RUIXIN INTERNATIONAL HOLDINGS LIMITED
瑞鑫國際集團有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 724)

ANNUAL REPORT 2018

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Wang Zhaofeng *(Chairman)*
Mr. Lam Yat Keung
Mr. Huang Hanshui

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Chi Fai
Ms. Liu Yanfang
Mr. Zhang Jue

AUDIT COMMITTEE

Mr. Ho Chi Fai *(Chairman)*
Ms. Liu Yanfang
Mr. Zhang Jue

REMUNERATION COMMITTEE

Mr. Zhang Jue *(Chairman)*
Mr. Ho Chi Fai
Ms. Liu Yanfang

NOMINATION COMMITTEE

Ms. Liu Yanfang *(Chairman)*
Mr. Wang Zhaofeng
Mr. Zhang Jue

INVESTMENT COMMITTEE

Mr. Zhang Jue *(Chairman)*
Mr. Ho Chi Fai
Ms. Liu Yanfang

COMPANY SECRETARY

Ms. Tsang Man Sze

AUDITOR

SHINEWING (HK) CPA Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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133 Wan Chai Road
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House
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PO Box HM1022
Hamilton HM DX
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

SHARE LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 724

WEBSITE

www.irasia.com/listco/hk/ruixin

Results Overview and Financial Highlights

RESULTS OVERVIEW

For the year ended 31 December 2018 (the "Reporting Period"), Ruixin International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") reported revenue of approximately HK$445.9 million, representing a decrease of 17.7% as compared with approximately HK$542.1 million for the year ended 31 December 2017 (the "Corresponding Period").

Loss for the Reporting Period increased to approximately HK$85.9 million from approximately HK$42.7 million for the Corresponding Period. Loss attributable to owners of the Company was approximately HK$85.9 million for the Reporting Period as compared with approximately HK$42.7 million for the Corresponding Period. The increase in loss was mainly due to, among others, (i) the increase in operating loss for the Reporting Period; (ii) the exchange loss in the Reporting Period but the exchange gain in the Corresponding Period; and (iii) the increase in imputed interest expenses on convertible notes in the Reporting Period. The increase in operating loss for the Reporting Period was mainly due to the expansion of loss from the electronic products business as a result of, among others, the drop in revenue amid the uncertainty and outbreak of the trade war, the increase in material cost, the impairment loss on inventories and the rise in labour cost.

The imputed interest expenses on convertible notes (the "Non-cash Item") arose as a result of accounting treatment under the provisions of the applicable accounting standards and was of non-cash nature. Before the Non-cash Item, the Group made a loss of approximately HK$68.9 million for the Reporting Period, as compared with a loss of approximately HK$27.5 million for the Corresponding Period.

FINANCIAL HIGHLIGHTS

	2018 **HK$'000**	2017 HK$'000
Revenue	**445,933**	542,082
Gross profit	**2,187**	41,172
Loss for the year	**(85,881)**	(42,749)
Imputed interest expenses on convertible notes	**(16,941)**	(15,203)
Loss for the year before imputed interest expenses on convertible notes	**(68,940)**	(27,546)

Management Discussion and Analysis

BUSINESS AND FINANCIAL REVIEW

The electronic products business reported a drop of approximately 17.7% in revenue to approximately HK$445.9 million in the Reporting Period from approximately HK$542.1 million in the Corresponding Period. The gross profit margin for the electronic products business has dropped to approximately 0.5%. During the Reporting Period, material cost has increased due to the global shortage of raw materials for the semiconductors industry. At the same time, the impairment loss on inventories, the rise in labour cost and the fixed overhead cost, among others, absorbed most of the gross profit.

As at 31 December 2018 and the date of this report, the principal amount of convertible notes that remained outstanding was HK$158.4 million with a conversion price of HK$0.011 per share and the maturity date is 31 January 2022.

The Company and the holder of convertible notes (the "Noteholder") entered into the deed of further variation (the "Deed of Further Variation 2018") and the letter of agreement (the "Letter of Agreement") on 12 November 2018. Pursuant to the Deed of Further Variation 2018, it was agreed that, subject to the fulfillment of conditions precedent, (i) the maturity date of the remaining convertible notes in the principal amount of HK$158.4 million will be extended from 31 January 2019 to 31 January 2022; and (ii) the conversion price of the remaining convertible notes will be adjusted to HK$0.011 per share from HK$0.035 per share. On 28 December 2018, the relevant ordinary resolution was duly passed at the special general meeting of the Company. The extension of the maturity date and the adjustment of the conversion price of the remaining convertible notes became effective on 31 December 2018. For details, please refer to the announcements of the Company dated 12 November 2018, 28 December 2018 and 31 December 2018, as well as the circular of the Company dated 11 December 2018.

Immediately following the modification of terms of the remaining convertible notes, as set out in note 26 to the consolidated financial statements, the estimated financial effect of the modification was an increase of approximately HK$47.7 million in other reserve in the consolidated statement of changes in equity (the "Financial Impact"), a transfer of approximately HK$32.9 million between other reserve and accumulated losses, and a transfer of a net amount of approximately HK$5.9 million between the convertible notes reserve and accumulated losses with no profit or loss impact during the Reporting Period.

Pursuant to the Letter of Agreement, the Noteholder agreed to exercise his conversion rights under the convertible notes to convert the outstanding convertible notes in an aggregate principal amount of HK$102,000,000 at the conversion price of HK$0.035 per share (the "Partial Conversion"). On 31 December 2018, the Partial Conversion was completed and 2,914,285,714 ordinary shares of HK$0.01 each (the "Share(s)") in the capital of the Company were allotted and issued, as set out in notes 26 and 29 to the consolidated financial statements. Upon completion of the Partial Conversion, the principal amount of the convertible notes that remained outstanding was HK$158.4 million.

As at 31 December 2018, the Group had net assets of approximately HK$67.9 million and net current assets of approximately HK$155.4 million with a current ratio of 5.1 times, as compared with net liabilities of approximately HK$26.5 million and net current liabilities of approximately HK$54.3 million as at 30 June 2018. The remaining convertible notes were reclassified as non-current liabilities due to the extension of the maturity date. The increase in equity from the Partial Conversion and the Financial Impact more than offset, among others, the retained losses for the Reporting Period.

Pursuant to Rule 13.64 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), where the market price of the securities of the issuer approaches the extremities of HK$0.01 or HK$9,995.00, the Stock Exchange reserves the right to require the issuer either to change the trading method or proceed with a consolidation or splitting of securities. In view of the market price of the Company's shares approaching the abovementioned threshold of extremities, the Company is considering to implement the proposed capital reorganisation comprising, inter alia, a consolidation of its shares. The Company is currently formulating the details of the proposed capital reorganisation and expects to implement it before the end of the second quarter of 2019. For details, please refer to the circular of the Company dated 11 December 2018.

The Group is seeking and exploring business opportunities in Vietnam to improve the prospect of the Group. During the Reporting Period, Ruixin Universal Limited, an indirect wholly-owned subsidiary of the Company, entered into a memorandum of understanding ("MOU") with PowerChina International Group Limited*（中國電建集團國際工程有限公司）and Metallurgical Corporation of China Ltd.*（中國冶金科工股份有限公司）for the purpose of, among others, the formation of a consortium (the "Consortium") between the parties in relation to the bidding for the Build-Operate-Transfer project for a portion of the northern part of the North-South Highway in Vietnam (the "Project"). The MOU does not create legally binding obligations on the parties, save for the provisions concerning, among others, preliminary expenses, confidentiality, term of the MOU, termination, exclusivity and applicable law. The Board wishes to highlight that the bidding for the Project by the Consortium may or may not materialise and whether the bid if made will be successful is not guaranteed. For details, please refer to the announcement of the Company dated 27 August 2018. As at the date of this report, the parties have not yet entered into a formal legally binding consortium agreement as provided in the MOU.

* *For identification purpose only*

Management Discussion and Analysis

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group mainly finances its business operations with internally generated cash flows and general banking facilities.

As at 31 December 2018, the Group had bank balances and cash of approximately HK$30.7 million (2017: HK$45.5 million). The Group's current ratio (measured as total current assets to total current liabilities) was 5.1 times (2017: 3.3 time).

As at 31 December 2018, the Company had outstanding zero coupon convertible notes due on 31 January 2022 with an aggregate principal amount of HK$158.4 million (2017: HK$260.4 million) and a conversion price of HK$0.011 (2017: HK$0.035) per share. During the Reporting Period, the convertible notes with an aggregate principal amount of HK$102.0 million were converted into 2,914,285,714 Shares in the capital of the Company. The maturity date of the remaining convertible notes with an aggregate principal amount of HK$158.4 million was extended from 31 January 2019 to 31 January 2022 and the conversion price was adjusted from HK$0.035 per share to HK$0.011 per share. Details are set out in notes 26 and 29 to the consolidated financial statements and the paragraphs headed "Business and Financial Review" in the Management Discussion and Analysis on pages 4 and 5 of this report.

During the Reporting Period, the authorised share capital of the Company was increased from HK$300,000,000 divided into 30,000,000,000 Shares of par value HK$0.01 each to HK$600,000,000 divided into 60,000,000,000 Shares by creation of additional 30,000,000,000 new Shares which shall rank *pari passu* with the existing Shares in all respects upon allotment and issue. Details are set out in note 29 to the consolidated financial statements. For further details, please refer to the announcements of the Company dated 7 December 2018 and 28 December 2018, as well as the circular of the Company dated 11 December 2018.

As at 31 December 2018, the Group had no outstanding bank borrowings (2017: nil). The gearing ratio, which is calculated by total interest bearing borrowings to total equity, was nil as at 31 December 2018 and 2017.

As at 31 December 2018, the Group had no capital expenditure commitments (2017: nil).

SIGNIFICANT INVESTMENTS

The Group did not have any significant investments during the Reporting Period.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not have any material acquisitions or disposals of subsidiaries and associated companies during the Reporting Period.

CHARGE ON GROUP'S ASSETS

As at 31 December 2018, the Group did not have any assets pledged (2017: nil).

FOREIGN EXCHANGE EXPOSURES

The Group mainly earns revenue and incurs costs in Hong Kong dollars, U.S. dollars and Renminbi ("RMB"). The management is aware of the possible exchange rate exposure resulted from the fluctuation of RMB against the Hong Kong dollars and will closely monitor its impact on the performance of the Group to determine if any hedging policy is necessary. With regard to the U.S. dollars, foreign exchange exposure would be minimal so long as the Hong Kong SAR Government's policy to peg the Hong Kong dollars to the U.S. dollars remains in effect.

