. Directorship with the Company (Number of Years)		**1-5 years**	**6-10 years**	**more than 10 years**
		3	1	2
4. Age Group	**31-40**	**41-50**	**51-60**	**61-70**
	1	2	1	2
5. Gender			**Male**	**Female**
			5	1

Board Expertise and Skills

The breakdown of Board expertise and skills is set out below and demonstrates the diverse mix of experience and background of the members of the Board.

- Related industry experience
- Company executive and leadership skills
- Substantial experiences and international vision in business management, marketing and global logistics
- Legal
- Accounting
- Financing
- Lean enterprise transformation and gemba kaizen

Corporate Governance Report

Corporate Governance Functions

The Board has delegated the responsibility to the audit committee to be responsible for performing the corporate governance duties and determining the relevant policies of the Company. Terms of reference of the audit committee adopted by the Board in compliance with the requirement under code provision D.3.1 of the Code include the duties of the audit committee on corporate governance functions to develop and review the Group's policies and practices on corporate governance, to review and monitor the training and continuous professional development of the directors and the senior management, to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements, to develop, review and monitor the code of conduct, guidelines and compliance manual applicable to employees and directors and to review the Group's compliance with the Code and disclosure in this Corporate Governance Report.

Risk Management and Internal Controls

Responsibilities of the Board

The Board acknowledges its responsibility and is committed to maintain sound and effective risk management and internal control systems of the Group and to review their effectiveness on an ongoing basis. The Board aims to manage rather than eliminate risks of failure to achieve the Group's business objectives, and to provide reasonable but not absolute assurance against material misstatement or loss.

The Board has reviewed, and is satisfied with, the adequacy of resources, staff qualifications and experience, training requirements and budgets of the staff responsible for the accounting, financial reporting, internal audit and risk management functions.

The Risk Management Committee

The Risk Management Committee ("**RMC**"), reporting to the audit committee, is responsible for strengthening the Group's risk management culture, ensuring the overall framework of risk management is comprehensive and responsive to changes in the business. It regularly reviews the completeness and accuracy of risk assessments, risk reporting and the adequacy of risk mitigation efforts.

The RMC is responsible for overseeing the Group's risk management approach, policy and framework. The Group operates a consistent methodology using the Group's risk management framework for the identification, assessment, reporting and management of risks.

The activities of the RMC are reviewed at least twice a year by the audit committee, which continuously assesses the risk management requirements in accordance with the emerging risks faced by the Group in the changing environment. The internal control system is designed to mitigate and manage the risks that are significant to the fulfillment of the Group's business objectives. The audit committee reviews the findings and the assessment of the RMC on the effectiveness of the Group's risk management system and reports to the Board annually.

Corporate Governance Report

Risk Management Mechanism

The Group's risk management framework, approved by the audit committee, mandates a consistent and effective approach applied across the Group to manage the risks associated with its business and operations. The Group has formalised its risk management framework with a distinct organisational structure for different responsible parties with defined authority, responsibilities and risk management roles. A risk management policy has been established to provide a framework for the identification, analysis, evaluation, treatment, monitoring and reporting of key risks at all levels across the Group to support the achievement of the Group's overall strategic objectives. The existing risk management process has been consistently applied across the business units and departments of the Group during FY2018. Adopting both top-down and bottom-up approaches in relation to risk management, the Group's risk management framework comprises the following key elements:

1. Identify risks;
2. Analyse risks;
3. Evaluate risks;
4. Treat risks;
5. Monitor and review the performance of the risk management process and changes which might affect it; and
6. Communicate and consult with internal and external stakeholders.

Any potential risks that may impact the Group's strategic objectives are identified during regular management meetings and operations on an ongoing basis in order to respond to the changes in the business and external environment. The identified risks are evaluated using appropriate qualitative and quantitative techniques that help to rank the risks into 4 risk levels (i.e. Extremely High, High, Medium and Low) and to prioritise risk management effort to determine the appropriate risk mitigation plans (i.e. accept, reduce, transfer and avoid). Ongoing risk monitoring is performed by respective management/department heads of each business unit/department who have to confirm the effectiveness of the internal control and risk management systems on an annual basis. There are no significant changes in the nature and extent of significant risks identified by the Group since the last annual review. To ensure the effectiveness of the risk mitigation plans, the Group's Internal Audit Department validated these risk mitigation plans executed by the Group on a semi-annually basis.

Internal Audit Function

The Group's Internal Audit ("**IA**") Department, reporting to the audit committee of the Company, performs regular internal audit reviews of the Group, in order to provide assurance over the adequacy and effectiveness of the Group's risk management and internal control framework.

During FY2018, the IA Department played a major role in monitoring the corporate governance of the Group, by conducting internal audit reviews on business processes and risk management. The IA Department reported the review results of the internal audit programme, significant control issues, and the overall adequacy of the control environment to the Board through the audit committee on a regular basis. Based on the internal audit reviews conducted in FY2018, no material internal control deficiencies or weaknesses have been identified.

Corporate Governance Report

To ensure systematic coverage of all auditable areas and effective deployment of resources, an annual risk-based IA plan with reference to the risk assessment results has been formulated. This IA plan, which is prepared annually to reflect the major changes in the organisational structure and risks, is approved by the audit committee of the Company.

Review of Risk Management and Internal Control Systems

The Board reviewed and assessed the adequacy and effectiveness of risk management and internal control systems of the Group, at least semi-annually, through reporting from the audit committee under the RMC's assistance, which covered the major internal control procedures in the areas of financial, operational, compliance and risk management. Areas of improvement have been identified and appropriate measures have been put in place to manage the risks. The improvement of the risk management and internal control systems is an ongoing process and the Board maintains a continuing commitment to strengthen the Company's internal control environment and processes. In respect of FY2018, the Board was satisfied with the effectiveness and adequacy of the Group's risk management and internal control systems. No significant areas of concern were identified. The Board considered that the risk management and internal control systems are functioning effectively and adequately.

In addition, the Group engaged an external consultant to review the Group's existing practice of the risk management system and their suggestions will be taken into consideration to the Group's risk management framework subsequently.

Disclosure of Inside Information

The Group is fully aware of its obligation of handling and dissemination of inside information under the Listing Rules and the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong). The Group has established an inside information management policy for identifying, monitoring and reporting inside information to our shareholders, investors, analysts and media. The internal policy is updated whenever required and adopted accordingly to guide its stakeholder communications and the determination of inside information in order to ensure consistent and timely disclosure. The Group conducts its affairs in accordance with the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission in June 2012.

Shareholders' Rights

Procedures for calling for an extraordinary general meeting and putting forward proposals at general meetings

Pursuant to Article 58 of the Articles of Association, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company (by mail to the Company Secretary's office at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, or by email to ir@yorkey-optical.com) to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such

Corporate Governance Report

meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for proposing a person for election as a Director

Pursuant to Article 88 of the Articles of Associations of the Company, no person other than a Director retiring at the annual general meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a written notice ("**Notice**") signed by a Shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such Notice is given of his intention to propose such person for election. If a Shareholder wishes to propose a person other than a Director for election as a Director at a general meeting, the Shareholder shall lodge a Notice signed by himself and the person to be proposed shall sign and lodge a notice of his willingness to be elected at the principal place of business of the Company in Hong Kong or at the Hong Kong share registrar and transfer office of the Company provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that (if the Notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

Making Enquiries or Proposals to the Board

Shareholders who would like to make enquiries or proposals regarding the Company to the Board may send such enquiry or proposals via email to: ir@yorkey-optical.com.

During FY2018, an annual general meeting of the Company was held on 15 June 2018. The attendance of each director is shown below:

Name of director	Number of general meetings
Lai I-Jen *(Chairman)*	1/1
Kurihara Toshihiko *(Chief Executive Officer)*	1/1
Wu Shu-Ping	1/1
Lin Meng-Tsung	1/1
Liu Wei-Li	1/1
Wang Yi-Chi	1/1

Corporate Governance Report

Investor Relations

The Company is committed to maintaining a high level of transparency in communicating with its shareholders and the investment community at large. The Company provides information in relation to the Company and its business in its annual and interim reports, circulars and announcements, which are to be dispatched to shareholders on a timely basis.

All the shareholders of the Company are to be given a 21 days' notice of the date and venue of the Company's annual general meeting where the shareholders will have an opportunity to communicate directly with the Board.

Company Secretary

Ms. Wong Tak Yee, a director of Tricor Services Limited, an external service provider, has been appointed as the company secretary of the Company with effect from 30 March 2017. Ms. Wong's primary contact person at the Company is Mr. Kurihara Toshihiko, an executive Director of the Company. For further details, please refer to the announcement of the Company dated 30 March 2017. Ms. Wong has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

Directors' and Auditor's Responsibility for Accounts

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Group for FY2018, which give a true and fair view of the financial position of the Group on a going concern basis.

Statements of directors' responsibilities for preparing the consolidated financial statements of the Group and external auditor's reporting responsibilities are set out in the Independent Auditor's Report in this annual report.

Constitutional Documents

During FY2018, the Company has not made any changes to its Memorandum and Articles of Association.

Environmental, Social & Governance Report

Established in December 1995, the Group is principally engaged in the manufacturing and sales of optical and opto-electronic product related parts and components for numerous well-known brands. With the growing concerns on the corporate social responsibility ("**CSR**") of the society, the Group realised that it is vital to operate its business in a sustainable manner while making progressive growth and development for our business.

The Group is pleased to publish its third Environmental, Social & Governance ("**ESG**") report. Through this report, the Group continues to outline its policies, approaches and practices towards ESG management to its stakeholders, allow them to have a better understanding in the progress of the Group's ESG development. This is also the first year when parts of its social key performance indicators ("**KPIs**") are disclosed to further demonstrate its commitments and efforts in pursuing better ESG performance in the Group.

Reporting Scope

The scope of this ESG report covers the major activities of its subsidiary – Dongguan Yorkey Optical Machinery Components Ltd., which represents the core operational unit of the Group, and reports its sustainability performance for the financial year from 1 January 2018 to 31 December 2018 (the "**Reporting Period**", "**FY2018**").

Reporting Standard

This ESG report has been prepared in accordance with the "comply or explain" provisions as well as the "recommended disclosures" of the Environmental, Social and Governance Reporting Guide under Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**HKEx ESG Reporting Guide**").

Contact & Feedbacks

The Group would like to hear your valued feedback of this ESG report, please feel free to send your comments via email at ykesg@yorkey-optical.com.

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

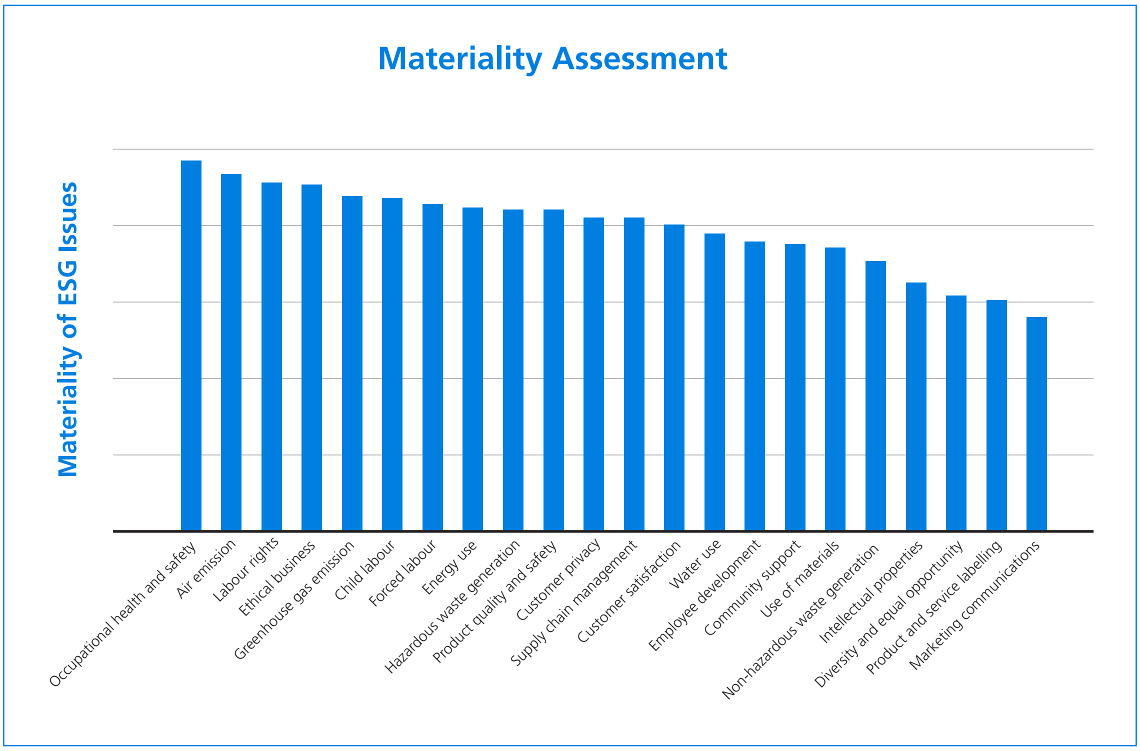
The Group highly values the opinions and views of its stakeholders. The Group believes that their inputs are the important elements for formulating and refining its management policies and approaches on ESG, as well as making continuous improvement on its ESG performances.