CONTINGENT LIABILITY

Details of the contingent liability of the Group are set out in note 36 to the consolidated financial statements.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2018, the Group had 522 (2017: 508) full time employees in Hong Kong, the People's Republic of China (the "PRC" or "China") (including 478 (2017: 465) subcontractor's staff for the outsourced production of electronic products) and Vietnam. Total staff costs (including Directors' remuneration) for the Reporting Period amounted to approximately HK$28.5 million (2017: HK$29.3 million). The employees are remunerated with reference to the qualification, experience, responsibility and performance of the individual, the performance of the Group and the market practices. Apart from the basic remuneration package, the mandatory provident fund scheme, the central provident scheme in the PRC and the state pension scheme in Vietnam, the Company also operates a share option scheme based on which the Board may, at its discretion, grant options to eligible employees of the Group.

Management Discussion and Analysis

FUTURE OUTLOOK

The global expansion has slowed down against the backdrop of weakening financial market sentiment, trade policy uncertainty and concerns about China's outlook. According to the International Monetary Fund (the "IMF"), weakness in the second half of 2018 will carry over to coming quarters, with global growth projected to decline to 3.5% in 2019 before picking up slightly to 3.6% in 2020 (down by 0.2 and 0.1 percentage point, respectively, from its forecast in October 2018). Global growth in 2018 is estimated to be 3.7%. Key sources of risks to the global outlook are the outcome of trade negotiations and the direction financial conditions will take in months ahead. The IMF warned that failure to resolve differences and a resulting increase in tariff barriers would lead to higher costs of imported intermediate and capital goods and higher final goods prices for consumers. Beyond these direct impacts, higher trade policy uncertainty and concerns over escalation and retaliation would lower business investment, disrupt supply chains, and slow productivity growth. The resulting depressed outlook for corporate profitability could dent financial market sentiment and further dampen growth.

China's economy grew at 6.6% in 2018, its slowest annual rate since 1990 and down from 6.8% in 2017, as the U.S. trade war and the deleveraging campaign took their toll on Chinese companies and consumers. The Chinese economy was continuing to decelerate, growing at just 6.4% in the fourth quarter of 2018, the lowest quarterly rate since the global financial crisis. China's manufacturing sector contracted for a third consecutive month in February 2019 with the official manufacturing purchasing managers' index falling to 49.2 from 49.5 in January 2019 and 49.4 in December 2018, the lowest since February 2016. While there are signs of progress in the U.S.-China trade talks, Chinese manufacturers are generally expected to remain cautious about their business plans until a final resolution is agreed. Analysts said that to some extent, the deceleration was a result of the government's own priorities, however. Beijing's campaign to control financial risk contributed to a sharp slowdown in infrastructure spending, while also reducing access to credit for private companies. A parallel effort to strengthen enforcement of environmental regulations fell heavily on private groups as well (according to reports dated 5, 22 and 31 January 2019 and 28 February 2019 in the Financial Times (the "FT") and 27 and 28 February 2019 in the South China Morning Post (the "SCMP")).

Management Discussion and Analysis

The Chinese economy is facing a critical moment when the external environment is turning hostile and a mountain of debt at home is restricting the scope for additional stimulus. A resolution of the trade war before the tariff truce ends would be good news for business in the short term. But a potential downturn in the electronic sector poses the real risk to China's external outlook and a fundamental slowdown in the U.S. economy is underway hurting the demand for China's products. Analysts expect China's economy to slow further in the first half before stabilising in the second half as Beijing stimulus efforts take hold. Beijing must, however, tread a fine line between easing fiscal and monetary policies further and avoiding the sort of "flood-like" stimulus that was used to combat economic downturns in the past. The IMF projected the Chinese economy to grow at 6.2% in both 2019 and 2020, and warned that China's growth slowdown could be faster than expected, especially if trade tensions continue, which could have severe knock-on effects on financial and commodity markets (according to reports dated 21 and 24 January 2019 in the SCMP and 14 and 22 January 2019 in the FT).

The uncertainties in the global tariff battle affected most of the manufacturers in the PRC, as customers may hesitate to place orders due to the uncertainties in the global markets and product prices may need to be inflated due to the extra tariffs. The electronic products market is ever-changing, and we will pay special attention to the changes to assess the impact to the Group's traditional component products. The Group needs to take extra caution in observing the development of the tariff battle and responding to the change in the market from time to time in order to minimise its impact on the Group.

Biographical Details of Directors

EXECUTIVE DIRECTORS

Mr. Wang Zhaofeng ("Mr. Wang"), aged 49, was appointed as an executive Director and the chairman of the Company (the "Chairman") on 10 July 2013 and 26 February 2016, respectively. Mr. Wang holds master and doctor of law degrees from Renmin University of China. He went to University of Cambridge in England, Cornell University in the United States, Max Planck Institute in Germany and Harvard University in the United States in 2004, 2009, 2015 and 2018, respectively as a visiting scholar. Mr. Wang has about 20 years of experience working in the judiciary department and as a practicing lawyer in the PRC. He is currently a legal counsel to several major media and large enterprises. Mr. Wang was a deputy director for the Public Prosecution Department of the People's Procuratorate of Haidian District in Beijing from 1998 to 2002, and a deputy director for the Legal Policy Research Office of the People's Procuratorate of Beijing from 2002 to 2006. Currently, Mr. Wang is a managing partner of and a director-general of the Litigation and Arbitration Professional Committee of Beijing DeHeng Law Offices. Mr. Wang is also the president of Beijing Xicheng Lawyers Association, a member of the Lawyers Development Strategy Research Committee and the Criminal Committee of All China Lawyers Association in the PRC, a deputy director of the Lawyer Business Research Centre of Renmin University of China, a master student supervisor of Peking University Law School and a part-time professor of China University of Political Science and Law.

Mr. Lam Yat Keung ("Mr. Lam"), aged 61, was appointed as an executive Director on 13 December 2003. Mr. Lam was the president of the Company from 13 December 2003 to 2 March 2010 and from 1 December 2012 to 1 December 2015. Mr. Lam has over 30 years of experience in business development, strategic planning, policy making and research and development in the manufacturing industry in Hong Kong and the PRC, particularly in the consumer products and electronic components sectors. Mr. Lam and his wife, Ms. Lam Pik Wah, are currently the directors of certain subsidiaries of the Company.

Mr. Huang Hanshui ("Mr. Huang"), aged 48, was appointed as an executive Director on 9 March 2010. Mr. Huang holds a Master of Business Administration (MBA) degree from the National University of Singapore and a Bachelor of Arts degree from Xiamen University. Mr. Huang has over 23 years of experience in various areas, including financial and compliance management, equity research, strategic management, human resources services and sales & marketing. Prior to joining the Company, he worked as an equity analyst in Nomura Securities and Standard & Poor's. Mr. Huang is currently the chief financial officer of the Company and a director of certain subsidiaries of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Chi Fai ("Mr. Ho"), aged 62, was appointed as an independent non-executive Director on 15 January 2004. Mr. Ho graduated from the Hong Kong Polytechnic University in 1979 with a Higher Diploma in Accountancy. Prior to joining the Company, he had over 20 years of experience working in an international bank with particular expertise in money market operations and accounting and was the financial controller of a computer manufacturer and an electronic components manufacturer.

Ms. Liu Yanfang ("Ms. Liu"), aged 54, was appointed as an independent non-executive Director on 24 June 2010. Ms. Liu holds a bachelor's degree in law from China University of Political Science and Law. She has over 20 years of experience working as a corporate legal counsel and in financial crimes investigations. Ms. Liu is currently a PRC practicing attorney and she has been a senior partner with Allbright Law Offices situated in Shanghai since 2004. From 1992 to 2003, Ms. Liu served various positions with the Ministry of Public Security including as director of the Securities Crime Investigation Department and as deputy director of the Finance Department under the Economic Protection Bureau. From 1989 to 1992, she worked in the All-China Women's Federation. From 1987 to 1989, she worked as an attorney for a law firm in Hebei province.

Mr. Zhang Jue ("Mr. Zhang"), aged 33, was appointed as an independent non-executive Director on 20 February 2016. Mr. Zhang obtained a bachelor's degree with a major in Financial Management from Shanghai University of Finance and Economics in 2007 and a Master's degree of Accounting from Tsinghua University in 2015. Mr. Zhang has over 11 years of experience in various areas, including investment, financial management, market research and auditing. Mr. Zhang worked as a senior manager from December 2012 to December 2013 and as the financial controller from December 2013 to June 2014 in China New Town Development Company Limited, the shares of which is listed on the main board of the Stock Exchange (stock code: 1278). From December 2012 to June 2017, he served as a vice president in Beijing Black Eagle Fu Cheng Investment Management Co. Ltd.* （北京黑鷹富成投資管理有限公司）and/or its related companies. Since July 2017, he served as a vice general manager of Beijing Qingkong Xinye Investment Management Co. Ltd.*（北京青控新業投資管理有限公司）. Mr. Zhang is currently a director of CCL Cold Storage Logistics Co., Ltd.* （北京中冷物流股份有限公司）and Shanghai Shaohua Culture Communication Co. Ltd.*（上海韶華文化傳播股份有限公司）, the shares of which are quoted on the National Equities Exchange and Quotations of the PRC (stock code: 835382 and 871677, respectively).

* *For identification purpose only*

Report of the Directors

The Board presents their report and the audited consolidated financial statements of the Company and its subsidiaries for the Reporting Period.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries as at 31 December 2018 are set out in note 37 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the Reporting Period are set out in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income on pages 49 and 50 of this report.

The Board does not recommend the payment of final dividend for the Reporting Period (2017: nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the past five financial years is set out on page 134 of this report.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Reporting Period are set out in note 29 to the consolidated financial statements.

CONVERTIBLE NOTES

Details of movements in the convertible notes of the Company during the Reporting Period are set out in note 26 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the Reporting Period are set out in the consolidated statement of changes in equity and note 31 to the consolidated financial statements, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company did not have any reserves available for distribution, as computed in accordance with the Companies Act 1981 of Bermuda (2017: nil). The Company's share premium account of HK$2,374,265,000 (2017: HK$2,271,283,000) could be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the bye-laws of the Company ("Bye-law(s)") or the laws in Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company ("Shareholder(s)").

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

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Reporting Period are set out in note 17 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the largest customer and the five largest customers of the Group accounted for 18.49% and 35.40%, respectively, of the total revenue of the Group for the Reporting Period.

The aggregate purchases attributable to the largest supplier and the five largest suppliers of the Group accounted for 12.88% and 50.10%, respectively, of the total purchases of the Group for the Reporting Period.

None of the Directors, their associates or any Shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in the five largest customers or suppliers.

Report of the Directors

DIRECTORS

The Directors during the Reporting Period and up to the date of this report were:

Executive Directors

Mr. Wang Zhaofeng
Mr. Lam Yat Keung
Mr. Huang Hanshui

Independent non-executive Directors

Mr. Ho Chi Fai
Ms. Liu Yanfang
Mr. Zhang Jue

Pursuant to Bye-law 87, Mr. Lam Yat Keung and Mr. Ho Chi Fai will retire by rotation at the forthcoming annual general meeting of the Company (the "2019 AGM") and, being eligible, will offer themselves for re-election at the 2019 AGM.

None of the Directors being proposed for re-election at the 2019 AGM has a director service contract with the Company which is not determinable by the Company within one year without payment of compensations, other than statutory compensation.

Save as disclosed above, there is no other information regarding Directors that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Reporting Period.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or their respective associates had an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' remuneration and those of the five highest paid individuals in the Group are set out in notes 15 and 16 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the interests and short positions of the Directors and chief executives of the Company (the "Chief Executives") in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (ii) to be entered in the register pursuant to Section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, were as follows:

Long positions in the shares and underlying shares of the Company:

Name of Director	Capacity	Number of shares and underlying shares held	Percentage of shareholding
Mr. Huang Hanshui (Note)	Beneficial owner	86,827,895	0.52%

Note: Mr. Huang Hanshui, an executive Director, has a derivative interest in 86,827,895 shares pursuant to share options granted to him on 6 December 2010.

Save as disclosed above, as at 31 December 2018, none of the Directors, the Chief Executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO), or which had to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the paragraph headed "Directors' and Chief Executives' interests in shares and underlying shares" above and "Share option scheme" as set out in note 30 to the consolidated financial statements, at no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and neither the Directors nor the Chief Executives, or any of their spouses or children under the age of 18, had any rights to subscribe for the equity or debt securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the register of substantial Shareholder maintained by the Company pursuant to Section 336 of the SFO shows that the following Shareholder had notified the Company of relevant interests in the issued share capital of the Company.

Long positions in the shares and underlying shares of the Company:

Name of substantial Shareholder	Capacity	Number of shares and underlying shares held	Percentage of shareholding
Mr. Li Weimin (Note)	Beneficial owner	19,057,271,537	113.41%

Note: Mr. Li Weimin ("Mr. Li") is interested in 19,057,271,537 shares, consisting of (i) an interest in 4,657,271,537 shares beneficially owned and held in his own name; and (ii) a derivative interest in 14,400,000,000 conversion shares to be allotted and issued upon full conversion of the outstanding convertible notes issued to him by the Company with an aggregate principal amount of HK$158,400,000.

Save as disclosed above, the Company had not been notified any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 31 December 2018.

SHARE OPTION SCHEME

At the Company's annual general meeting held on 8 June 2012, the Company terminated the old share option scheme and adopted a new share option scheme. Details are set out in note 30 to the consolidated financial statements.

MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business were entered into or existed during the Reporting Period.

CONNECTED TRANSACTION

Reference is made to the announcements dated 23 September 2009, 14 November 2014, 17 November 2014, 9 January 2015, 14 December 2016 and 16 January 2017, and the circulars dated 19 October 2009, 19 December 2014 and 29 December 2016 of the Company in relation to, among other things, (1) the issue of the convertible notes; and (2) the alteration of certain terms and conditions of the then outstanding convertible notes. Pursuant to the sale and purchase agreement dated 13 September 2009 entered into among the Company, Top Victory Industries Limited (which was a wholly-owned subsidiary of the Company and the purchaser) and Mr. Li (as the vendor) in relation to acquisition of the entire issued share capital of CITIC Logistics (International) Company Limited (liquidated) ("CLI"), on 16 November 2009, the Company issued the convertible notes in the total principal amount of HK$950,400,000 for partial settlement of the consideration for the acquisition of CLI. Pursuant to the deed of variation dated 14 November 2014 entered into between the Company and Mr. Li, the holder of the then outstanding convertible notes, in relation to the alteration of certain terms and conditions of the then outstanding convertible notes, on 9 January 2015, the maturity date of the then outstanding convertible notes was extended from 15 November 2014 to 31 December 2016 and the original conversion price of HK$0.12 per share was adjusted to the conversion price of HK$0.035 per share. Pursuant to the deed of further variation dated 14 December 2016 entered into between the Company and Mr. Li, the holder of the then outstanding convertible notes, in relation to the alteration of certain terms and conditions of the then outstanding convertible notes, on 16 January 2017, the maturity date of the then outstanding convertible notes was extended from 31 December 2016 to 31 January 2019.

On 12 November 2018, the convertible notes in an aggregate principal amount of HK$260,400,000 were outstanding and held by Mr. Li, the sole convertible notes holder. The Company and Mr. Li entered into the Deed of Further Variation 2018, pursuant to which it was agreed that, subject to the fulfilment of conditions precedent, the maturity date of the remaining convertible notes in the principal amount of HK$158,400,000 would be extended from 31 January 2019 to 31 January 2022 and the conversion price would be adjusted from HK$0.035 per share to HK$0.011 per share. On 28 December 2018, the ordinary resolution of the special general meeting was duly passed. The extension of the maturity date and the adjustment of conversion price of the remaining convertible notes became effective on 31 December 2018. For details, please refer to paragraphs headed "Business and Financial Review" in the Management Discussion and Analysis on pages 4 and 5 of this report, note 26 to the consolidated financial statement, the announcements of the Company dated 12 November 2018, 28 December 2018 and 31 December 2018, as well as the circular of the Company dated 11 December 2018.

As at 12 November 2018, Mr. Li was interested in approximately 12.55% of the total issued share capital of the Company and a substantial Shareholder. As Mr. Li is a connected person of the Company, the entering into of the Deed of Further Variation 2018 constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Therefore, the entering into of the Deed of Further Variation 2018 and the transactions contemplated thereunder were subject to reporting, announcement and the independent Shareholder's approval requirements pursuant to the Listing Rules.

Saved as disclosed above, during the Reporting Period, there were no connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent Shareholders' approval requirements under the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float as required under the Listing Rules as at the date of this report.

AUDITOR

SHINEWING (HK) CPA Limited will retire and, being eligible, will offer themselves for re-appointment as auditor of the Company at the 2019 AGM.

On behalf of the Board

Wang Zhaofeng
Chairman

Hong Kong, 22 March 2019

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance. During the Reporting Period, the Company has applied the principles of and complied with the code provisions (the "Code Provision(s)") set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Listing Rules except for the following deviations:

Under the Code Provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The duties and responsibilities of the chief executive were shared among the members of the Board during the Reporting Period. In view of the size of operation of the Group, the Board considers that it will be suitable for implementing the Company's strategies under this arrangement. The Board shall review this arrangement from time to time to ensure appropriate and timely action is taken to meet changing circumstances.

Moreover, under the Code Provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. Mr. Ho Chi Fai, an independent non-executive Director, is not appointed for a specific term but his directorship is subject to retirement by rotation and re-election in accordance with the Bye-laws and the Listing Rules. Under the Bye-laws, one-third of the directors shall retire from office by rotation at each annual general meeting. According to the Listing Rules, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Directors will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making process are regulated in a proper and prudent manner.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises a balanced composition of Directors who possess a wide spectrum of relevant skills and experience, including three executive Directors and three independent non-executive Directors. All Directors are expressly identified in all corporate communications. The biographical details of each Director are set out on pages 10 to 11 of this report. The Board has established four Board committees, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Investment Committee (together the "Board Committees").

During the Reporting Period, the attendance of the Directors at the Board meetings, Audit Committee meetings, Remuneration Committee meetings, Nomination Committee meetings, Investment Committee meeting and the Company's special general meeting held on 28 December 2018 ("2018 SGM") and the Company's annual general meeting held on 11 June 2018 ("2018 AGM") is given below and their respective responsibilities are discussed later in this report.

	No. of meetings attended/held						
	2018 SGM	2018 AGM	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	Investment Committee meeting
Executive Directors							
Mr. Wang Zhaofeng	1/1	1/1	11/11	N/A	N/A	2/2	N/A
Mr. Lam Yat Keung	1/1	1/1	11/11	N/A	N/A	N/A	N/A
Mr. Huang Hanshui	1/1	1/1	11/11	N/A	N/A	N/A	N/A
Independent non-executive Directors							
Mr. Ho Chi Fai	1/1	1/1	11/11	2/2	2/2	N/A	1/1
Ms. Liu Yanfang	1/1	1/1	11/11	2/2	2/2	2/2	1/1
Mr. Zhang Jue	1/1	1/1	11/11	2/2	2/2	2/2	1/1

The Board is accountable to Shareholders for the performance and activities of the Company and is primarily responsible for setting directions, formulating strategies, monitoring performance and managing risks of the Group. The day-to-day management, operation and administration of the Company are delegated to the management executives while certain key matters such as making recommendation of dividend or other distributions and appointment of Directors are reserved for the approval by the Board.

The Board held meetings from time to time whenever necessary. Notice of at least fourteen days has been given to all Directors for all regular board meetings and the Directors can include matters for discussion in the agenda if necessary. Agenda and accompanying board papers in respect of regular Board meetings are sent to all Directors within reasonable time before the meeting. Minutes of Board meetings and meetings of the Board Committees are kept by the secretary of the meetings and all Directors have access to board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it.

In case a Director has a material interest in the subject matter to be considered by the Board, a Board meeting should be held and such Director must abstain from voting and not being counted towards the quorum in respect of the subject matter of the meeting.

All Directors are regularly updated on governance and regulatory matters. There is an established procedure for Directors to obtain independent professional advice at the expense of the Company in discharge of their duties.

During the Reporting Period, the Board complies at all times with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors and one of them has appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from each independent non-executive Director an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company is of the opinion that the independent status of them remains intact as at 31 December 2018.

DIRECTORS' TRAINING

Under the Code Provision A.6.5 of the CG Code, all directors should participate in continuous development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Directors are continuously updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. The Company has provided timely technical updates, including the briefing on the amendments on the Listing Rules and the news release published by the Stock Exchange to the Directors. Continuous briefing and seminars on professional development for Directors are arranged where necessary. Up to the date of this report, all Directors have attended in-house seminars on regulatory and corporate governance matters arranged by the Company and the Company has received from each of the Directors the confirmation on continuous professional training, as recorded in the table below:

	Seminars on regulations and updates	Reading guides and papers relating to regulations and directors' duties
Executive Directors		
Mr. Wang Zhaofeng	✓	✓
Mr. Lam Yat Keung	✓	✓
Mr. Huang Hanshui	✓	✓
Independent non-executive Directors		
Mr. Ho Chi Fai	✓	✓
Ms. Liu Yanfang	✓	✓
Mr. Zhang Jue	✓	✓

DIRECTORS' INSURANCE

The Company has arranged appropriate insurance cover in respect of legal action against the Directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman is responsible for the leadership and effective running of the Board and ensuring that all significant and key issues are discussed and where required, timely and constructively resolved by the Board.