The Group has engaged an independent consultant to help conducting a stakeholder survey this year, by means of an online questionnaire, in order to understand stakeholders' views on ESG and to identify the specific ESG issues which are the most influential to its operations from its stakeholder's perspectives.

The identified major stakeholder groups, including those from the Board, employees, suppliers or contractors, customers, community, government body or regulators, are invited to rate 22 ESG indicators (e.g. emission, resource use, labour practices, supply chain management, community involvement and product responsibility) according to the importance and relativity of each indicator to the Group's operations in the questionnaire. A materiality assessment was then performed to prioritise the most concerned ESG topics to the Group based on the collected result.

Environmental, Social & Governance Report

The chart below illustrates the result of the materiality assessment. The five most concerned ESG topics were identified as follows: occupational health and safety, air emission, labour rights, ethical business and greenhouse gas emission.



With this result in mind, the Group focused on addressing the concerns of these material topics in this report in accordance with the HKEx ESG Reporting Guide. To strive for excellence in its ESG performance, the Group will continue to collect and review the opinions and recommendations from its stakeholders, as well as to enhance its existing strategies in managing the identified material topics in its business activities.

Environmental, Social & Governance Report

CORPORATE SOCIAL RESPONSIBILITY MANAGEMENT

"Pursuit of Quality, Excellency, Unity and Harmony, Sustainable Development" is the business philosophy of the Group. In much the same way, adhered to its corporate mission, the Group is committed to integrating the elements of sustainability and bringing positive influence to its community, customers, shareholders and employees.

Corporate Mission

Responsible to the Community

Maintain harmonious public relations by actively carrying out green public welfare activities, promoting energy-saving industrialization as well as improving the overall safety of production

Responsible to the Customers

Gain the highest customers' satisfactions and loyalty by delivering high quality products, and operating transparently and fairly, free competition and legitimate trading activities

Responsible to the Shareholders

Create and maintain long-term values to the shareholders through sustainable business development

Responsible to the Employees

Create a worker-friendly and safe workplace with great affluence and happiness for every employee

To achieve the above objectives, the Group has established a series of CSR policy, standards and management manuals that have embedded its commitments in the areas of environment protection, labour practices, occupational health and safety, and business ethics in its business activities. By the implementation of CSR management across its operations, this has helped the Group effectively manage its environmental and social issues in its operations, monitor and continuously improve its ESG performance.

The Group's CSR Policy

- Run business legitimately and open supervision by the public
- Respect employees' contributions and share profits together
- Pay close attention to environmental protection and safety issues, and support the sustainable development
- Maintain harmonious public relations with social integration
- Manufacture green products, reduce energy consumption and emission
- Uphold the principle of integrity across all business operations

Environmental, Social & Governance Report

SUSTAINABLE OPERATIONAL PRACTICES

Occupational Health and Safety ("OHS") Management

Providing and maintaining a safe workplace to employees is the fundamental responsibility of the Group. As the ultimate goal is to achieve zero occupational accident and in order to safeguard its operations against OHS risks, the Group has implemented an OHS management system certified with the international standard of OHSAS 18001 and the standard of GB/T 28001-2011 for effective safety hazards identification and safety risks management, so as to prevent the occurrence of severe safety accidents or incidents. The Group's Occupational Health and Safety Committee, formed with representatives from different departments, has the overall responsibility to determine the policy, targets and strategic directions on OHS management, as well as monitoring the overall implementation of safety management system for making continuous improvement on OHS performance.

The Group's commitments and objectives to OHS management are determined and stated in its OHS policy, which is presented as follows:

The Group's OHS Policy	
	Comply with all national occupational health and safety ordinances, industrial standards and other safety requirements
	Prevent occupational accidents and incidents by increasing staff competency and safety awareness, production facilities enhancement and work control guidelines
	Conduct regular inspections and audits to continuously improve the OHS management system for upgrading the overall OHS standard across the operations

In adherence to its policy and objectives, the Group has implemented a series of corresponding safety precautionary approaches – such as stringent safety management procedures and operational procedures, in-house safety rules, working guidelines and the provision of personal protective equipment to minimise and mitigate the safety risks posed to its employees. For high-risk activities such as lifting operations, performing high temperature works (e.g. welding and cutting), operating special mechanical machines or equipment (e.g. forklift truck) etc., all the special operators must attend specific training and be qualified as competent persons before the operation begins.

Certificate of OHSAS 18001
Safety Management System

Environmental, Social & Governance Report

The Group's safety officer and supervisors carry out daily internal safety inspections to make sure the precautionary measures are sufficiently maintained. This also allows the Group to identify any potential risks continuously for the purposes of accident prevention. Moreover, the Group engaged external certified parties to conduct workplace occupational hazard inspections and audits regularly to verify the effectiveness of precautionary measures. This is to ensure its operations meet the requirements of the relevant national laws and regulations (i.e. the Work Safety Law of the People's Republic of China (中華人民共和國安全生產法), the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases (中華人民共和國職業病防治法) and the Fire Control Law of the People's Republic of China (中華人民共和國消防法)).

To foster the safety-oriented corporate culture in its workplace and raise the safety awareness of all employees on OHS risks, the Group offers mandatory safety training for all employees and technical training for the employees who operate mechanical equipment and work on high risks activities to acquire necessary competence for their daily work. Relevant employees are also provided with various OHS drills regularly to equip them with the capability to respond and handle emergencies such as chemical leakage, fire and explosion. Besides, the Group has launched a safety and environmental incentive programme to advocate its employees to pay close attention to the risky activities in its manufacturing facility and take proactive actions on work injuries, accidents or incidents prevention. Rewards are given to those departments with good performances based on the monthly OHS performance evaluation.

Notwithstanding the above, accidents and incidents may still occur even though all the preventive measures are in place. In the event of accident happened, the Group strictly follows the procedures set out in the "Work Injury and Accident Management Standard". A thorough accident investigation will be conducted to find out the root cause(s) of the accident, rectify and improve the OHS conditions in workplace based on the investigation findings. When necessary, the Group revises the existing safety management approaches in order to prevent similar accident from recurring. The Group also ensures its employees receive appropriate medical treatment and proper compensation under the social insurance after the accident.

During the Reporting Period, the Group was not aware of any breaches of relevant laws and regulations that have a significant impact on the Group relating to providing a safe working environment and protecting employees from occupational hazards.

Business Integrity

Anti-corruption

The Group firmly believes that integrity, accountability and fairness is the foundation for a sustainable business. The Group is committed to upholding the highest standard of business ethics when operating its business at all times to protect the interest of its stakeholders and corporate reputation, and to have zero tolerance for any corruption practices such as bribery, extortion, fraud and money laundering in its operations. To strengthen its commitments on anti-corruption, the Group has promulgated a Business Ethics Standard with the policy on anti-corruption and code of conduct, which outlined a set of business principles on anti-corruption, conflict of interests handling and privacy protection, for all employees to strictly abide by and governing the Group's operations.

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All employees are strictly prohibited to solicit and/or receive, directly or indirectly, any benefits such as gifts and entertainment etc. When there is any suspected or actual conflict of interest, employees are required to make written declaration and report such situation to the supervisors. Staff who breach the rules stated in the code of conduct are subject to disciplinary actions. Likewise, suppliers are requested to follow the same rules and practices as stated in the code of conduct.

The Group encourages employees, suppliers, customers or other stakeholders to report any malpractices and unlawful activities in good faith. A whistle-blowing mechanism with well-defined reporting channels is in place that allows whistle-blowers to report any corruption practices and misconducts to the Disciplinary Commission of the Group. The identity of the whistle-blowers and the reported information are kept confidential in order to protect the whistle-blowers against reprisal, victimisation and unfair treatment. Relevant training on anti-corruption and code of conduct is conducted regularly through induction training and refresher training for its employees to emphasise the significance of integrity in its business. In the event of any reporting cases received, the Group's Disciplinary Commission will carry out internal investigation thoroughly and take necessary follow-up actions according to the findings. When the personnel is suspected of criminal offense and/or corruption, the Group will transfer the case to judicial authorities for further handling.

During the Reporting Period, the Group fully complied with the Criminal Law of the People's Republic of China (中華人民共和國刑法) and the Group was not aware of any breaches of relevant laws and regulations that have a significant impact on the Group relating to bribery, extortion, fraud and money laundering.

Privacy & Intellectual Property ("IP") Protection

The Group is committed to protecting privacy and IP rights (e.g. trademarks, patents and copyrights, etc.) for its corporate interest and its stakeholders. A set of stringent working procedures is in place and guides its staff in handling confidential and sensitive information such as trade secrets, customer business information, product designs and technology and the personal information of employees. All the business information and assets, either provided by its customers and vendors or owned by the Group, must be properly labelled and securely stored in designated areas by the assigned departments. Any copying, transfer and leakage of such information to any other third parties is strictly prohibited. The suppliers are also requested to protect confidential information with their due care and avoid such information leakage.

The Group acknowledges the importance of respecting the originality and accomplishment of new creations. If applicable, proper IP applications and registrations should be made to protect the interest of the Group. The Group's employees are required to comply with Patent Law of the People's Republic of China (中華人民共和國專利法) in order to prevent IP rights infringement.

During the Reporting Period, the Group was not aware of any breaches with relevant laws and regulations that have a significant impact on the Group relating to privacy matters relating to products and services provided.

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Fairness in Operation

Maintaining fair competitive markets is vital to the industry growth and sustainability. In compliance with the Anti-Unfair Competition Law of the People's Republic of China (中華人民共和國反不正當競爭法), the Group enacts zero tolerance to any anti-competitive practices such as cartels and market power abuse in its business dealings. To ensure all customers and potential investors receive the correct and accurate market information, the Group prevents the disclosure of false or misleading information in advertisement, financial and non-financial details by complying with the relevant national laws and regulations.

Product Responsibility

In line with its corporate mission and its quality management policy – winning customers' trusts with quality, the Group is committed to delivering products with the highest quality, safety, environmentally friendly and reliability to its customers in order to meet their needs, as well as to gain their satisfaction.

The Group has established a comprehensive quality management system certified with the international standards of ISO 9001 and IATF 16949 in its manufacturing facility. Through the implementation of the quality management system, the Group does not only fully comply with relevant legislative requirements including Product Quality Law of the People's Republic of China (中華人民共和國產品質量法), industrial standards particularly on health and safety and customers' specific requirements, but also continuously improve its product related performance such as the on-time delivery rate, product quality pass rate and defects prevention.

To uphold the highest quality control standard in its operations, the Group's Quality Control and Assurance Department carries out stringent controls and inspections at different stages of the production life cycle by following the requirements of the relevant quality assurance monitoring procedures. All materials used in its production should be abided by the relevant standards (e.g. Restriction of Hazardous Substances Directive ("**RoHS**") or Registration, Evaluation, Authorisation and Restriction of Chemicals ("**REACH**")) set out in its Green Procurement Management Standard and should not contain banned toxic or hazardous substances. By carrying out incoming materials inspections, the Group can make sure the types, quantity and quality of procured materials, parts and components are conformed to the specifications. During the manufacturing processes, the Group will conduct regular sampling checks, which help to sort out any products with defects, verify the consistency of the product quality and make immediate rectification in case of any abnormal circumstances occurred to increase the production efficiency. The finished product checks ensure the manufactured goods are free from defects and meet the required product specifications before delivery. In addition to all the product-related inspections, the Group conducts both internal and external audits on the quality management system regularly in order to ensure the effectiveness of the system is well maintained.