The chief executive officer of the Company (the "CEO") was delegated with the authority and responsibility to manage the Group's business in all aspects effectively, implement major strategies, make day-to-day decision and coordinate overall business operation. During the Reporting Period, the duties and responsibilities of the CEO were shared among the members of the Board. In view of the size of operation of the Group, the Board considers that it will be suitable for implementing the Company's strategies under this arrangement. The Board shall review this arrangement from time to time to ensure appropriate and timely action is taken to meet changing circumstances.

APPOINTMENT, RE-ELECTION AND REMOVAL

Each of the executive Directors is engaged on a service contract. Each of the independent non-executive Directors (except Mr. Ho Chi Fai) is engaged with an appointment letter from the Company for a fixed term of three years, which will continue thereafter until terminated by either party by giving not less than one month notice in writing to the other party, and his/her term of office is subject to retirement by rotation and re-election in accordance with the Bye-laws and the Listing Rules.

According to the Bye-laws, one-third of the Directors shall retire from office by rotation at each annual general meeting. Any director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election at that meeting.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Bye-laws. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

NOMINATION COMMITTEE

The Nomination Committee currently comprises three members namely, Ms. Liu Yanfang (the chairman of the Nomination Committee) and Mr. Zhang Jue, independent non-executive Directors, and Mr. Wang Zhaofeng, an executive Director.

The Board adopted the board diversity policy (the "Board Diversity Policy") in accordance with the requirements set out in the Listing Rules. Such policy aims to achieve diversity on the Board in supporting the attainment of its strategic objectives and its sustainable development. Selection of candidates on the Board will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The primary duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and to identify individuals suitably qualified to become board members. It is also responsible for assessing the independence of independent non-executive Directors and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors. The Nomination Committee will also review the Board Diversity Policy to ensure its effectiveness. The recommendations of the Nomination Committee are then put forward for consideration and adoption, where appropriate, by the Board.

During the Reporting Period, two Nomination Committee meetings were held to review the structure, size and composition of the Board, the retirement and re-appointment arrangement of the Directors in the 2018 AGM, review the effectiveness of the Board Diversity Policy, and make recommendation to the Board for consideration of appointment of a chairman in one of the Group's subsidiary. The terms of reference of the Nomination Committee are consistent with the terms set out in the relevant section of the CG Code.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee to ensure that there are formal and transparent procedures for setting policies on the remuneration of Directors. The Remuneration Committee currently comprises all independent non-executive Directors, namely, Mr. Zhang Jue (the chairman of the Remuneration Committee), Mr. Ho Chi Fai and Ms. Liu Yanfang.

The Company has adopted the model to make recommendations to the Board to determine the remuneration packages of Directors and senior management.

During the Reporting Period, two Remuneration Committee meetings were held to review the remuneration packages of the Directors and make recommendation to the Board for the remuneration package of a chairman in one of the Group's subsidiary. The Remuneration Committee ensures that no Director is involved in deciding his own remuneration. The terms of reference of the Remuneration Committee are consistent with the terms set out in the relevant section of the CG Code.

AUDIT COMMITTEE

The Audit Committee currently comprises all independent non-executive Directors, namely, Mr. Ho Chi Fai (the chairman of the Audit Committee), Ms. Liu Yanfang and Mr. Zhang Jue.

The primary duties of the Audit Committee include to make recommendations to the Board for appointment, reappointment and removal of the Company's external auditor, to review and monitor its independence and objectivity, and to develop and implement policy on the engagement of non-audit services by the Company's external auditor. Apart from monitoring the integrity of financial statements, the Audit Committee also oversees the Company's financial reporting system, risk management and internal control systems.

During the Reporting Period, two Audit Committee meetings were held to review the interim and final results of the Group, the financial reporting matters as well as the risk management and internal control systems of the Group. The terms of reference of the Audit Committee are consistent with the terms set out in the relevant section of the CG Code.

AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about its reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 43 to 48 of this report.

For the Reporting Period, the remuneration paid/payable to the external auditor of the Company, SHINEWING (HK) CPA Limited and its affiliate company in respect of audit and non-audit services provided by them to the Group, are set out below:

	HK$'000
Audit services	835
Non-audit services:	
– Taxation services	59
– 2018 interim review	72
– Others	32
	163
	998

DIVIDEND POLICY

The Company has adopted a dividend policy (the "Dividend Policy") on 24 December 2018. Under the Dividend Policy, provided that the Group is profitable and without affecting the normal operations of the Group, the Company may consider to declare and pay dividends to the Shareholders.

In deciding whether to propose any dividend payout, the Board will consider, among others, the Group's earnings performance, financial condition, investment requirements, future prospects, the interests of Shareholders, and other factors which the Board may deem relevant. According to the Dividend Policy, the declaration, form, frequency and amount of any dividend payout of the Company must be in accordance with relevant laws, rules and regulations and subject to the memorandum of association of the Company (the "Memorandum of Association"). In accordance with the Memorandum of Association, any dividends declared by the Company must be approved by an ordinary resolution of the Shareholders at an annual general meeting of the Company and must not exceed the amount recommended by the Board. Moreover, in addition to cash, the dividends may be paid up in the form of the Company's shares, by the distribution of specific assets of any kind or by distribution of any one or more of such ways.

The Board will continue to review the Dividend Policy from time to time and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time. The Dividend Policy shall in no way constitute a legally binding commitment by the Company in respect of its future dividend and/or in no way obligate the Company to declare a dividend at any time or from time to time.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code for the Reporting Period.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual applicable to employees of the Company and Directors; and

(e) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

The terms of reference of the corporate governance functions of the Board are consistent with the terms set out in the relevant section of the CG Code.

RESPONSIBILITY FOR PREPARATION AND REPORTING OF FINANCIAL STATEMENTS

The management has regularly provided explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval. The Directors acknowledge their responsibility for preparing the financial statements and presenting a balanced, clear and understandable assessment of the Company's annual and interim reports, other financial disclosures required under the Listing Rules and reports to regulators. The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Group is set out in the "Independent Auditor's Report" on pages 43 to 48 of this report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for the risk management and internal control systems and for reviewing their effectiveness. The Group emphasises the importance of sound risk management and internal control systems which are indispensable for mitigating the Group's key risk exposures. The Group's risk management and internal control systems include a defined management structure with limits of authority, and are designed for the Group to identify and manage the significant risks to achieve its business objectives. The systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational systems and in the achievement of the Group's business objectives.

The Group has adopted a three-tier risk management approach to identify, assess and manage different types of risks. The Group is committed to the identification, evaluating, and management of risks associated with its business activities through ongoing assessment of a risk register, by considering the likelihood and impact of each identified risk. For any identified significant risks, the Group will evaluate its financial or operational impacts to the Group and adopt mitigation measures to manage such risks.

The Group has developed an internal control system, which covers major financial, operational and compliance controls to safeguard its assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The internal control system is reviewed on an ongoing basis by the Board and the Audit Committee annually. For any identified internal control weaknesses or defects, the Group will enhance control measures to rectify such control weaknesses or defects.

Under the Code Provision C.2.5 of the CG Code, the Group should have an internal audit function. The Group has conducted an annual review for the need of setting up an internal audit department. Given the Group's simple operating structure, it was decided that the Board, supported by the Audit Committee, would be directly responsible for risk management and internal control systems of the Group.

During the Reporting Period, the Company engaged an external independent consultant to conduct an independent review on the risk management and internal control systems of the Group. Mitigation measures have been put in place to manage significant risks and no material control weaknesses or defects were found. Risk assessment report and internal control report were submitted to and approved by the Board and the Audit Committee.

The Board through the Audit Committee and the external independent consultant had conducted an annual review on the risk management and internal control systems of the Group. The review covered material controls, including financial, operational and compliance controls and risk management functions of the Group. The Board considered that the risk management and internal control systems of the Group were effective during the Reporting Period. The improvement of the systems of risk management and internal control is an ongoing process and the Board maintains a continuing commitment to strengthen the Group's control environment and processes.

Procedures and internal controls for the handling and dissemination of inside information

The Group has put in place the procedures and internal controls for the handling and dissemination of inside information. The Group complies with requirements of the SFO and the Listing Rules during the Reporting Period. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements or circulars are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

COMPANY SECRETARY

All Directors have access to the advice and services of the company secretary of the Company, Ms. Tsang Man Sze ("Ms. Tsang"), a full time employee of the Company. Ms. Tsang has undertaken sufficient hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS

The Company aims to provide its Shareholders and investors with high standard of disclosure and financial transparency. The Board is committed to provide clear and detailed information of the Group to Shareholders in a timely manner and on a regular basis through the publication of interim and annual reports and/or dispatching circular, notices and other announcements.

Shareholders are welcome to attend Shareholder's meeting where they are fully briefed on the Company's activities and questions can be raised to the Board and the management. The Board proposes separate resolutions for each issue to be considered and put each proposed resolution to the vote by way of a poll. Poll results will be posted on the websites of the Company and the Stock Exchange after Shareholders' meetings.

SHAREHOLDERS' RIGHTS

Convening a special general meeting by Shareholders

Pursuant to Bye-law 58, a special general meeting may be convened by the Board upon requisition by any shareholder holding at the date of deposit of written 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. The Shareholder shall make a written requisition to the Board or the company secretary of the Company at the head office address of the Company, specifying the shareholding information of the Shareholder, his/her contact details and the proposal regarding any specified transaction/business and its supporting documents.

The Board shall arrange to hold such general meeting within two months after the receipt of such written requisition. Pursuant to Bye-law 59, the Company shall serve requisite notice of the general meeting, including the time, place of meeting and particulars of resolutions to be considered at the meeting and the general nature of the business.

If within twenty one days of the receipt of such written requisition, the Board fails to proceed to convene such special general meeting, the Shareholder shall do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

Putting forward proposals at general meetings

A Shareholder shall make a written requisition to the Board or the company secretary of the Company at the head office address of the Company, specifying the shareholding information of the Shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

Putting forward enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing to the Company's head office in Hong Kong at 18th Floor, Times Media Centre, 133 Wan Chai Road, Hong Kong.