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In FY2018, the Group has received an Environment Friendly Corporation certificate from its business partners – Fuji Xerox Co., Ltd., recognising the Group's continuous efforts on offering green products and pursue environmental-friendly and sustainable operation.

Customer Satisfaction

To ensure the provision of quality products to its customers and address their needs properly and effectively, the Group conducts customer satisfaction survey regularly in order to obtain their valuable opinions and feedbacks on its products and services. The results of the surveys, together with records received such as written complaints or compliments, are analysed and functioned as indicators to evaluate its product quality and the performance of the quality management system. This process helps the Group to identify the area(s) for improvement and understand the reason(s) behind of the change of customers' needs for continuously pursuing the excellence of its products and services.

Customer Complaints Handling

The Group follows the complaint handling process under the "Customer Satisfaction Management Procedure" to verify the situation, take corresponding remedial actions as well as rectify the complained issue(s) in a timely manner in event of received complaints or communication, whether in verbal or written form, from its customers. Subsequent follow-up investigation will be carried out to identify the root causes of the induced complaint case based on the reported information of the complainant and corrections are taken to rectify the current practices immediately. In case of any products return initiated by customers due to product quality and/or deficiencies, the Group will make prompt information judgement, problem assessment and propose corresponding solutions to deal with the problem(s) raised by the customers. Pursuant to the "Non-conformity Management Procedure", the returned products are subject to re-work, repair or will be scrapped. The Group's Quality Control and Assurance Department, together with the specialist engineers, will further analyse and review the causes of the non-conformities, and implement relevant corrective actions to prevent the occurrence of similar product defect(s) in the future.

During the Reporting Period, the Group was not aware of any breaches of relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising and labelling relating to products and services provided and methods of redress.

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ENVIRONMENTAL MANAGEMENT

As an optical and opto-electronic product related parts and components manufacturer, the Group mainly utilises natural resources from its natural environment in supporting its day-to-day production. The Group recognises its vital role and responsibility to conserve the environment and maintain the environmental sustainability. Apart from complying with the relevant national laws and regulations (e.g. the Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法) and the Environmental Protection Tax Law of the People's Republic of China (中華人民共和國環境保護稅法)), the Group strives to prevent pollutions, minimise the environmental impacts that are relevant to its business activities and consume the natural resources in an environmentally responsible manner throughout its operations, as stipulated in its environmental policy.

The Group has established and implemented an EMS, which is in conformance with ISO 14001 standard, in its manufacturing facility since 2005. Through the EMS implementation, the Group can identify the potential environmental risks and opportunities, and the significant environmental aspects in order to manage the associated impacts with proper controls or mitigation measures systematically.

During the Reporting Period, the Group was not aware of any breaches of relevant laws and regulations that have a significant impact on the Group relating to air and greenhouse gas emissions, discharge into water and land, and generation of hazardous waste and non-hazardous waste.

Certificate of ISO 14001
Environmental Management System

The Group's Environmental Policy

- Comply with all applicable environmental laws and regulations
- Ensure effective operation of the ISO 14001 Environmental Management System ("EMS") for managing environmental issues from its operations for pollutions prevention
- Improve the efficiency of resources use, reduce energy consumptions and emission of pollutants by equipment upgrade, process design modification and cleaner means of production to reduce use of energy and resources, and emission of pollutants
- Make continuous improvement of EMS to enhance the environmental performance

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Managing the Emissions

Air Emission

The Group is dedicated to minimise adverse impacts on the environment with its best efforts and technologies. The Group has tried its best to minimise its air emissions generated during the manufacturing processes, and has successfully controlled air emissions to the levels that met the standards set by the local government in the People's Republic of China.

The major air emissions, mainly the limited volatile organic compounds gases and exhausted gas with particulates, are identified. These emissions are generated at several stages during the manufacturing processes. Besides, the other major emission is due to oil fumes emitted from staff kitchen.

To prevent deterioration of the air quality to the surroundings, the Group has installed air filtration system and chimneys with suitable heights to ensure emissions from the manufacturing processes are sufficiently diluted with air before reaching nearby residents. For the emission from staff kitchen, oil mist separators are installed to minimise the oil fumes emission, and the relatively cleaner fuel – natural gas is used for the stoves.

In order to be in strict compliance with the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法) and relevant emission standards adopted by local government, an air quality monitoring has been conducted by certified third party at least annually, to ensure the emission levels do not exceed the levels required. There was no non-conformity to the emission requirements during the Reporting Period.

Greenhouse Gas ("GHG") Emission

Global warming is one of the most challenging problems facing the world nowadays and every organisation shall share the joint efforts to combat it. The carbon emission of the Group mainly comes from the fossil fuel consumption of vehicle transportation and staff kitchen, and the purchased electricity consumption for daily production, which contains in a large proportion of energy consumption. Hence, the Group has developed an energy management procedure to manage and monitor the energy consumption across its production chain to reduce the carbon footprint of its operation and is further elaborated in the later section headed "Managing the Resources Use – Energy Use" of this ESG report.

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Managing the Resources Use

Energy Use

Energy, in terms of electricity and fuel, is an indispensable resource for machines and equipment operation in the Group's manufacturing facility and for the vehicle transportation of materials and products. To reinforce effective energy management on energy use and thus reducing GHG emission in its operations, an energy management procedure is in place to follow and govern the performance of energy consumption in its production.

The Group has formed an energy conservation committee that is responsible for the formulation, promotion and implementation of the energy management strategies, approaches and practices in its manufacturing facility. The committee conducts regular inspections to ensure the implemented measures are properly maintained. The energy management approaches of the Group mainly focus on the three areas as shown below:

Energy Monitoring and Audit: The Group measures and records the energy consumption data in the factory on a monthly basis. By reviewing and analysing the energy consumption records, the Group understands the existing patterns and trends of energy use in the factory, which are used for future energy consumption projection purposes. Based on the projection, the Group can develop suitable energy improvement plan, and adjust its management approaches in order to optimise its operational needs.

Green Procurement: All departments prioritise the purchase of new green and energy-efficient products, and for the replacement of old/ malfunctioned equipment and facilities for production works in the factory to minimise energy consumption.

Employee Responsibility: The behavioural change of the employees forms an integral part of reducing energy use in the daily operation. The Group has established clear guidelines and rules with respect to the use of energy and resources in the factory, with relevant trainings provided to all employees in order to share its common goals on energy saving and enhance their environmental awareness. Energy saving posters and stickers are also placed in workplace to remind the colleagues of reducing energy use.

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Incentive Programme on Energy Saving

To promote and foster the concept of energy saving in its workplace, the Group has launched an incentive programme and further encouraged its staff to use resources properly. The outstanding departments with good energy saving performances are rewarded on a quarterly basis, in recognition of their efforts and achievements in energy saving.

Water Use

Fresh water is a finite resource while it is important to every life in the planet. To conserve this precious resource, the Group conducts regular checks and maintenance on water facilities to avoid water leakage. As a special water conservation and pollution control measure, wastewater generated from its manufacturing processes are being recycled and reused to the production processes after treatment, reducing not only the freshwater demand, but also the wastewater discharge. Furthermore, a monthly review on the water consumption is also carried out to identify any abnormal practices on water consumption and corresponding actions are taken to rectify such situation. Since all the water used for the Group's production activities is supplied by the local water authority and thus there was no water sourcing issue during the Reporting Period.

Managing the Pollutions

Waste Management

Improper handling of wastes, especially hazardous wastes, can result in serious land and water pollution that potentially threaten the lives of the living organisms and the biodiversity. The Group has implemented a waste management system with standardised procedures to ensure that the discharge of waste meets the relevant national laws and regulations (i.e. the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法)). In addition, the waste management system helps to reduce the amount of wastes generated from the production and minimise the use of natural resources.

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The approach of waste management

Waste Segregation	• Hazardous waste • Non-hazardous waste: metal, plastic, general waste etc.
Waste Storage	• Stored each type of waste in designated areas • Proper chemical labels and safety caution labels are placed on the hazardous waste container
Waste Handling	• Hazardous waste: Collected by licensed waste contractor for treatment and disposal • Non-hazardous waste: Reuse, recycling and final disposal

Non-Hazardous Waste

The major types of non-hazardous wastes generated from the Group's operations are identified as plastic, metals and general waste. To minimise the natural resources use and reduce the waste generation, the principle of 3Rs (Reduce, Reuse & Recycle) is incorporated in its waste management. Recognising the importance of waste reduction at source, the Group requires all departments to purchase accurate amount of raw materials to avoid over-ordering, contributed to the wastage due to materials deterioration and damage. All the materials are reused as much as possible in its production before disposal. For recyclable materials, the Group segregates them properly without mixing up with other non-recyclable wastes. The recyclable materials are stored in designated areas and consigned to eligible waste collectors for recycling.

Hazardous Waste

Various types of hazardous wastes are generated from the manufacturing processes, including coating and ink, organic solvent and items contaminated by any chemicals or with hazardous substance. Understanding these hazardous wastes would require different treatment from those non-hazardous wastes, a specific guidance is set up for collection, storage and transport of hazardous wastes to ensure they are handled properly in accordance with the best practices, rules, laws and regulations. All the hazardous wastes generated from the manufacturing processes are properly sorted and stored in designated collection points to avoid mixing up other incompatible wastes. Proper chemical labelling is adhered on the containers for waste identification and safety caution. These wastes are consigned periodically to licensed waste collectors for handling and treatment.

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A thorough contingency plan is also in place for the management of hazardous wastes to cope with the circumstances such as chemical leakage, fire and explosion or other accidents. The plan provides the staff of the Group with timely and appropriate response actions to minimise the potential environmental and human health impacts incurred under such circumstances. The Group organises chemical leakage drill once a year to test the feasibility of the contingency plan and to enhance the staff capability and awareness of emergencies handling.

Minimising Impacts on the Environment and Natural Resources

Substances of Environmental Concern

To minimise the adverse and irreversible impacts on the environment and the end-users during their applications and after the disposal, the Group is committed to proper management of the presence of toxic and/or hazardous substances (e.g. heavy metals and persistent organic compounds) in its materials and parts throughout its product cycle.

The Group has formulated a "Green Procurement Management Standard" with a list of "Substance of Environmental Concerns"[1] for its suppliers to follow, and make sure the materials supplied are free from prohibited substances or contain toxic and hazardous substances without exceeding the acceptable level. Additionally, the potential and existing suppliers of the Group are required to submit a signed declaration on "Non-use Guarantee Statement for Prohibited Substances" or inductive coupled plasma ("**ICP**") testing report by a third party to demonstrate their products are in compliance with its requirements.

1 The list of "Substance of Environmental Concerns" is specially compiled with reference to applicable global and national industrial standards such as RoHS and REACH.

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Environmental Performance

During the Reporting Period, the Group's environmental performance in relation to its operations is shown in the following table:

	Yorkey Optical International (Cayman) Limited		
	Unit	**FY2018**	FY2017
Types of Resources Use			
Direct Energy (Note 1)			
– Unleaded Petrol	Litre ("**L**")	**47,543.65**	46,278.64
	Giga Joule ("**GJ**")	**1,558.58**	1,517.11
– Diesel Oil	L	**45,357.04**	41,706.53
	GJ	**1,638.30**	1,506.44
– Natural Gas (Note 2)	m^3	**204,452.00**	207,751.00
	GJ	**6,869.59**	6,980.43
Intensity (Note 3)	GJ per 1,000 unit production outputs	**0.032**	0.025
Indirect Energy			
– Electricity	MWh	**36,056.71**	37,761.29
Intensity	MWh per 1,000 unit production outputs	**0.12**	0.10
Water	m^3	**148,650.00**	229,375.00
Intensity	m^3 per 1,000 unit production outputs	**0.48**	0.58
Packaging Materials	Tonne	**137.65**	211.86
Intensity	Tonne per 1,000 unit production outputs	**0.00044**	0.00054
Refrigerant	kg	**136.20**	113.50
Type of Waste			
– Non-hazardous Waste	Tonne	**130.06**	199.18
Intensity	Tonne per 1,000 unit production outputs	**0.00042**	0.00051
– Hazardous Waste	Tonne	**50.71**	30.18
Intensity	Tonne per 1,000 unit production outputs	**0.00016**	0.000077
Type of Emission			
Wastewater Discharge	m^3	**480.00**	632.60

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	Yorkey Optical International (Cayman) Limited		
	Unit	**FY2018**	FY2017
GHG Emissions			
– Direct Emission (Scope 1) (Note 4)	tCO_2e	**861.58**	835.99
– Indirect Emission (Scope 2) (Note 5)	tCO_2e	**32,303.20**	33,830.34
– Other Indirect Emission (Scope 3) (Note 6)	tCO_2e	**9.64**	No Disclosure
Total GHG Intensity	tCO_2e per 1,000 unit production outputs	**0.11**	0.088

Note 1: The conversion factors from volumetric units of unleaded petrol, diesel oil and natural gas consumption to energy units are in reference to CDP Technical note: Conversion of fuel data to MWh in 2018.

Note 2: The consumption of natural gas applies to staff kitchen and dormitory only.

Note 3: The production output refers to the total number of products produced in the Reporting Period.

Note 4: The direct emission (Scope 1) covered the emission from the stationary sources combustion, mobile sources combustion, and fugitive emissions from the use of refrigerants.

Note 5: The indirect emission (Scope 2) covered the emission from the purchased electricity from Power Company.

Note 6: The other indirect emission (Scope 3) covered the emission from the business travel of employees only.

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SUSTAINABLE EMPLOYMENT

Employees are regarded as the most valuable asset of the Group for its business development and success. The Group treasures the contribution of its employees and always puts their interests as its first priority. Adhering to its people-oriented management principle as stipulated in its Labour Policy, the Group is committed to providing a working environment that is, including but limited to, fair and safe, in compliance with the legal labour requirements and industrial standard such as Responsible Business Alliance 6.0 ("**RBA**"), as well as to safeguard labour rights and interests within the Group.

The Group's Labour Policy	
	Comply with all the relevant national labour laws, industrial standard and other obligations
	Respect and protect labour rights and interests
	Conduct regular assessments to continuously improve the labour management system in operations

Employment

With the goals to share the profits with its employees, the Group strives to offer competitive remuneration package to its staff. The Group's remuneration meets the minimum legal requirements under the Labour Law of the People's Republic of China (中華人民共和國勞動法) and Labour Contract Law of the People's Republic of China (中華人民共和國勞動合同法). Benefits to full-time employees include marriage, maternity and compassionate leaves, social insurance, various allowances, educational subsidies etc. The Group sets the working hour to be 40 hours with at least one resting day per week, overtime pays will be granted to the employees for compensation of any overtime work.

To cultivate a diverse, fair and respectful culture in its workplace, the Group is committed to providing equal opportunities for every potential candidates and employees for recruitment, transfer, promotion, performance appraisal, training, benefits as well as compensation. The Group stands against any discrimination on the ground of sex, sexual orientation, age, colour, nationality, disability, religion, pregnancy, political inclination, union membership, except for the positions that are considered not suitable for female as stated in the legal regulations. Any form of harassment and victimization is strictly prohibited in the Group. Employees who repeatedly commit misconduct and violate the rules as listed under the "Employee Management Procedure" are subject to disciplinary actions, including employment termination, after confirming with responsible department head and the human resources department.

During the Reporting Period, the Group was not aware of any breaches of relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination, and other benefits and welfare.

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Labour Standard and Human Rights

The Group is committed to upholding the highest labour standard and protecting human rights. The Group enforces a zero-tolerance policy on child and forced labour in its workplace. In order to prevent any violation of the above and comply with the Labour Law of the People's Republic of China (中華人民共和國勞動法) and Provisions on the Prohibition of Using Child Labour (禁止使用童工規定), the Group conducts identity check, examines the academic qualifications and the work eligibility certificate(s) of the candidates during the recruitment process and upon employment. Selective identity checks for all staff are also carried out on a regular basis to guard against the possibility of child and forced labour employment. If unfortunately, there is any discovery of child labour, the Group makes corrections, takes remedial actions promptly and determines the root cause(s) of such case, as well as refines the existing management approaches where appropriate to eliminate such practice. All employees have their freedom to decide to work overtime or not, and resign from their positions with proper notifications. The Group also takes care of the well-being of employees who are teenage or in pregnancy and places special arrangement on work allocation such as no labour-intensive and high-risk activities etc.

During the Reporting Period, the Group was not aware of any breaches of relevant laws and regulations that have a significant impact on the Group relating to preventing child and forced labour.

Staff Communication and Well-being

The Group believes that maintaining a healthy, motivated and supportive workforce can enhance the productivity and profitability of the Group. Hence, the Group strives to strengthen the staff relations through staff communications and staff activities to cultivate a caring culture in the Group.

The Group highly values opinions and feedbacks from its employees, as they are crucial in contributing how it can manage the Group better. Employees are encouraged to express their views, ideas, complaints and/or grievances through various communication channels such as suggestion boxes, telephone, email and physical meetings on existing company management practices, and matters related to staff wellness, welfares and benefits at all times. When any complaints or grievances are received from employees, the Group would follow the "Grievances and Complaints Procedures" to form an investigation team to verify the situation, and take rectifications immediately where appropriate. All relevant information will be treated highly confidential to protect the privacy of the complainants.

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The Group also arranges a staff engagement survey on a regular basis to understand the satisfaction level of its employees and receive views and feedbacks on the workforce management. All the information is gathered and analysed by its human resources department for continuous improvement on staff management. Besides, a labour union has been established which has served as one of the most effective channels for employees to express their concerns and needs to the Group. An annual meeting between the representative(s) of the labour union and the management is carried out to review the labour and work conditions. The bulletin board is regularly updated to ensure there is a high degree of transparency of the policies and operations of the Group to the employees.

The Group understands that striking a good balance between work and life is equally important in the employees' development and growth. Hence, the Group organised various leisure and recreational activities such as sport activities, interest workshops, mini marathon competition and festive celebrations to its staff over the years, which not only to promote a healthy lifestyle but also to build a harmonious relationship among colleagues.

Yorkey Mini－Marathon Competition

In October 2018, the Group organised an in-house mini marathon competition, aiming to encourage its colleagues to develop their own sport hobbies, challenge themselves and have fun through running.

Make-up Workshop

In March 2018, the Group organised a make-up interest class for its employees and invited a professional make-up artist to demonstrate the latest make-up technique. The colleagues can practice the acquired make-up skills during the workshop, while interacting closely with each other and having an enjoyable leisure time.

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Football Match

Training and Development

The Group recognises that the development of workforce plays a key component in supporting its continuing business development and future operational requirements. The Group believes that when employees grow and make progress, the Group will make progress as a whole. Thus, the Group places great emphasis on staff training and development of its employees at all levels by offering a wide range of technical, professional and managerial training to advance their knowledge, skills and competency and maximise their potentials.

Followed by the Group's "Education and Training Management Procedure", the human resources department collaborates with each of the other departments and identify the training needs of their colleagues to formulate the annual training plan.

The Group organises orientation training to all new hirers during the probationary period and introduces the information on general corporate background, staff code of conducts, operational practices and fundamental knowledge on ISO management systems. The training aims to assist the newcomers to blend in and fit themselves in the new working environment promptly.

Various internal and external training sessions on wide range of topics are provided to employees based on their different career stage. Training programmes including ISO standards, energy-saving, occupational health and safety, internal control and risk management are offered to the staff of the Group. In order to encourage life-long learning, the Group also provides educational subsidies to eligible employees to attend specialised skills-development courses or obtain professional qualifications.

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Training to Become Professionals

The Group held a number of training sessions for employees to acquire different professional skills. Those training sessions can be job-related such as skills on metal mold stamping maintenance, or non-job related such as communication skill and reading sharing.

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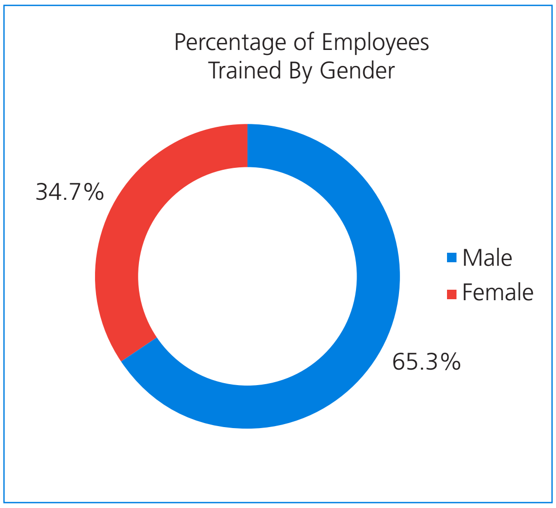
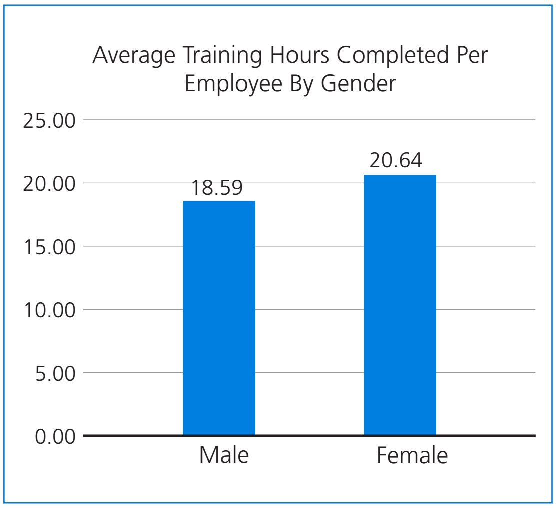
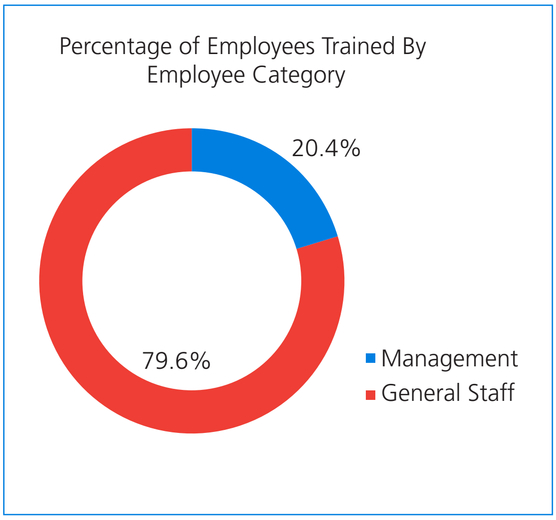
As of 31 December 2018, the staff training profile of the Group, divided by gender and employee category, is illustrated in the charts below:

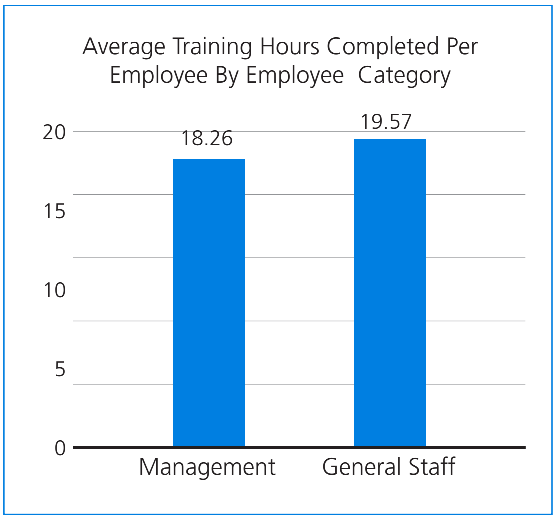
By Gender





By Employee Category





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SUPPLY CHAIN MANAGEMENT

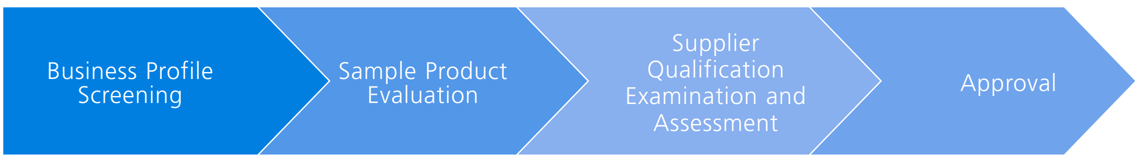
Maintaining a sustainable supply chain is essential to the Group's sustainable operation as it depends on its suppliers to provide with the materials needed for its productions, as well as upholding high quality products. To propagate sustainability across its supply chain and to bring mutual benefits in its business partnership, the Group is dedicated to prioritise and engage suppliers who have performed well in sustainability, and the Group encourages its suppliers to practise sustainability management in their own business in order to make joint efforts in creating positive influence throughout its value chain. As of 31 December 2018, 97% of its suppliers are mainly from Mainland China and Hong Kong.