Environmental, Social and Governance Report

SCOPE AND REPORTING PERIOD

The Group is pleased to present the Environmental, Social and Governance ("ESG") Report (the "ESG Report"). The ESG Report covers the Group's overall performance in two subject areas – environmental and social aspects of the business operations. Unless otherwise stated, the ESG Report focuses on its business operations in Hong Kong and Vietnam. In relation to the Group's corporate governance matters, please refer to the Corporate Governance Report on pages 20 to 29 of this report.

APPROACH TO ESG AND REPORTING

The Group's ESG philosophy is to create long-term value for its stakeholders that aligns with the growth and sustainability of its business and the environment it is in. The Group aspires to be a responsible corporate citizen and believes that transparency and accountability are important foundations for building trust with its stakeholders.

Therefore, the Board is committed to contributing to the sustainable development of the society and environment. Along with the commitment, the Board is responsible for evaluating and determining the risks in relation to the ESG areas at the Group level. Through adjusting and defining risks, the Board is able to formulate a clear vision and key strategies and monitor management to ensure the proper ESG reporting measures and systems are in place.

PRINCIPLES

The ESG Report preparation and presentation of related information are in accordance with Appendix 27 of the Listing Rules. The Group has prepared the ESG Report to meet the "Comply or Explain" provisions, of which mandatory key performance indicators ("KPIs") and some recommended KPIs are disclosed. As such, the Group is able to produce a balanced report, focusing on the key material issues.

According to the guideline, the following principles are underpinned:

1. **Materiality**: The ESG issues that have major impacts on investors and other stakeholders must be set out in the ESG Report.

2. **Quantitative**: If the KPIs have been established, they must be measurable and applicable to valid comparisons under appropriate conditions. They must also be able to describe the purpose and impacts of quantitative information.

3. **Balance**: The ESG Report must provide an unbiased picture of the ESG performance of the Group. It should avoid selecting, omitting, or presenting formats that may inappropriately influence a decision or judgment by the reader.

4. **Consistency**: The ESG Report should use consistent and disclose statistical methodologies to allow meaningful comparisons of related data over time. Any changes to the methods used must be specified in the ESG Report.

STAKEHOLDER ENGAGEMENT

As part of the business strategies, the Group engages its stakeholders from time to time through on-going communications and collect their views on the ESG aspects that they regard as relevant and important. The key stakeholders include its employees, customers, suppliers, investors and business partners etc. The Group maintains an open and transparent dialogue with its stakeholders through various channels including meetings, surveys and workshops. This year the Group saw more emphasis and stakeholder expectation on anti-corruption, community investment and employment as well as development and training. These key considerations, aligned with the Group's guiding principles and values, encompassing environment, workplace and community, have been further addressed in the ESG report.

The Group also discloses its information regularly via announcements, notices, circulars, company publications, and reports etc. Stakeholders may browse the Group's website at www.irasia.com/listco/hk/ruixin or contact the Group to obtain more information.

A. Environment

The Group acknowledges that global climate change is one of the most concerned environmental issues by the United Nations and the governments. The year-to-year increase in Greenhouse Gases ("GHG(s)") in the Earth is closely related to the recent extreme weathers, including heavy rains, flooding, droughts, heat wave, etc. Therefore, the Group considers the relevant environmental aspects in its operating activities, formulating effective measures for conserving energy and water, reducing waste generation and investing resources proactively to reduce the impact of its operations on the environment.

1. EMISSIONS

As the Group is principally engaged in the manufacturing and trading of electronic and electrical parts and components, there does not emit significant discharges, for instance, nitrogen oxides, sulphur oxides, and respirable suspended particulates into water, land, and air. In addition, the Group does not produce a significant volume of hazardous and non-hazardous waste from the businesses.

The Group's environmental impacts stem mainly from the energy usage and related GHG emissions associated with the business operations. Also, the Group has an impact through its use of paper and non-hazardous waste generation. The Group strives to minimise impacts on the environment by reducing air and GHG emissions, waste and wastewater discharges.

(a) GHG Emissions

The major sources of air and GHG emissions the Group associated with are energy consumptions regarding the purchased electricity.

The total GHG generated by the Group during the Reporting Period was approximately 90 tonnes of carbon dioxide equivalent, with an intensity of approximately 2 tonnes of carbon dioxide equivalent per employee, comprising of consumption of fuel by the Group's vehicles, electricity consumption, as well as disposal of paper waste.

Emissions Data from the Vehicles	Unit	2018
Nitrogen Oxides (NO_x)	kilogram	52.29
Sulphur Oxides (SO_x)		0.21
Particulate Matters (PM)		4.96

Table 1 – Pollutants emitted from the Group's vehicles during the Reporting Period

Scope of GHG Emission	Emission Source	Estimated Emission (In tonnes of CO_2e)	Intensity (Emission/ Employee)	Total Emission (In percentage)
Scope 1				
Direct Emission	Consumption of Fuel by the Group's Vehicles	38.47	0.92	41.63%
Scope 2				
Indirect Emission	Purchased Electricity*	52.93	1.26	57.01%
Scope 3				
Other Indirect Emission	Disposal of Paper Waste	1.08	0.03	1.36%
Total		92.48	2.21	100%

Table 2 – Total GHG Emissions during the Reporting Period

Note: Scope 1 refers to direct GHG emissions. The emission sources of the Group include mobile combustion source and fugitive emission source. Scope 2 refers to energy indirect emissions which resulted only from the generation of the Group's purchased electricity, but it didn't include the emissions from the Group's business operations in Vietnam since related data cannot be provided by the property management company.

* The electricity usage in the Vietnam office was uniformly handled by the property management company, and therefore cannot be measured separately.

In order to reduce carbon dioxide and other air emissions generated by electricity consumption, the Group advocates energy efficiency. Through below means, the Group enhanced electricity consumption, therefore, reduced GHG emissions.

- Replace electrical equipment with better energy efficiency
- Use LED lighting system
- Adopt partition in lighting areas based on actual operating needs
- Turn off unnecessary electrical appliances, and setting them in a sleep state during idle periods
- Maintain a room temperature of 25.5˚C
- Install timing devices in some equipment for automatic shutdown during non-office hours to avoid unnecessary energy consumption
- Ensure equipment in good conditions by cleaning and repairing them regularly

In addition to different means of reducing electricity consumption, the Group also works to reduce its carbon footprint by reducing business travels. The Group actively uses video conference call system platforms and email discussions to replace unnecessary business travels.

(b) Waste Management

The Group upholds the principle of waste management and is committed to the proper handling and disposal of all wastes from business operations. Due to the business nature, the Group did not generate a significant amount of hazardous waste during the Reporting Period, while the major non-hazardous waste generated was paper, with a weight of approximately 0.2 tonne, equivalent to approximately 0.01 tonnes per employee.

Where feasible, all harmless materials are sorted and recycled for reuse, including single-sided paper, envelopes and folders etc., as well as waste electrical and electronic equipment, including computer, printer, photocopier, kettle and microwave, etc. The reusable equipment is donated to charitable organisations or sent to recyclers for processing. For the Group's operations in Hong Kong, recyclable paper waste is centrally collected by ECO Association and property management company.

Non-hazardous Waste	Unit	Consumption Quantity	Intensity (Consumption/ Employee)
Paper	tonne	0.23	0.01

Table 3 – Total non-hazardous waste produced by the Group during the Reporting Period

During the Reporting Period, in Hong Kong, the Group promoted green messages and encouraged employees to participate in green activities. For instance, recycling red pocket, Chinese New Year food collection program, and waste electrical and electronic equipment recycling program organised by Greeners Action, Food Grace, People's Food Bank of St. James' Settlement and ALBA Integrated Waste Solutions (Hong Kong) Ltd. Through establishing a culture of environmental protection and developing habitual behaviours within the Group, environmental awareness is promoted to families and the community.

(c) Compliance

The Group was not aware of any incidents of non-compliance with laws and regulations that have a significant impact concerning air and GHG emissions, discharges into water or land, nor generation of hazardous and non-hazardous waste during the Reporting Period.

2. USE OF RESOURCES

Acknowledge itself as part of the global village, the Group is committed to conserving resources for the purposes of environmental and operating efficiency. To pursue the environmental commitment, the Group implements multiple measures in enhancing energy efficiency, minimising the use of paper, reducing water consumption and driving behavioural changes of employees. Through active monitoring and managing the use of resources, the Group aims to reduce the operating costs as well as the carbon footprints. Given the Group is principally engaged in the manufacturing and trading of electronic and electrical parts and components, there does not involve a significant amount of packaging materials for finished products. Nevertheless, for other resources consumed from business operations, the Group upholds the principle of resources management and is committed to the proper use of all resources. Details of energy and water consumptions and reduction methods will be discussed in the following sessions.

Resources	Unit	Consumption Quantity	Intensity (Consumption/ Employee)
Electricity*	kWh	91,028.00	2,167.33
Water	m^3	123.03	2.93

Table 4 – Resources consumption during the Reporting Period

* The electricity usage in the Vietnam office was uniformly handled by the property management company, and therefore cannot be measured separately.

(a) Water

The sustainable and responsible use of water resources is a key issue globally. The Group is aware that water shortages, excessive demand, and usage could pose a serious problem. Due to the business nature involved, the Group does not use nor discharge a significant amount of water.

In order to raise the awareness of water conservation, the Group promotes water saving practices in the workplace. For instance, the Group posts water-saving slogans in conspicuous places.

(b) Paper

The Group endeavours to optimise the use of resources by applying the "Use Less, Waste Less" concept. The Group actively promotes green filing and records, encouraging its employees to use their computers to review files rather than printing them and to print on both sides of the paper when possible. Where feasible, a green procurement model adopting the internet or email is used.

3. THE ENVIRONMENT AND NATURAL RESOURCES

With respect to the business nature and activities, the impact of the Group on the environment and natural resources is not significant. Yet the Group is devoted to reducing any negative impacts that may cause to the environment. Through the strong commitment, the Group implemented controls on energy consumption and office resources consumption.

The Group values employees' participation as part of the success of the goal. Therefore, the Group appoints dedicated staff to emphasise environmental protection measures. For instance, conserving energy and reducing emissions at work, deliver timely environmental information and publicise the details on seminars and events held by environmental groups and policy institutions to the employees via email, notices, and meetings from time to time.

In addition, the Group adopts green measures with its cooperation with external partners. While meeting its operating requirements, the Group gives priority to local suppliers and prefers to cooperate with suppliers who have obtained the ISO 14001 environmental management system certification for the joint promotion of environmental protection work.

The Group shall continue to assess the environmental risks of the businesses, review the environmental practices and ensure compliance with relevant laws and regulations.

B. Social

1. *EMPLOYMENT AND LABOUR PRACTICES*

The Group is committed to building a strong team of employees who share the business mission and objectives. With respect to the commitment, the Group is dedicated to providing a safe, healthy, fair without discrimination, and reasonable working environment for employees and are committed to strictly abiding the relevant employment laws and regulations.