Supplier Selection and Performance Monitoring

The Group has implemented a thorough supplier management system to select reliable and competent vendors for material supplies and monitor the quality of the supplies, in order to make sure they have both the capabilities and good performance in providing the required raw materials or products that meet its quality, safety, environmental and ethical requirements.

New suppliers must undergo the Group's supplier selection and assessment programme before they can qualify as its approved suppliers. The Group gives priority to those suppliers who have obtained ISO 9001, ISO 14001 or other certifications recognised in the industry. New suppliers are required to provide raw materials or sample product(s) with relevant material or product specifications to demonstrate that their qualities meet its requirements and standards. After that, a qualification examination and assessment will be conducted on the new suppliers related to the following five key areas: 1) quality, safety and environmental management; 2) technical competency; 3) on-site production standard; 4) procurement system; and 5) risk management before they can be qualified as the Group's on-list qualified suppliers.

The process of supplier selection:



Environmental, Social & Governance Report

To embed the responsible and ethical procurement practices in its supply chain, the Group has established the "Green Procurement Management Standard" which provides an outline of its requirements on materials sourcing and purchases, especially on the topic of the Substances of Environmental Concern and Conflict Mineral. Suppliers must provide proofs or test reports for verification in order to evidence that the supplied materials or products do not contain prohibited toxic and hazardous substances or substances that exceed the acceptable limits set out in its management standard. In addition, to prevent purchasing any materials which consist of the conflict minerals (i.e. the minerals columbite-tantalite, wolframite, cassiterite and gold and their derivatives limited to the metals Tantalum, Tungsten, Tin, Gold) extracted from conflict zone (e.g. the Republic of the Congo and its adjacent countries), the suppliers are required to fill in a self-assessment survey specifically designed to check and declare no use of minerals and metals originated from conflict zone. Where possible, to ensure compliance, conflict mineral investigations are conducted on potential and existing suppliers by following the RBA requirements/Global e-Sustainability Initiative ("**GeSI**") Conflict Minerals Reporting standards.

To ensure the Group's existing suppliers maintain high-quality products and services quality and incorporate CSR measures in their business with high sustainability performance, a regular supplier assessment programme was carried out apart from the regular quality performance assessment. In addition to quality performance assessment, the Group has broadened the scope of the performance assessment on the aspects of business ethics; environmental management; labour management; and OHS management. The performance of existing suppliers is evaluated based on its pre-determined criteria and rating scheme. Suppliers who fail to meet the Group's standards are requested to rectify the non-conformity and/or deficiencies based on improvement action plan(s) in the grace period, and are required to undertake the re-assessment afterwards to demonstrate and validate the effectiveness of the execution of the improvement action plan(s). If suppliers have consecutive failure in fulfilling the Group's required standards, such suppliers will be disqualified and removed from the approved list. Through these regular assessments, the Group aims to enhance its suppliers' sustainability performance and ultimately share the same goal with the Group in achieving sustainability in business.

Environmental, Social & Governance Report

COMMUNITY INVESTMENT

The Group is fully aware of its responsibilities to the community where it operates. Thus, the Group strives to leverage its resources to support and thrive the community growth in order to create a sustainable, inclusive and harmonious society for people to live in.

Guided by its "Social Responsibility Management Standard", the Group has actively supported and participated in the community events that can foster the environmental protection and community well-being. The events were organised either by the Group or by the local authorities. The Group recorded 462 attendances in total in FY2018. The Group will continue to care for the interests of the community and exert its positive influence to help the people in need in the future.

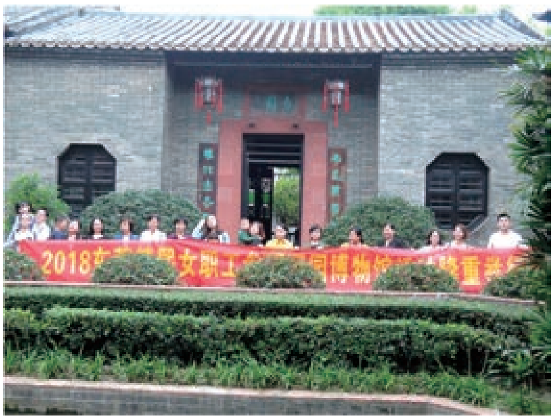
Tree Planting

To promote the green and low carbon lifestyle, and increase the environmental awareness of its employees on climate change, the Group organised a tree planting activity in March 2018 at Dongguan Xiaobian hillside.

Environmental, Social & Governance Report

Recognition of Women's Contribution

In support of the 108th anniversary of International Women's Day (IWD) and promote the equal opportunity and rights of women in Dongguan, the female colleagues of the Group with their family members joined the "Happy Dongguan tours – visit to Dongguan Keyuan and Dongguan Science Technology Museum" organised by Dongguan Women Federation in March 2018, recognising the extraordinary accomplishments of female to the sustainable community development as well as facilitating women integration in the community.



Blood Donation

In order to actively respond to the insufficient fresh and safe blood supply for treatments of patients or in need of surgery due to illnesses or accidents in Dongguan City, the Group organised a blood donation campaign in August 2018, letting its colleagues share their love and join hands to protect lives in the community.

Environmental, Social & Governance Report

HKEx ESG REPORTING GUIDE INDEX

HKEx ESG Reporting Guide General Disclosures & KPIs Aspect A Environmental		Explanation/Reference Section
A1 Emissions	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. Note: Air emissions include NOx, SOx, and other pollutants regulated under national laws and regulations. Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. Hazardous wastes are those defined by national regulations.	ENVIRONMENTAL MANAGEMENT – Managing the Emissions ENVIRONMENTAL MANAGEMENT – Managing the Pollutions
KPI A1.1	The types of emissions and respective emissions data.	ENVIRONMENTAL MANAGEMENT – Managing the Emissions
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	ENVIRONMENTAL MANAGEMENT – Environmental Performance
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	ENVIRONMENTAL MANAGEMENT – Environmental Performance
KPI A1.4	Total non-hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).	ENVIRONMENTAL MANAGEMENT – Environmental Performance
KPI A1.5	Description of measures to mitigate emissions and results achieved.	ENVIRONMENTAL MANAGEMENT – Managing the Emissions
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	ENVIRONMENTAL MANAGEMENT – Managing the Pollutions

Environmental, Social & Governance Report

HKEx ESG Reporting Guide General Disclosures & KPIs Aspect A Environmental		Explanation/Reference Section
A2 Use of Resources	Policies on efficient use of resources including energy, water and other raw materials. Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.	ENVIRONMENTAL MANAGEMENT – Managing the Resources Use
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	ENVIRONMENTAL MANAGEMENT – Environmental Performance
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	ENVIRONMENTAL MANAGEMENT – Environmental Performance
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	ENVIRONMENTAL MANAGEMENT – Managing the Resources Use
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	ENVIRONMENTAL MANAGEMENT – Managing the Resources Use
KPI A2.5	Total packaging material used for finished products (in tonnes), and, if applicable, with reference to per unit produced.	ENVIRONMENTAL MANAGEMENT – Environmental Performance
A3 The Environment and Natural Resources	Policies on minimising the issuer's significant impact on the environment and natural resources.	ENVIRONMENTAL MANAGEMENT – Managing the Resources Use ENVIRONMENTAL MANAGEMENT – Minimising Impacts on the Environment and Natural Resources
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	ENVIRONMENTAL MANAGEMENT – Minimising Impacts on the Environment and Natural Resources

Environmental, Social & Governance Report

HKEx ESG Reporting Guide General Disclosures & KPIs Aspect B Social		Explanation/Reference Section
B1 Employment	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	SUSTAINABLE EMPLOYMENT – Employment
B2 Health and Safety	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	SUSTAINABLE OPERATIONAL PRACTICES – Occupational Health and Safety ("**OHS**") Management SUSTAINABLE EMPLOYMENT – Staff Communication and Well-being
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	SUSTAINABLE OPERATIONAL PRACTICES – Occupational Health and Safety ("**OHS**") Management
B3 Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. Note: Training refers to vocational training. It may include internal and external courses paid by the employer.	SUSTAINABLE EMPLOYMENT – Training and Development
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	SUSTAINABLE EMPLOYMENT – Training and Development
KPI B3.2	The average training hours completed per employee by gender and employee category.	SUSTAINABLE EMPLOYMENT – Training and Development

Environmental, Social & Governance Report

HKEx ESG Reporting Guide General Disclosures & KPIs Aspect B Social		Explanation/Reference Section
B4 Labour Standards	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child or forced labour.	SUSTAINABLE EMPLOYMENT – Labour Standard and Human Rights
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	SUSTAINABLE EMPLOYMENT – Labour Standard and Human Rights
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	SUSTAINABLE EMPLOYMENT – Labour Standard and Human Rights
B5 Supply Chain Management	Policies on managing environmental and social risks of the supply chain.	SUPPLY CHAIN MANAGEMENT
KPI B5.1	Number of suppliers by geographical region.	SUPPLY CHAIN MANAGEMENT
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	SUPPLY CHAIN MANAGEMENT
B6 Product Responsibility	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	SUSTAINABLE OPERATIONAL PRACTICES – Product Responsibility SUSTAINABLE OPERATIONAL PRACTICES – Business Integrity
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	SUSTAINABLE OPERATIONAL PRACTICES – Business Integrity

Environmental, Social & Governance Report

HKEx ESG Reporting Guide General Disclosures & KPIs Aspect B Social		Explanation/Reference Section
KPI B6.4	Description of quality assurance process and recall procedures.	SUSTAINABLE OPERATIONAL PRACTICES – Product Responsibility
B7 Anti-corruption	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	SUSTAINABLE OPERATIONAL PRACTICES – Business Integrity
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	SUSTAINABLE OPERATIONAL PRACTICES – Business Integrity
B8 Community Investment	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	COMMUNITY INVESTMENT
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	COMMUNITY INVESTMENT
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	COMMUNITY INVESTMENT

Independent Auditor's Report

Deloitte. 德勤

TO THE SHAREHOLDERS OF YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.

(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Yorkey Optical International (Cayman) Ltd. (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 79 to 135, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
We identified revenue recognition as a key audit matter due to the magnitude of revenue from components of optical and opto-electronic products. For the year ended 31 December 2018, revenue from components of optical and opto-electronic products amounted to approximately US$69,703,000 as shown in the consolidated statement of profit or loss and other comprehensive income.	Our procedures in relation to revenue recognition included: • Obtaining an understanding of the revenue business processes and testing key controls over revenue recognition; • Checking recorded revenue, on a sample basis, to relevant sales invoices and shipping documents; and • Performing data analysis to identify unusual pattern of revenue.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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.

Independent Auditor's Report

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism 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.