(a) Remuneration

Recognising the important part that our employees play, the Group offers competitive remuneration and benefits to attract and retain talent and reward contribution. Salary is reviewed regularly and benchmarked using external market intelligence. Through the annual performance review system, employees can review their work practice over the previous year and plan their future work development.

Fair terms on working hours, holidays, termination of contract, fringe benefits and leave entitlement are stipulated on the employment contracts signed between employees and the Group. In addition, the Group also provides employees with retirement schemes in accordance with the law. The Group dismisses employees based solely on reasonable and legitimate reasons and provides notification of the termination of the employment contract between the parties in writing. All remuneration and compensation are consistent with legal and regulatory requirements.

(b) Equal Opportunity

The Group upholds equal employment opportunities for all employees in relation to all human resources matters including recruitment, training, promotion, transfer, and benefit etc., regardless of gender, religiosity, pregnancy, family status, marital status, race and disability etc.

(c) Supporting Health and Wellness

The Group attaches great importance to the physical and psychological health of the employees. Acknowledging a good work-life balance can improve employees' work performance, the Group does not force employees to work overtime. On the other hand, the Group regularly organises entertainment activities to strengthen team cohesion. For instance, birthday parties, festive gatherings, and other activities for employees.

In addition to the legal holidays, the Group also provides employees with annual leave, sick leave, marriage leave, and funeral leave. In addition, the Group also provides retirement schemes, medical insurance and transport allowance for employees.

(d) Compliance

The Group strictly complies with the relevant laws and regulations in the employment and labour process. For instance, recruitment, dismissal, promotion, and remuneration of employees regardless of where the Group operates. The legitimate rights and interests of employees are protected in accordance with laws and regulations.

2. HEALTH AND SAFETY

The Group strives to foster a safe working environment where all individuals are supported to succeed and can develop to their fullest potential. Further, the Group strictly abides by the relevant laws and regulations on occupational health and safety and have conducted practical safety management to effectively eliminate potential safety risks.

(a) Health and Safety Management

Given the principal businesses of the Group, there does not involve substantial safety hazards within the workplace. However, the Group has spared no effort to advocate occupational health and safety. For instance, in Hong Kong, in addition to complying with occupational safety and health laws and regulations, the Group installed air purifiers to improve indoor air quality, cleaning the carpets, drinking fountains and air conditioning systems regularly, and applying pest control.

(b) Employee Participation

The Group established mutual trust and sincere communication with employees in relation to occupational safety and health. The Group requires employees to strictly follow the Group's regulations on occupational safety and fire safety. Through the knowledge and experience sharing, the Group continually improves employees' knowledge, awareness and behaviour with regard to safety and hazard management.

(c) Mutual Trust and Communication

The Group encourages employees to report any potential health and safety risks in their workplace. Upon incidents, dedicated staff shall follow up immediately and implementing effective corrective or control measures. In addition, the Group also dispatches personnel to supervise contractors and prevent any unsafe activities.

(d) Emergency Preparation

A robust emergency planning and preparations can always reduce casualties. Therefore, the Group enhances fire safety by below measures:

- Post exit route maps in prominent locations in the workplace
- Encourage employees to participate in fire drills organised by the building's management office each year
- Ensure fire escapes are unobstructed
- Provide sufficient firefighting equipment and conducts periodic inspections to ensure that such equipment is properly located where it can be used at all times and remains in good condition, when necessary, replacements are arranged
- Ensure all employees have received training on the use of the firefighting equipment
- Place first aid kits in the workplace

(e) Compliance

The Group did not identify any casualties and accidents, nor did the Group identify any violations of laws and regulations in relation to workplace health and safety during the Reporting Period.

3. *TRAINING AND DEVELOPMENT*

The Group is convinced that it is key for an enterprise's sustainable development to discover talents and cultivate talent teams.

Apart from identifying and retaining the best talents, the Group offers employees opportunities to develop their knowledge and skills. The Group provides on-the-job training and guidance for new employees, as well as arranging experienced employees to supervise them until they can work independently. The Group also continually reviews the training and education needs of employees, assisting employees to plan their career development, and encouraging employees to participate in professional lectures, seminars, and training courses to enhance their ability.

4. *LABOUR STANDARDS*

The Group's labour standards primarily focus on conformity with local labour laws and regulations. At all levels, child and forced labour are prohibited in the Group. The Group established a strict recruitment policy, of which only applicants aged 18 or above are employed. In addition, the Group is committed to zero forced work and guarantee that every employee shall voluntarily engage in their work.

There were no non-compliance cases noted in relation to labour standards laws and regulations during the Reporting Period.

5. *SUPPLY CHAIN MANAGEMENT*

The Group adheres to communication, cooperation and joint growth in its supplier management policy. Through maintaining close communications, the Group achieves strengthened cooperation with suppliers and therefore, enhancing their capability to supply environmentally friendly products. The Group evaluates the performance of its suppliers annually to make improvement requests.

The outsourced electronic products production workshop located in Dongguan is the main subcontractor for the Group's business in electronic products. The Group assigns personnel to go on site to supervise production quality and track delivery times, thus providing a foundation for high-quality products for the Group's customers.

In addition, the outsourced production workshop has obtained ISO 9001 quality management system and ISO 14001 environmental management system certification. The potential environmental impact of the production process is effectively monitored and managed. The Group encourages its suppliers to continue to improve and meet the relevant environmental, occupational safety and health and employment laws and regulations of their countries. Imported products must satisfy local laws and regulations.

6. *PRODUCT/SERVICE RESPONSIBILITY*

(a) *Policies and Procedures*

The Group pays attention to the reviews of customers regarding the products sold by the Group. Customers may convey their opinions or complaints via established communication channels. The Group investigates and creates reports based on the feedbacks and takes corrective measures when necessary.

(b) *Compliance*

During the Reporting Period, there were no incidents of non-compliance with laws and regulations concerning breaches of product liability or privacy-related legislation.

7. *ANTI-CORRUPTION*

(a) *Policies and Procedures*

Honesty, integrity and fair play are the cornerstones of the Group's business.

Through the internal control manuals approved by the Board, the Group specifies the ethical conduct of its employees. All employees are required to become acquainted with and to abide by these policies and procedures. The Group established a whistle-blowing policy that ensures any internal or external stakeholder can raise any issue through any of our independent and accessible whistle-blowing channels. Such reports, if any, shall be transmitted directly to the executive Directors for follow-up, investigation, and reporting. Corrective measures shall be taken.

(b) *Compliance*

During the Reporting Period, no legal case regarding corrupt practices was brought against the Group or its employees.

8. COMMUNITY INVESTMENT

The Group acknowledges a sustainable business is dependent on the long-term and sustainable development of its community. The Group encourages employees to participate in volunteer work, nurturing a culture of care and mutual support. The Group supports the Mooncakes for Charity fundraising activity of the Community Chest of Hong Kong by ordering mooncake coupons. The Group will continue to approach welfare organisations for support and donation opportunities.

OUTLOOK

The Group believes that the implementation of current measures on environmental protection and social responsibility is sufficient for compliance with relevant laws and regulations. Yet the Group will continue to review from time to time in response to the latest relevant requirements to strengthen its measures on environmental protection and social responsibility.

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS OF
RUIXIN INTERNATIONAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Ruixin International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 49 to 133, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, 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 (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Recoverability of trade receivables

Refer to note 20 to the consolidated financial statements and the accounting policies on pages 73 to 77.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2018, the Group had significant trade receivables of approximately HK$90,083,000. In view of the significant balance which accounted for approximately 47% of total current assets, the recoverability of trade receivables posed significant risk on the Group's liquidity. Loss allowances for trade receivables are based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement.	Our audit procedures to assess the recoverability of trade receivables included the following: • understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk, to measure the expected credit loss and the validity of the control effectiveness on a sample basis; • assessing, on a sample basis, the ageing profile of the trade receivables as at 31 December 2018 to the underlying financial records and post year end settlements to bank receipts; • Inquiring of management for the status of the material trade receivables past due as at year end and corroborating explanations from management with supporting evidence, such as performing public search of selected customers, understanding on-going business relationship with the customers based on their trade records; and • assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information and examining the actual losses recorded and assessing whether there was an indication of management bias when recognising loss allowances.

Valuation of inventories

Refer to note 19 to the consolidated financial statements and the accounting policies on page 70.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2018, the Group maintained a significant level of inventories of approximately HK$67,371,000, which accounted for approximately 35% of total current assets. The demand for the products and the ability of the Group to sell these inventories in the future may be adversely affected by many factors including changes in customer and consumer preferences, competitor activity including pricing and the introduction of new products and/or technology. Judgement was involved in determining whether a provision should be recognised and how it should be measured. Thus, valuation of inventories was considered as one of the key audit matters.	Our audit procedures were designed to assess the methodology and assumptions used by the management in calculating the inventory provisions. We reviewed management's identification of slow moving and obsolete inventories, and critically assessed whether appropriate provisions had been established for slow moving and obsolete items. When considering management's assessment, we have also taken into account the most recent prices achieved on sales across the products lines. We considered whether we would expect a change to the methodology and assumptions based on any changes compared to those used in prior years. We also assessed the reliability of management's assessment by considering the utilisation or release of previously recorded provisions.

OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS OF THE COMPANY 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 of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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 Section 90 of the Bermuda Companies Act and 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 judgement 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 of the Company.

- Conclude on the appropriateness of the Company's 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.

Independent Auditor's Report

The engagement partner on the audit resulting in this independent auditor's report is Wong Hon Kei, Anthony.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Wong Hon Kei, Anthony
Practising Certificate Number: P05591

Hong Kong
22 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	7	**445,933**	542,082
Cost of sales		**(443,746)**	(500,910)
Gross profit		**2,187**	41,172
Other income	8	**327**	2,880
Distribution costs		**(21,782)**	(22,899)
Administrative expenses		**(48,135)**	(48,685)
Share of results of joint ventures		**(1,359)**	(10)
Other expenses		**(178)**	(4)
Finance costs	9	**(16,941)**	(15,203)
Loss before taxation		**(85,881)**	(42,749)
Taxation	10	**–**	–
Loss for the year attributable to owners of the Company	11	**(85,881)**	(42,749)
Loss per share	14		
Basic and diluted (HK cents)		**(0.62)**	(0.31)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Loss for the year	**(85,881)**	(42,749)
Other comprehensive income (expenses) for the year		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**388**	(412)
Total comprehensive expenses for the year attributable to owners of the Company	**(85,493)**	(43,161)

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	17	**20,321**	28,414
Interests in joint ventures	18	**1,225**	2,584
		21,546	30,998
Current assets			
Inventories	19	**67,371**	85,911
Trade receivables	20	**90,083**	174,190
Prepayments, deposits and other receivables	21	**4,354**	3,613
Deposits in other financial institutions	22	**446**	446
Bank balances and cash	23	**30,724**	45,512
		192,978	309,672
Current liabilities			
Trade payables	24	**27,300**	79,359
Other payables and accruals	25	**7,839**	12,480
Amount due to a joint venture	35(a)	**2,453**	2,475
		37,592	94,314
Net current assets		**155,386**	215,358
Total assets less current liabilities		**176,932**	246,356

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Employee benefits	27	15	13
Convertible notes	26	109,053	242,015
		109,068	242,028
Net assets		67,864	4,328
Capital and reserves			
Share capital	29	168,035	138,892
Reserves		(100,171)	(134,564)
Total equity		67,864	4,328

The consolidated financial statements on pages 49 to 133 were approved and authorised for issue by the board of directors on 22 March 2019 and are signed on its behalf by:

Director
Lam Yat Keung

Director
Huang Hanshui

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company								
	Share capital HK$'000	**Share premium** HK$'000	**Contributed surplus** (note a) HK$'000	**Share-based compensation reserve** HK$'000	**Foreign exchange reserve** HK$'000	**Convertible notes reserve** HK$'000	**Other reserve** (note b) HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 January 2017	138,892	2,271,283	5,800	21,668	779	49,464	–	(2,473,268)	14,618
Loss for the year	–	–	–	–	–	–	–	(42,749)	(42,749)
Other comprehensive expenses for the year									
Exchange differences arising on translation of foreign operations	–	–	–	–	(412)	–	–	–	(412)
Total comprehensive expenses for the year	–	–	–	–	(412)	–	–	(42,749)	(43,161)
Derecognition upon modification of terms of convertible notes (note 26)	–	–	–	–	–	(49,464)	–	49,464	–
Recognition upon modification of terms of convertible notes (note 26)	–	–	–	–	–	78,400	33,588	(78,400)	33,588
Transaction costs attributable to modification of terms of convertible notes (note 26)	–	–	–	–	–	–	(717)	–	(717)
At 31 December 2017	138,892	2,271,283	5,800	21,668	367	78,400	32,871	(2,544,953)	4,328

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Contributed surplus (note a) HK$'000	Share-based compensation reserve HK$'000	Foreign exchange reserve HK$'000	Convertible notes reserve HK$'000	Other reserve (note b) HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2018, as previously reported	138,892	2,271,283	5,800	21,668	367	78,400	32,871	(2,544,953)	4,328
Effect of changes in accounting policies (note 2)	–	–	–	–	–	–	–	(129)	(129)
At 1 January 2018,as restated	138,892	2,271,283	5,800	21,668	367	78,400	32,871	(2,545,082)	4,199
Loss for the year	–	–	–	–	–	–	–	(85,881)	(85,881)
Other comprehensive income for the year									
Exchange differences arising on translation of foreign operations	–	–	–	–	388	–	–	–	388
Total comprehensive income (expenses) for the year	–	–	–	–	388	–	–	(85,881)	(85,493)
Issue of new shares upon conversion of convertible notes (notes 26 and 29(b))	29,143	102,982	–	–	–	(30,710)	–	–	101,415
Derecognition upon modification of terms of convertible notes (note 26)	–	–	–	–	–	(47,690)	(32,871)	80,561	–
Recognition upon modification of terms of convertible notes (note 26)	–	–	–	–	–	41,814	48,488	(41,814)	48,488
Transaction costs attributable to modification of terms of convertible notes (note 26)	–	–	–	–	–	–	(745)	–	(745)
At 31 December 2018	**168,035**	**2,374,265**	**5,800**	**21,668**	**755**	**41,814**	**47,743**	**(2,592,216)**	**67,864**

Notes:

(a) The contributed surplus represents the difference between the nominal value of the shares of the former group's holding company acquired pursuant to a group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefore.

(b) Other reserve represents the deemed contribution from the substantial shareholder of the Company in respect of the modification of terms of convertible notes in 2018.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES		
Loss before taxation	**(85,881)**	(42,749)
Adjustments for:		
Bank interest income	**(10)**	(12)
Finance costs	**16,941**	15,203
Depreciation of property, plant and equipment	**11,255**	9,584
Share of results of joint ventures	**1,359**	10
Impairment loss on inventories	**8,338**	–
Impairment loss on trade receivables	**178**	–
Write-back of accruals	**–**	(232)
Net gain on disposals of property, plant and equipment	**(317)**	(45)
Write-offs of property, plant and equipment	**–**	4
Operating cash flows before working capital changes	**(48,137)**	(18,237)
Decrease (increase) in inventories	**10,202**	(5,064)
Decrease (increase) in trade receivables	**83,874**	(6,606)
Increase in prepayments, deposits and other receivables	**(741)**	(228)
(Decrease) increase in trade payables	**(52,059)**	32,695
(Decrease) increase in other payables and accruals	**(4,641)**	2,298
Increase (decrease) in non-current employee benefits	**2**	(144)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(11,500)**	4,714
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(3,176)**	(22,585)
Proceeds from disposals of property, plant and equipment	**318**	50
Bank interest received	**10**	12
NET CASH USED IN INVESTING ACTIVITIES	**(2,848)**	(22,523)
FINANCING ACTIVITIES		
Transaction costs attributable to modification of terms of convertible notes	**(745)**	(717)
Repayment to a joint venture	**(22)**	(20)
NET CASH USED IN FINANCING ACTIVITIES	**(767)**	(737)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(15,115)**	(18,546)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**45,512**	64,387
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**327**	(329)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash	**30,724**	45,512

1. GENERAL

Ruixin International Holdings Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The address of the registered office is at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda and principal place of business is at 18th Floor, Times Media Centre, 133 Wan Chai Road, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

The Company is an investment holding company and the principal activities of its subsidiaries (together with the Company hereinafter referred to as the "Group") are set out in note 37.

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

In the current year, the Group has applied for the first time the following new and amendments to HKFRSs, Hong Kong Accounting Standards ("HKAS(s)") and Interpretations ("Int(s)"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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

Except as described below, the application of the new and amendments to HKFRSs, HKASs and the Int 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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") *(Continued)*

HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has applied HKFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under HKFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in accumulated losses.

The Group's accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail in note 3.

Classification and measurement of financial instruments

The directors of the Company (the "Director(s)") reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that all recognised financial assets and financial liabilities that are within the scope of HKFRS 9 are continued to measure at amortised cost as were previously measured under HKAS 39. The financial assets of the Group are trade receivables, deposits and other receivables, deposits in other financial institutions and bank balances and cash which are classified as loans and receivables under HKAS 39. They are classified as financial assets at amortised cost as at the adoption of HKFRS 9.

Loss allowance for expected credit losses ("ECL")

The adoption of HKFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss model with a forward-looking ECL approach. As at 1 January 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement of HKFRS 9.

As at 1 January 2018, an additional allowance on the Group's trade receivables of approximately HK$129,000 have been recognised, thereby increasing the opening balance of accumulated losses by approximately HK$129,000.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

Summary of effects arising from initial application of HKFRS 9

The table below reconciles the carrying amounts of financial assets under HKAS 39 to the carrying amounts under HKFRS 9 on 1 January 2018.

	Carrying amount previously reported at 31 December 2017	Impact on adoption of HKFRS 9 remeasurement	Carrying amount as restated (after adoption of HKFRS 9) at 1 January 2018
	HK$'000	HK$'000	HK$'000
Trade receivables	174,190	(129)	174,061

The table below summarises the impact of transition to HKFRS 9 on accumulated losses at 1 January 2018.

	Accumulated losses
	HK$'000
Balance at 31 December 2017 as originally stated	(2,544,953)
Recognition of additional ECL	(129)
Balance at 1 January 2018 as restated	(2,545,082)

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") *(Continued)*

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 superseded HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised. The Group has elected to adopt the modified retrospective approach for contracts with customers that are not completed as at the date of initial application (i.e. 1 January 2018) with the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of accumulated losses and comparative information is not restated.

The Group concluded that revenue from sale of goods should be recognised at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods, which is consistent with the previous accounting policy. Therefore, the adoption of HKFRS 15 has no material impact on the timing of revenue recognition in this regard.

New and revised HKFRSs issued but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contract[2]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]
Amendments to HKFRS 3	Definition of a Business[5]
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[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[3]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]

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

2 Effective for annual periods beginning on or after 1 January 2021

3 Effective for annual periods beginning on or after 1 January 2020

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

5 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

The Directors anticipate that, except as described below, the application of other new and amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") *(Continued)*

HKFRS 16 Leases

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 Property, Plant and Equipment, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 16 will supersede the current lease standards including HKAS 17 Leases and the related interpretations when it becomes effective.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") *(Continued)*

HKFRS 16 Leases *(Continued)*

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$25,462,000 as disclosed in note 32. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence 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 upon the application of HKFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above. The Directors are in the process to determine the amounts of right-of-use assets and lease liabilities to be recognised in the consolidated statement of financial position, after taking into account all practical expedients and recognition exemption under HKFRS 16. The Directors expect that the adoption of HKFRS 16 will not have material impact on the Group's result but certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

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.

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, 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 or value in use in HKAS 36.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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:

- the power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power to affect the Group's 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 the subsidiaries begins when the Group obtains control over the subsidiaries and ceases when the Group loses control of the subsidiaries.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiaries.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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.

Interests in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's interests in joint ventures are accounted for in the consolidated financial statements using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, interests in joint ventures are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the joint ventures. When the Group's share of loss of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An interest in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the interest in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the joint venture is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in joint ventures *(Continued)*

After application of the equity method, including recognising the joint venture's losses (if any), the Group determines whether it is necessary to recognise any additional impairment loss with respect to its interests in joint ventures. Goodwill that forms part of the carrying amount of an interests in joint ventures is not separately recognised. The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment in the joint venture. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Profits and losses resulting from transactions between the Group and its joint ventures are recognised in consolidated financial statements only to the extent of unrelated investors' interests in the joint ventures. The Group's share in the joint ventures' profits or losses resulting from these transactions is eliminated.

Revenue recognition

Policy applicable to the year ended 31 December 2018 (with application of HKFRS 15)

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognised 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 customers.

A performance obligation represents a goods 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 recognition *(Continued)*

Policy applicable to the year ended 31 December 2018 (with application of HKFRS 15) (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 asset is created and enhanced; 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 goods or service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

Revenue from sale of goods is recognised at the point when the control of the goods is transferred to the customers (generally on delivery of electronic products).