Independent Auditor's Report

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is LO, Kin Cheong.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

20 March 2019

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2018

	NOTES	2018 US$'000	2017 US$'000
Revenue	5	**69,703**	87,329
Cost of goods sold		**(51,760)**	(62,076)
Gross profit		**17,943**	25,253
Other income, other gains and losses		**4,027**	(2,199)
Distribution costs		**(1,635)**	(1,896)
Administrative expenses		**(9,590)**	(12,881)
Research and development expenses		**(1,532)**	(1,520)
Share of results of an associate		**–**	867
Profit before taxation	6	**9,213**	7,624
Taxation	8	**(1,505)**	(1,844)
Profit for the year		**7,708**	5,780
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
– exchange differences arising from translation of financial statements of foreign operations		**(2,140)**	2,366
– release of exchange reserve upon disposal of a foreign associate		**–**	4,209
Other comprehensive (expense) income for the year		**(2,140)**	6,575
Total comprehensive income for the year		**5,568**	12,355
Earnings per share			
– Basic	10	**US0.94 cent**	US0.70 cent

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	**2018 US$'000**	2017 US$'000
Non-current assets			
Investment properties	*11*	**5,768**	6,002
Property, plant and equipment	*12*	**7,537**	9,103
Prepaid lease payments	*13*	**197**	213
Deposits paid for acquisition of property, plant and equipment		**101**	35
		13,603	15,353
Current assets			
Inventories	*14*	**2,550**	3,074
Trade and other receivables	*15*	**13,512**	14,759
Amount due from a related company	*16*	**23**	24
Bank balances and cash	*17*	**93,945**	104,827
		110,030	122,684
Current liabilities			
Trade and other payables	*18*	**19,156**	20,639
Contract liabilities		**141**	–
Taxation payable		**3,505**	4,189
		22,802	24,828
Net current assets		**87,228**	97,856
Total assets less current liabilities		**100,831**	113,209
Capital and reserves			
Share capital	*19*	**1,057**	1,058
Reserves		**99,774**	112,151
Total equity		**100,831**	113,209

The consolidated financial statements on pages 79 to 135 were approved and authorised for issue by the Board of Directors on 20 March 2019 and are signed on its behalf by:

Lai I-Jen
CHAIRMAN

Kurihara Toshihiko
EXECUTIVE DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company						
	Share capital US$'000	Share premium US$'000	Special reserve US$'000	Translation reserve US$'000	Statutory surplus reserve fund US$'000	Retained profits US$'000	Total US$'000
At 1 January 2017	1,058	62,982	19,350	3,220	3,148	29,095	118,853
Other comprehensive income for the year	–	–	–	6,575	–	–	6,575
Profit for the year	–	–	–	–	–	5,780	5,780
Total comprehensive income for the year	–	–	–	6,575	–	5,780	12,355
Transfers	–	–	–	–	488	(488)	–
Dividend recognised as distribution (note 9)	–	–	–	–	–	(17,999)	(17,999)
At 31 December 2017	1,058	62,982	19,350	9,795	3,636	16,388	113,209
Adjustments (see note 2)	–	–	–	–	–	(24)	(24)
At 1 January 2018 (restated)	**1,058**	**62,982**	**19,350**	**9,795**	**3,636**	**16,364**	**113,185**
Other comprehensive expense for the year	**–**	**–**	**–**	**(2,140)**	**–**	**–**	**(2,140)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**7,708**	**7,708**
Total comprehensive (expense) income for the year	**–**	**–**	**–**	**(2,140)**	**–**	**7,708**	**5,568**
Transfers	**–**	**–**	**–**	**–**	**432**	**(432)**	**–**
Repurchase and cancellation of ordinary shares (note 19)	**(1)**	**(79)**	**–**	**–**	**–**	**–**	**(80)**
Dividend recognised as distribution (note 9)	**–**	**(10,504)**	**–**	**–**	**–**	**(7,338)**	**(17,842)**
At 31 December 2018	**1,057**	**52,399**	**19,350**	**7,655**	**4,068**	**16,302**	**100,831**

The special reserve represents the difference between the nominal amount of the shares issued by the Company and the aggregate amount of share capital of the subsidiaries acquired pursuant to the group reorganisation in 2005.

As stipulated by the relevant laws and regulations for foreign investment enterprises in Mainland China (the "PRC"), the PRC subsidiary of the Company is required to maintain a statutory surplus reserve fund which is non-distributable. Appropriation to such reserve is allocated based on 10% of the profit after taxation of the statutory financial statements of the PRC subsidiary. Pursuant to the relevant laws and regulations in the PRC, appropriation to the statutory surplus reserve is required until the balance reaches 50% of the registered capital. The statutory surplus reserve fund can be used by the PRC subsidiary to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 US$'000	2017 US$'000
Operating activities		
Profit before taxation	**9,213**	7,624
Adjustments for:		
Interest income	**(1,879)**	(1,381)
Depreciation on investment properties	**234**	234
Depreciation on property, plant and equipment	**2,659**	2,675
Loss on disposal of property, plant and equipment	**16**	355
Amortisation of land use rights	**6**	6
Impairment loss recognised (reversed) on inventories	**117**	(209)
Impairment loss reversed on trade receivables	**(39)**	(114)
Loss on disposal of an associate	**–**	4,209
Share of results of an associate	**–**	(867)
Operating cash flows before movements in working capital	**10,327**	12,532
Decrease in inventories	**274**	1,763
(Increase) decrease in trade and other receivables	**(761)**	4,482
Increase in amount due from a related company	**–**	(2)
Increase in contract liabilities	**145**	–
Decrease in trade and other payables	**(764)**	(1,870)
Cash from operations	**9,221**	16,905
PRC income tax paid	**(2,101)**	(1,184)
Net cash from operating activities	**7,120**	15,721
Investing activities		
Interest received	**1,879**	1,381
Purchase of property, plant and equipment	**(1,469)**	(169)
Deposits paid for acquisition of property, plant and equipment	**(100)**	(1,989)
Proceed from disposal of property, plant and equipment	**–**	1
Settlement of obligation related to interest in an associate	**–**	(1,840)
Net cash from (used in) investing activities	**310**	(2,616)
Financing activities		
Dividends paid	**(17,842)**	(17,999)
Payments on repurchase of shares	**(80)**	–
Net cash used in financing activities	**(17,922)**	(17,999)
Net decrease in cash and cash equivalents	**(10,492)**	(4,894)
Cash and cash equivalents at 1 January	**104,827**	109,020
Effect of foreign exchange rate changes	**(390)**	701
Cash and cash equivalents at 31 December	**93,945**	104,827
Analysis of the balance of cash and cash equivalents		
Bank balances and cash	**93,945**	104,827

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. GENERAL

Yorkey Optical International (Cayman) Ltd. (the "Company") is incorporated in the Cayman Islands and registered as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company acts as an investment holding company. The principal activities of its subsidiaries (the Company and its subsidiaries are collectively referred to as the "Group") are set out in note 26. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements are presented in United States dollars ("US$"), which is the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs and Hong Kong Accounting Standards ("HKASs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
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"
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as describe below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue" ("HKAS 18"), HKAS 11 "Construction Contracts" ("HKAS 11") and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

The Group recognises revenue from the manufacturing and sales of the components of optical and opto-electronic products which arise from contracts with customers.

The application of HKFRS 15 has no material impact on the timing and amount of revenue recognised in current year. As at 1 January 2018, advances from customers of US$170,000 previously included in trade and other payables were reclassified to contract liabilities. Information about the Group's accounting policies resulting from application of HKFRS 15 is disclosed in note 3.

HKFRS 9 "Financial Instruments"

In the current year, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 9 "Financial Instruments" (continued)

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

Classification and measurement of financial assets

The application of HKFRS 9 in the current year has no material impact on the classification and measurement of financial assets.

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL using a lifetime ECL for all trade receivables, which are grouped based on past due analysis.

ECL for other financial assets at amortised cost, including bank balances and amount due from a related company, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, additional credit loss allowance of US$24,000 on trade receivables has been recognised against retained profits. The additional loss allowance is charged against the respective asset.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.

2 Effective for annual periods beginning on or after a date to be determined.

3 Effective for annual periods beginning on or after 1 January 2021.

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

5 Effective for annual periods beginning on or after 1 January 2020.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective (continued)

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" ("HKAS 17") and the related Interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective (continued)

HKFRS 16 "Leases" (continued)

As at 31 December 2018, the Group has non-cancellable operating lease commitments of US$3,758,000 as disclosed in note 20. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of US$2,000 and refundable rental deposits received of US$40,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 "Determining whether an Arrangement contains a Lease" ("HK(IFRIC) – Int 4") and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) – Int 4. Therefore, the Group will not reassess whether the contracts contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

The directors of the Company do not anticipate that the application of the other new and amendments to HKFRSs will have a material impact on the consolidated financial statements in the foreseeable future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

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.

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service, being at the point the goods are delivered to the customer. Delivery occurs when the goods have been shipped to the customer's specific location.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related tax.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets over their estimated useful lives, using straight-line method. The estimated useful lives and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined using the weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of tangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses on tangible assets (continued)

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instruments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

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

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, amount due from a related company and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (continued)

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed collectively using a provision matrix with appropriate grouping based on past due status.

For all other instruments, including amount due from a related company and bank balances, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition for other instruments (including amount due from a related company and bank balances), 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. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

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

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

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

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (continued)

(i) Significant increase in credit risk (continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the basis:

- Nature of financial instruments (i.e. the Group's trade receivables assessed as a group. Bank balances are assessed for expected credit losses on an individual basis.);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (continued)

(v) Measurement and recognition of ECL (continued)

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, amount due from a related company and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For loans and receivables, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days to 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of loans and receivables is reduced by the impairment loss directly with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instrument is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

Financial liabilities (including trade payables) are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. United States dollars) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Retirement benefits costs

Payments to defined contribution retirement benefits plans or state-managed retirement benefits schemes are recognised as an expense when employees have rendered services entitling them to the contributions.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Short-term and other long-term employee benefits (continued)

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

Leasehold land and building (continued)

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as 'prepaid lease payments' in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

The following is the key source of estimation uncertainty at the end of the reporting period, that has a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on past due status as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the Group's trade receivables and the ECL are disclosed in notes 15 and 24, respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

5. REVENUE AND OPERATING SEGMENT

Revenue

Revenue represents the fair value of the consideration received or receivable for goods sold by the Group to outside customers during the year. Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customers.

The Group applies the practical expedient that information regarding the transaction prices allocated to the remaining performance obligation for contracts with customer is not disclosed as the original expected duration of the contracts are less than one year.

Operating segment

The chief executive officer ("Chief Executive"), being the chief operating decision maker of the Group, regularly reviews revenue analysis of the components of optical and opto-electronic products and considers them as one single operating segment on an aggregate basis. Other than revenue analysis, no operating results and other discrete financial information are available for the assessment of performance of the respective business divisions. For these reasons, no separate segment information is presented.

The chief executive officer reviews the profit for the year of the Group as a whole to make decisions about performance assessment and resource allocation. The operation of the Group constitutes one single operating segment under HKFRS 8 "Operating Segments" and accordingly, no separate segment information is prepared.

Other segment information

Geographical information

The Group's operations are located in the People's Republic of China ("PRC") (country of domicile).

The Group's revenue from external customers and information about its non-current assets by geographical location of the customers and the assets, respectively, are detailed below:

	Revenue from external customers		Non-current assets	
	2018	2017	**2018**	2017
	US$'000	US$'000	**US$'000**	US$'000
Japan	**37,192**	49,191	**–**	–
PRC	**26,046**	27,780	**13,603**	15,353
Others	**6,465**	10,358	**–**	–
	69,703	87,329	**13,603**	15,353

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

5. REVENUE AND OPERATING SEGMENT (continued)

Other segment information (continued)

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2018 US$'000	2017 US$'000
Customer A	10,512	12,068
Customer B	9,359	11,899
Customer C	7,369	8,920

Disaggregation of revenue from contracts with customers by types of products

	2018 US$'000	2017 US$'000
Components of optical and opto-electronic products		
– cameras, action cameras and copiers	48,553	61,740
– surveillance cameras and projectors	10,561	11,387
– others	10,589	14,202
	69,703	87,329

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For the year ended 31 December 2018

6. PROFIT BEFORE TAXATION

	2018 US$'000	2017 US$'000
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments (note 7)	**230**	439
Staff's retirement benefits scheme contributions	**1,781**	1,807
Other staff costs	**20,535**	24,128
	22,546	26,374
Less: Staff costs capitalised in inventories	**(16,196)**	(20,005)
Less: Staff costs included in research and development expenses	**(608)**	(479)
	5,742	5,890
Depreciation on property, plant and equipment	**2,659**	2,675
Less: Depreciation capitalised in inventories	**(2,106)**	(2,127)
Less: Depreciation included in research and development expenses	**(30)**	(38)
	523	510
Allowance (reversal of allowance) for obsolete inventories (included in cost of goods sold)	**117**	(209)
Amortisation of land use rights	**6**	6
Auditor's remuneration	**295**	295
Cost of inventories recognised as expense	**51,643**	62,285
Depreciation on investment properties	**234**	234
Loss on disposal of an associate (included in other income, other gains and losses)	**–**	4,209
Loss on disposal of property, plant and equipment	**16**	355
Operating lease rentals in respect of		
– motor vehicles	**283**	180
– rented premises	**1,321**	1,317
and after crediting (charging):		
Exchange gain (loss), net	**1,586**	(2,415)
Interest income from bank deposits (included in other income, other gains and losses)	**1,879**	1,381
Property rental income before deduction of negligible outgoings	**504**	500
Reversal of impairment loss on trade receivables, net	**39**	114

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

7. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Details of emoluments paid by the Group to the directors and the Chief Executive are as follows:

	2018			2017		
	Fees US$'000	**Salaries and other benefits US$'000**	**Total US$'000**	Fees US$'000	Salaries and other benefits US$'000	Total US$'000
Executive directors						
Mr. Lai I-Jen	**15**	**–**	**15**	15	–	15
Mr. Nagai Michio *(note (a))*	**–**	**–**	**–**	3	206	209
Mr. Kurihara Toshihiko *(note (b))*	**15**	**135**	**150**	12	133	145
Non-executive directors						
Mr. Liao Kuo-Ming *(note (c))*	**–**	**–**	**–**	7	–	7
Ms. Wu Shu-Ping	**15**	**–**	**15**	15	–	15
Independent non-executive directors						
Mr. Chiang Hsiang-Tsai (note (c))	**–**	**–**	**–**	7	–	7
Mr. Chou Chih-Ming *(note (c))*	**–**	**–**	**–**	7	–	7
Mr. Lin Meng-Tsung *(note (d))*	**15**	**–**	**15**	8	–	8
Mr. Liu Wei-Li *(note (d))*	**20**	**–**	**20**	11	–	11
Mr. Wang Yi-Chi	**15**	**–**	**15**	15	–	15
	95	**135**	**230**	100	339	439

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

7. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

Notes:

(a) Mr. Nagai Michio ceased to be an executive director and the Chief Executive of the Company with effect from 28 February 2017. The remuneration of Mr. Nagai Michio as the Chief Executive of the Company was Japanese Yen ("JPY")2,000,000 and Hong Kong Dollar ("HK$")54,302 (approximately equivalent to US$24,000 in total) for the year ended 31 December 2017. Benefit provided in respect of termination of director's services was HK$1,421,550 (approximately equivalent to US$182,000 in total).

(b) Mr. Kurihara Toshihiko acts as the Chief Executive of the Company, succeeding Mr. Nagai Michio since 10 March 2017. The remuneration of Mr. Kurihara Toshihiko as the Chief Executive of the Company was JPY15,000,000 (approximately equivalent to US$135,000 in total) (2017: JPY15,000,000 (approximately equivalent to US$133,000 in total)) for the year ended 31 December 2018.

(c) Retired at the annual general meeting of the Company held on 15 June 2017 and not offered for re-election.

(d) Appointed on 15 June 2017.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments shown above were for their services as directors of the Company or its subsidiaries.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

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

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7. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

The five highest paid individuals of the Group included one (2017: two) directors, whose emoluments are disclosed above. The emoluments of the remaining four (2017: three) individuals in the Group were as follows:

	2018 US$'000	2017 US$'000
Employees		
– basic salaries and allowances	**139**	172
– performance related bonus	**67**	75
– retirement benefits scheme contributions	**3**	1
	209	248

The emoluments of each of these highest paid individuals is less than HK$1,000,000 (equivalent to US$128,000).

During the year ended 31 December 2017, US$240,000 (2018: nil) were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

8. TAXATION

	2018 US$'000	2017 US$'000
The tax charge comprises:		
PRC income tax calculated at the applicable income tax rate on the estimated assessable profit for the year	**(1,547)**	(1,805)
Over(under)provision in prior years	**42**	(39)
	(1,505)	(1,844)

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8. TAXATION (continued)

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25%.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group's profit neither arises in nor is derived from Hong Kong during both years.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. No deferred tax liability has been recognised in respect of temporary differences associated with undistributed earnings of subsidiaries from 1 January 2008 onwards of approximately US$6,282,000 as at the end of the reporting period because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Tax charge for the year is reconciled to profit before taxation as follows:

	2018	2017
	US$'000	US$'000
Profit before taxation	**9,213**	7,624
Tax at the applicable income tax rate of 25% (2017: 25%)	**(2,303)**	(1,906)
Tax effect of share of results of an associate	**–**	217
Tax effect of expenses not deductible for tax purposes	**(328)**	(1,457)
Tax effect of income not taxable for tax purposes	**515**	446
Tax effect of different tax rates applied to certain subsidiaries regarded as foreign enterprises in the PRC	**569**	895
Over(under)provision in prior years	**42**	(39)
Tax charge for the year	**(1,505)**	(1,844)

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For the year ended 31 December 2018

9. DIVIDENDS

	2018 **US$'000**	2017 US$'000
Dividends recognised as distribution during the year		
– Interim dividend for 2018 of HK3.5 cents (equivalent to US0.446 cent) (2017: HK3.5 cents; equivalent to US0.45 cent) per share	**3,662**	3,697
– Final dividend for 2017 of HK3.5 cents (equivalent to US0.448 cent) per share (2017: final dividend for 2016 of HK3.5 cents; equivalent to US0.451 cent) per share	**3,676**	3,708
– Special dividend for 2017 of HK10 cents (equivalent to US1.28 cents) (2017: special dividend for 2016 of HK10 cents; equivalent to US1.29 cents) per share	**10,504**	10,594
	17,842	17,999

A final dividend of HK3.5 cents (2017: HK3.5 cents) per share (which in aggregate amounts to approximately US$3,666,000 (2017: US$3,676,000)) and a special dividend of HK10 cents (2017: HK10 cents) per share (which in aggregate amounts to approximately US$10,476,000 (2017: US$10,504,000)) have been proposed by the Board of Directors for the year and are subject to approval by the shareholders in the forthcoming annual general meeting. They are calculated on the basis of 820,540,000 shares (2017: 821,102,000 shares) in issue at the date of issuance of these consolidated financial statements.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the consolidated profit for the year attributable to owners of the Company of US$7,708,000 (2017: US$5,780,000) and on the weighted average number of 820,964,899 (2017: 821,102,000) shares.

No diluted earnings per share is presented as there were no dilutive potential ordinary shares during both years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

11. INVESTMENT PROPERTIES

	2018 US$'000	2017 US$'000
COST		
At 1 January	7,860	7,769
Currency realignment	(74)	91
At 31 December	7,786	7,860
DEPRECIATION		
At 1 January	1,858	1,533
Currency realignment	(74)	91
Provided for the year	234	234
At 31 December	2,018	1,858
CARRYING VALUE		
At 31 December	5,768	6,002

The carrying amount of the Group's investment properties comprises:

	2018 US$'000	2017 US$'000
Leasehold land and buildings in Hong Kong	5,767	5,993
Buildings in the PRC	1	9
	5,768	6,002

The fair value of the Group's investment properties, including leasehold land portion, at the end of the reporting period was US$8,560,000 (2017: US$8,558,000). The fair value has been arrived at based on a valuation at the end of the reporting period, determined by the directors of the Company. No valuation has been performed by independent qualified professional valuers. The valuation performed by the directors of the Company was carried out with reference to recent market prices for similar properties in similar locations and conditions, which was classified as level 3 under HKFRS 13 "Fair Value Measurement". There has been no change from the valuation techniques used in the prior year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

All the Group's investment properties are held for rental purposes under operating leases and/or for capital appreciation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings US$'000	Furniture, fixtures and equipment US$'000	Leasehold improvements US$'000	Motor vehicles US$'000	Plant and machinery US$'000	Total US$'000
At 1 January 2017	6,078	11,039	3,116	207	52,987	73,427
Currency realignment	369	676	207	11	3,171	4,434
Additions	–	696	387	–	1,253	2,336
Disposals	–	(907)	(25)	(66)	(5,414)	(6,412)
At 31 December 2017	6,447	11,504	3,685	152	51,997	73,785
Currency realignment	(300)	(566)	(176)	(6)	(2,487)	(3,535)
Additions	–	801	25	–	674	1,500
Disposals	–	(173)	(20)	(32)	(495)	(720)
At 31 December 2018	**6,147**	**11,566**	**3,514**	**114**	**49,689**	**71,030**
DEPRECIATION						
At 1 January 2017	4,650	10,480	2,759	205	46,084	64,178
Currency realignment	290	628	182	11	2,774	3,885
Provided for the year	149	264	337	1	1,924	2,675
Eliminated on disposals	–	(902)	(25)	(66)	(5,063)	(6,056)
At 31 December 2017	5,089	10,470	3,253	151	45,719	64,682
Currency realignment	(243)	(501)	(166)	(6)	(2,228)	(3,144)
Provided for the year	149	354	354	1	1,801	2,659
Eliminated on disposals	–	(172)	(19)	(32)	(481)	(704)
At 31 December 2018	**4,995**	**10,151**	**3,422**	**114**	**44,811**	**63,493**
CARRYING VALUES						
At 31 December 2018	**1,152**	**1,415**	**92**	**–**	**4,878**	**7,537**
At 31 December 2017	1,358	1,034	432	1	6,278	9,103

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	2018 US$'000	2017 US$'000
The carrying amount of the Group's property interests comprises:		
Leasehold land and buildings in Hong Kong	86	91
Buildings in the PRC	1,066	1,267
	1,152	1,358

The cost of leasehold land and buildings in Hong Kong is depreciated over the lease term of 50 years, using the straight-line method.

The cost of buildings in the PRC is depreciated over 20 years, using the straight-line method.

The cost of leasehold improvements is depreciated on a straight-line basis over the period of the respective leases or 5 years, whichever is shorter.

Depreciation is recognised so as to write off the cost of other items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Furniture, fixtures and equipment	20%
Motor vehicles	20%
Plant and machinery	10%

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For the year ended 31 December 2018

13. PREPAID LEASE PAYMENTS

	2018 US$'000	2017 US$'000
CARRYING VALUE		
At 1 January	213	206
Currency realignment	(10)	13
Charged to profit or loss	(6)	(6)
At 31 December	197	213

Prepaid lease payments represent prepayment of rentals for land use rights situated in the PRC for a period of 50 years.

14. INVENTORIES

	2018 US$'000	2017 US$'000
Raw materials	1,126	1,297
Work in progress	421	651
Finished goods	1,003	1,126
	2,550	3,074

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For the year ended 31 December 2018

15. TRADE AND OTHER RECEIVABLES

	2018 **US$'000**	2017 US$'000
Trade receivables		
– companies over which certain shareholders of the Company have significant influence	**2**	5
– others	**11,503**	12,691
	11,505	12,696
Less: Allowance for credit losses	**(1)**	(16)
	11,504	12,680
Other receivables	**2,008**	2,079
	13,512	14,759

Payment terms with customers are mainly on credit. Invoices to outside customers are normally payable within 60 days to 120 days of issuance, while invoices to long-established customers are normally payable within one year.

The following is an aging analysis of trade receivables net of allowance for credit losses presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2018 **US$'000**	2017 US$'000
Age		
0 to 60 days	**9,267**	9,678
61 to 90 days	**1,879**	1,962
91 to 120 days	**307**	183
121 to 180 days	**44**	596
181 to 365 days	**7**	261
	11,504	12,680

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15. TRADE AND OTHER RECEIVABLES (continued)

Before accepting any new customers, the Group will assess the potential customer's credit quality and define credit limits by customer. More than 89% (2017: 93%) of the trade receivables are neither past due nor impaired.

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of US$1,256,000 which are past due as at the reporting date. The Group does not hold any collateral over these balances.

As at 31 December 2017, debtors with aggregate carrying amount of US$857,000 which are past due at the reporting date for which the Group had not provided for impairment loss as there is no adverse change in the credit standing of the debtors from the date when credit was initially granted. The Group does not hold any collateral over these balances. The average age of these receivables is 188 days.

Aging of trade receivables based on the invoice date which are past due but not impaired is as follows:

	2017 US$'000
Overdue by 1 to 60 days	596
Overdue by 61 to 245 days	261
	857

No interest is charged on trade receivables. The Group has made full allowances on all the receivables overdue for 365 days based on historical experience as such receivables are generally not recoverable. Allowances on trade receivables between 121 days and 365 days are made based on estimated irrecoverable amounts from the sales of goods with reference to past default experience.

Movement in the allowance for doubtful debts is as follows:

	2017 US$'000
At 1 January	244
Impairment losses reversed	(114)
Amounts written off as uncollectible	(114)
At 31 December	16

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For the year ended 31 December 2018

15. TRADE AND OTHER RECEIVABLES (continued)

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 24.

Included in trade and other receivables are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2018 US$'000	2017 US$'000
Japanese Yen	164	87
Hong Kong dollars	1,914	1,971

16. AMOUNT DUE FROM A RELATED COMPANY

The amount is due from a company over which certain shareholders of the Company have significant influence. The amount is unsecured, interest-free, and neither past due nor impaired. The age of these receivables are within 60 days (2017: within 60 days).

17. BANK BALANCES AND CASH AND ANALYSIS OF CASH AND CASH EQUIVALENTS

The bank deposits carry interest at prevailing market rates up to 3.64% (2017: 0.30% to 2.15%) per annum. The bank deposits are with original maturity of not more than three months.

Included in bank balances and cash are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2018 US$'000	2017 US$'000
Japanese Yen	1,604	1,234
Hong Kong dollars	8,698	3,229

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18. TRADE AND OTHER PAYABLES

	2018 US$'000	2017 US$'000
Trade payables		
– companies over which certain shareholders of the Company have significant influence	**7**	12
– companies controlled by shareholders of the Company which have significant influence over the Company	**1,156**	230
– others	**10,512**	11,829
	11,675	12,071
Payroll and welfare payables	**3,227**	4,332
Other payables and accruals *(note)*	**4,254**	4,236
	19,156	20,639

Note: Balance included accruals for rental expense payable to a related company amounting to US$98,000 (31 December 2017: US$103,000).

The following is an aging analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2018 US$'000	2017 US$'000
Age		
0 to 60 days	**7,873**	8,045
61 to 90 days	**2,036**	2,164
91 to 180 days	**1,721**	1,824
181 to 365 days	**45**	38
	11,675	12,071

The average credit period on purchases of goods is 60 days.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

18. TRADE AND OTHER PAYABLES (continued)

Included in trade and other payables are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2018 US$'000	2017 US$'000
Japanese Yen	92	43
Hong Kong dollars	26	29

19. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares '000	Amount HK$'000	Number of shares '000	Amount HK$'000
Ordinary shares of HK$0.01 each				
At 1 January 2017 and 31 December 2017	1,000,000	10,000	821,102	8,211
Repurchase and cancellation of shares	–	–	(562)	(6)
At 31 December 2018	1,000,000	10,000	820,540	8,205

	US$'000
Shown in the consolidated statement of financial position	
At 31 December 2018	1,057
At 31 December 2017	1,058

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

19. SHARE CAPITAL (continued)

During the year ended 31 December 2018, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchases	No. of ordinary shares	Price per share Highest	Price per share Lowest	Aggregate consideration paid
	'000	HK$	HK$	HK$'000
September	508	1.14	1.09	569
November	54	1.16	1.10	61
	562			630

	US$'000
Equivalent to	80

The above ordinary shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

20. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the end of the reporting period, the Group was committed to make the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Motor vehicles 2018	Motor vehicles 2017	Rented premises 2018	Rented premises 2017
	US$'000	US$'000	US$'000	US$'000
Within one year	197	75	1,175	1,141
In the second to fifth year inclusive	38	19	2,348	–
	235	94	3,523	1,141

The leases are negotiated for a term ranged from 1 to 3 years (2017: 1 to 2 years) and rentals are fixed over the contracted lease terms.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

20. OPERATING LEASE ARRANGEMENTS (continued)

The Group as lessor

At the end of the reporting period, the Group has contracted with tenants for future minimum lease payments in respect of investment properties which fall due as follows:

	2018 **US$'000**	2017 US$'000
Within one year	**508**	510
In the second to fifth year inclusive	**975**	676
	1,483	1,186

The investment properties held have committed tenants for periods of an average lease term of 4 years (2017: 4 years).

21. CAPITAL COMMITMENTS

	2018 **US$'000**	2017 US$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**11**	71

22. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group and each of the employees make monthly mandatory contributions to the scheme.

The employees employed in the PRC subsidiary are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiary is required to contribute a certain percentage of payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

No forfeited contributions are available to reduce the contribution payable in future years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

23. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to its owners.

The capital structure of the Group consists primarily of equity attributable to owners of the Company, comprising share capital and reserves, including retained profits.

At the end of the reporting period, no external debts are raised by the Group.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs of the Company. The Group's overall strategy remains unchanged from the prior year.

24. FINANCIAL INSTRUMENTS

The Group's major financial instruments include trade receivables, amounts due from related companies, bank balances and cash and trade payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis of measurement, in respect of each class of financial assets and financial liabilities are disclosed in note 3.

Categories of financial instruments

	2018 **US$'000**	2017 US$'000
Financial assets		
Financial assets at amortised cost	**105,472**	–
Loans and receivables (including cash and cash equivalents)	**–**	117,531
Financial liabilities		
Amortised cost	**11,675**	12,071

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

24. FINANCIAL INSTRUMENTS (continued)

Credit risk and impairment assessment

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to its trade receivables. In order to minimise the credit risk, the management of the Group continuously monitors to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade receivables based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as 14% (2017: 16%) and 57% (2017: 53%) of the total trade receivables are due from the Group's largest customer and the five largest customers, respectively. In addition, the Group has concentration of credit risk by geographical location as 39% (2017: 42%) and 52% (2017: 43%) of the total trade receivables are due from customers located in Japan and the PRC, respectively.

The credit risk on bank balances is limited because majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

24. FINANCIAL INSTRUMENTS (continued)

Credit risk and impairment assessment (continued)

2018	*Notes*	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount US$'000
Financial assets at amortised cost					
Amount due from a related company	*16*	N/A	*(note a)*	12-month ECL	23
Bank balances	*17*	BBB – AAA	N/A	12-month ECL	93,945
Trade receivables	*15*	N/A	*(note b)*	Lifetime ECL (not credit impaired)	11,505

Notes:

(a) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

(b) For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix, grouped by past due status.

As part of the Group's credit risk management, the Group uses debtors' past due status to assess the impairment for its customers because these customers consist of a large number of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired).

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For the year ended 31 December 2018

24. FINANCIAL INSTRUMENTS (continued)

Credit risk and impairment assessment (continued)

(b) (continued)

	Average loss rate %	Gross carrying amount US$'000	Impairment loss allowance US$'000
Current (not past due)	0.00	10,249	–
1 – 30 days past due	0.00	1,093	–
31 – 60 days past due	0.22	163	1
		11,505	1

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

During the year ended 31 December 2018, the Group provided approximately US$1,000 impairment allowance for trade receivables, based on the provision matrix.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL US$'000
As at 31 December 2017 under IAS 39	16
Adjustment upon application of HKFRS 9	24
As at 1 January 2018 – As restated	**40**
Impairment losses recognised	**1**
Impairment losses reversed	**(40)**
As at 31 December 2018	**1**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

24. FINANCIAL INSTRUMENTS (continued)

Credit risk and impairment assessment (continued)

(b) (continued)

Changes in the loss allowance for trade receivables are mainly due to:

	2018 Decrease in lifetime ECL US$'000
Settlement in full of trade debtors with gross carrying amount of US$10,532,000	40

Market risk

Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cash flows. The Group has certain transactions denominated in foreign currencies, which expose the Group to foreign currency risk. Approximately 12% (2017: 12%) of the Group's sales are denominated in currencies other than the functional currency of the group entities making the sale whilst all costs are denominated in the group entities' functional currency. In addition, certain group entity whose functional currency is Renminbi, have intra-group transactions with its holding company, denominated in United States dollars. The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are disclosed in respective notes. Although the Group currently does not use any derivative contracts to hedge against its exposure to currency risk, the Group actively utilises natural hedge technique, such as managing the currencies used in transactions, to manage its foreign currency exposures. However, the management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

Notes to the Consolidated Financial Statements

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24. FINANCIAL INSTRUMENTS (continued)

Market risk (continued)

Foreign currency risk (continued)

The Group is mainly exposed to currency of Hong Kong dollars, Japanese Yen and Renminbi. The following table details the Group's sensitivity to a 10% increase and decrease in United States dollars against Japanese Yen and Renminbi. Since Hong Kong dollars is pegged to United States dollars, the management considers that the exchange rate fluctuation between Hong Kong dollars and United States dollars is not significant and therefore has not been included in the sensitivity analysis. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates. The sensitivity rate used is the rate when reporting foreign currency risk internally to key management personnel and represent management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes trade receivables, trade payables and bank balances. The number below indicates an increase in post-tax profit for the year and other equity where United States dollars strengthens against Japanese Yen and Renminbi. If United States dollars weakens against Japanese Yen and Renminbi, there would be an equal and opposite impact on the post-tax profit and other equity.

	2018		2017	
	Post-tax profit US$'000	**Other equity US$'000**	Post-tax profit US$'000	Other equity US$'000
Japanese Yen	**126**	**–**	128	–
Renminbi	**2,864**	**4,372**	3,249	4,207

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

24. FINANCIAL INSTRUMENTS (continued)

Market risk (continued)

Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on variable-rate interest bearing financial assets, mainly bank balances at prevailing market interest rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rates for bank balances at the end of the reporting period. The analysis is prepared assuming the bank balances outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2017: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2018 would increase/decrease by US$470,000 (2017: US$524,000).

Liquidity risk management

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities at the end of the reporting period. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes principal cash flows only as the financial liabilities are non interest-bearing.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

24. FINANCIAL INSTRUMENTS (continued)

Liquidity risk management (continued)

	Repayable on demand or less than 3 months US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
At 31 December 2018			
Financial liabilities			
Trade payables	**11,675**	**11,675**	**11,675**
At 31 December 2017			
Financial liabilities			
Trade payables	12,071	12,071	12,071

25. RELATED PARTY TRANSACTIONS

Other than the amounts due from/to related companies as disclosed in notes 15, 16 and 18, the Group has the following significant transactions with related parties during the year:

Nature of transactions	2018 US$'000	2017 US$'000
Revenue:		
Sales of goods	**55**	312
Property rental income	**268**	263
Cost and expenses:		
Purchases of raw materials	**69**	106
Processing charges paid	**3,601**	3,442
Rental paid	**1,159**	1,129

The related parties are companies over which certain shareholders of the Company have control or significant influence. The Company's directors represent the Group's key management and their emoluments for the year are set out in note 7.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

26. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries, all of which are wholly-owned by the Company, at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Country of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Principal activities
Directly held:			
Yorkey Optical Technology Limited	Samoa/PRC	US$550,001	Investment and property holding and trading of plastic and metallic parts and components of optical and opto-electronic products
Indirectly held:			
Click Away Services Limited	British Virgin Islands/ PRC	US$1	Provision of technical training and after-sales services
東莞精熙光機有限公司 (Dongguan Yorkey Optical Machinery Components Ltd.)	PRC, wholly foreign owned enterprise established for a term of 30 years commencing 11 December 1995	US$20,680,000	Manufacture and sales of plastic and metallic parts and components of optical and opto-electronic products

None of the subsidiaries had any debt securities outstanding at the end of the reporting period or at any time during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

27. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018 US$'000	2017 US$'000
Non-current asset		
Investments in subsidiaries	**19,417**	19,417
Current assets		
Dividend receivables	**3,550**	68,744
Prepayments and other debtors	**1,545**	1,386
Bank balances and cash	**53,964**	2,806
	59,059	72,936
Current liabilities		
Other payables	**709**	662
Net current assets	**58,350**	72,274
Total assets less current liabilities	**77,767**	91,691
Capital and Reserves		
Share capital (see note 19)	**1,057**	1,058
Reserves	**76,710**	90,633
Total equity	**77,767**	91,691

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

27. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Movement in the Company's reserves

	Share premium US$'000	Translation reserves US$'000	Special reserve US$'000	Retained profits US$'000	Total US$'000
At 1 January 2017	62,982	(4,221)	19,350	15,721	93,832
Profit for the year	–	–	–	10,579	10,579
Other comprehensive income for the year	–	4,221	–	–	4,221
Total comprehensive income for the year	–	4,221	–	10,579	14,800
Dividend recognised as distribution	–	–	–	(17,999)	(17,999)
At 31 December 2017	62,982	–	19,350	8,301	90,633
Profit and total comprehensive income for the year	**–**	**–**	**–**	**3,998**	**3,998**
Repurchase and cancellation of ordinary shares (note 19)	**(79)**	**–**	**–**	**–**	**(79)**
Dividend recognised as distribution	**(10,504)**	**–**	**–**	**(7,338)**	**(17,842)**
At 31 December 2018	**52,399**	**–**	**19,350**	**4,961**	**76,710**

Financial Summary

	Year ended 31 December				
	2014	2015	2016	2017	**2018**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
RESULTS					
Revenue	84,454	77,553	73,491	87,329	**69,703**
Profit before taxation	5,558	5,026	6,149	7,624	**9,213**
Taxation	(462)	(993)	(1,481)	(1,844)	**(1,505)**
Profit for the year	5,096	4,033	4,668	5,780	**7,708**

	At 31 December				
	2014	2015	2016	2017	**2018**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
ASSETS AND LIABILITIES					
Total assets	166,813	155,308	146,701	138,037	**123,633**
Total liabilities	(21,404)	(20,670)	(27,848)	(24,828)	**(22,802)**
Net assets	145,409	134,638	118,853	113,209	**100,831**