Contract liabilities

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Policy applicable to the year ended 31 December 2017

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and title has been passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment 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 allocate the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each 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 disposal or retirement of an item of property, plant and equipment is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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 lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 exchanges prevailing on the dates on 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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement and 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. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the foreign exchange reserve.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Retirement benefits costs

Payments to state-managed retirement benefit schemes, Vietnam Social Security Scheme and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Long service payment

The Group's net obligations in respect of long service payment on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that the employees have earned in return for their services in the current and prior periods.

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 "loss before taxation" as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for 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 bases 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 deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or 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 interests in subsidiaries and interests in joint ventures, 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 and interests 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 each 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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 rates (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.

Current and deferred tax are recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

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 instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities as appropriate, on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018)

Financial assets

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 marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("FVTOCI"), and fair value through profit or loss ("FVTPL").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Financial assets at amortised cost (debt instruments)

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

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

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

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial assets (Continued)

Financial assets at amortised cost (debt instruments) (Continued)

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit impaired financial assets (i.e. assets that are credit impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (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) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

Interest income is recognised in profit or loss and is included in the "Other income" line item (note 8).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial assets (Continued)

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has 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 increase in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

Significant increase in credit risk *(Continued)*

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

- 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 for a particular debtor, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- 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;
- significant increases in credit risk on other financial instruments of the same 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.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 180 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

Significant increase in credit risk *(Continued)*

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

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.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than 6 months past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events 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:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- 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;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. 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. Any recoveries made are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

Measurement and recognition of expected credit losses

The measurement of expected credit losses 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. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

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 party.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial liabilities and equity instruments

Classification as debt or equity

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.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)

Financial liabilities and equity instruments (Continued)

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Under HKAS 39 (applicable before 1 January 2018)

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial asset 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 marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (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 debt instruments, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKAS 39 (applicable before 1 January 2018) *(Continued)*

Financial assets (Continued)

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, deposits and other receivables, deposits in other financial institutions and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where 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.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKAS 39 (applicable before 1 January 2018) (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition assessed for impairment on a collective basis. 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 30 to 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets 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.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade and other 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 trade and other receivables are considered uncollectible, they are 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 impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKAS 39 (applicable before 1 January 2018) (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 entered into 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.

Financial liabilities

Financial liabilities including trade payables, other payables and accruals, amount due to a joint venture and convertible notes are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Convertible notes

The component parts of the convertible notes issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate of similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion, redemption or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the assets expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions

Share options granted to employees

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received determined by reference to the fair value of share options granted at the date of grant is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share-based compensation reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based compensation reserve.

When share options are exercised, the amount previously recognised in share-based compensation reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based compensation reserve will be transferred to accumulated losses.

Share options granted to suppliers and other eligible persons

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share-based compensation reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where 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.

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 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 as an expense immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the 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 the cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Estimated useful life of property, plant and equipment

The Group depreciates the property, plant and equipment on a straight-line basis between the rates of 10% to 30% per annum, commencing from the date the property, plant and equipment are available for use. The estimated useful lives that the Group places the property, plant and equipment into productive use reflects the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. Depreciation of approximately HK$11,255,000 (2017: HK$9,584,000) has been recognised for the year.

Impairment of trade receivables

Loss allowances for trade receivables are based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss and other comprehensive income. During the year ended 31 December 2018, impairment loss on trade receivables of approximately HK$178,000 has been recoginsed. As at 31 December 2018, the aggregate carrying amount of trade receivables was approximately HK$90,083,000 (2017: HK$174,190,000), net of accumulated impairment loss of approximately HK$1,635,000 (2017: HK$1,402,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Allowance of inventories

The management of the Group reviews an ageing analysis at the end of each reporting period, and makes provision for obsolete and slow-moving inventory items identified. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. During the year ended 31 December 2018, allowance of inventories of approximately HK$8,338,000 (2017: nil) has been recognised. As at 31 December 2018, the carrying amount of inventories was approximately HK$67,371,000 (2017: HK$85,911,000), net of accumulated impairment loss of approximately HK$8,338,000 (2017: nil).

Impairment on property, plant and equipment

Determining whether property, plant and equipment are impaired requires an estimation of the recoverable amount of the property, plant and equipment. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. During the years ended 31 December 2018 and 2017, no impairment loss was recognised in respect of property, plant and equipment in the consolidated statement of profit or loss. As at 31 December 2018, the carrying amount of property, plant and equipment was approximately HK$20,321,000 (2017: HK$28,414,000), net of accumulated impairment loss of approximately HK$402,000 (2017: HK$402,000).

Impairment on interests in joint ventures

The management of the Group reviews interests in joint ventures for impairment based primarily on the fair value of trademarks which are the only assets held by the joint ventures. In estimating the fair value of trademarks, the Group engages a third party qualified valuer to perform the valuation and uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of trademarks. Note 18 provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of trademarks. Such inputs and key assumptions are subject to uncertainty and might materially differ from the actual results.

During the years ended 31 December 2018 and 2017, the management of the Group determined that no impairment loss on interests in joint ventures is required to be recognised. As at 31 December 2018, the carrying amount of interests in joint ventures was approximately HK$1,225,000 (2017: HK$2,584,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Deferred taxes

As at 31 December 2018, deferred tax assets in relation to unused tax losses of approximately HK$133,000 (2017: HK$140,000) has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on other tax losses and deductible temporary differences of approximately HK$178,146,000 (2017: HK$153,167,000) due to the unpredictability of future profit streams. The realisation of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

5. 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 shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts, which includes amount due to a joint venture, convertible notes and equity attributable to owners of the Company, comprising share capital and reserves, and net of bank balances and cash. The Directors review the capital structure periodically. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through new share issues as well as share options. The Directors will also consider the raise of long-term borrowings as second resource of capital when investment opportunities arise and the return of such investments will justify the cost of debts from the borrowings.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Financial assets at amortised cost/Loans and receivables (including cash and cash equivalents)	**123,515**	221,693
Financial liabilities		
Other financial liabilities at amortised cost	**144,684**	334,494

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, deposits and other receivables, deposits in other financial institutions, bank balances and cash, trade payables, other payables and accruals, amount due to a joint venture and convertible notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, currency risk, interest rate risk and liquidity risk. 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.

Credit risk

As at 31 December 2018 and 2017, 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.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

As at 31 December 2017, impairment loss was recognised when there was objective evidence of impairment loss. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk on trade debt is significantly reduced.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk (Continued)

The credit risk on liquid funds is limited because the counterparties are banks and other financial institutions with high credit ratings.

Starting from 1 January 2018, 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 ECL on an individual basis for customer with significant balances and collectively by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtors to meet its obligations
- actual or expected significant changes in the operating results of the debtor

The Group expected sign credit risk

In order to minimise credit risk, the Group has maintained the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is drawn from the Group's own trading records to rate its customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk (Continued)

The Group's current credit risk grading framework comprises the following categories:

Internal credit rating	Description	Basis for recognising ECL
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit impaired
Medium risk	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – not credit impaired
High risk	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

The table below detail the credit quality of the Group's financial assets as well as the Group's maximum exposure to credit risk.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk (Continued)

For the year ended 31 December 2018

	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	Net carrying amount
			HK$'000	HK$'000
Trade receivables	Note	Lifetime ECL (simplified approach)	91,718	90,083
Other receivables	N/A	Lifetime ECL	19,937	352

Note: The Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on this item by assessing individually significant debts or using a provision matrix, grouped by past due status.

The Group's concentration of credit risk by geographical locations is mainly in the People's Republic of China (the "PRC" or "China"), which accounted for 46% (2017: 71%) of the total trade receivable as at 31 December 2018.

The Group has concentration of credit risk as 11% (2017: 12%) and 40% (2017: 40%) of the trade receivables was due from the Group's largest trade debtor and the five largest trade debtors respectively.

None of the Group's financial assets are secured by collateral or other credit enhancements.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Currency risk

The functional currencies of certain subsidiaries are United States Dollar ("US$") or Renminbi ("RMB").

Several subsidiaries of the Company have sales and purchases denominated in currencies other than the respective functional currency, which expose the Group to foreign currency risk. Approximately 63% (2017: 68%) of the Group's sales and 87% (2017: 91%) of the Group's purchases are denominated in currencies other than the functional currency of the group entity making the sales and purchases. The Group currently does not have a foreign currency hedging policy. The Group will monitor foreign exchange exposure and consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's material foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**33,385**	28,283	**8,886**	13,713
US$	**527**	2,192	**–**	–
RMB	**31,101**	115,984	**18,118**	65,583

Sensitivity analysis

The Group is mainly exposed to the currency risk of HK$/US$/RMB.

The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in exchange rates of the relevant foreign currencies against the respective reporting entity's functional currency. 5% (2017: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% (2017: 5%) change in foreign currency rates.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Currency risk (Continued)

Sensitivity analysis *(Continued)*

A positive number below indicates a decrease in post-tax loss where the respective functional currencies of the reporting entity weaken 5% (2017: 5%) against the relevant foreign currencies. For a 5% (2017: 5%) strengthening of the respective functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the loss, and the balances below would be negative.

	HK$		US$		RMB	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Profit or loss	**1,023**	608	**22**	92	**542**	2,104

Interest rate risk

As at 31 December 2018 and 2017, the Group is exposed to cash flow interest rate risk in relation to variable-rate deposits in other financial institutions (note 22) and bank balances (note 23).

Sensitivity analysis

The Group's deposits in other financial institutions and bank balances are short-term in nature and the exposure of the interest rate is minimal and no sensitivity analysis to interest rate risk on these two items is presented.

The Group's operating cash flows are substantially independent of changes in market interest rates.

Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the cash, current working capital and the raising of funds. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and current working capital to meet its liquidity requirements in the short and longer term.

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Repayable on demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2018					
Non-derivative financial liabilities					
Trade payables	27,300	–	–	27,300	27,300
Other payables and accruals	5,878	–	–	5,878	5,878
Amount due to a joint venture	2,453	–	–	2,453	2,453
Convertible notes	–	–	158,400	158,400	109,053
	35,631	–	158,400	194,031	144,684

	Repayable on demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2017					
Non-derivative financial liabilities					
Trade payables	79,359	–	–	79,359	79,359
Other payables and accruals	10,645	–	–	10,645	10,645
Amount due to a joint venture	2,475	–	–	2,475	2,475
Convertible notes	–	260,400	–	260,400	242,015
	92,479	260,400	–	352,879	334,494

Fair value measurements of financial instruments

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. REVENUE AND SEGMENT INFORMATION

Information reported to the Directors, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on the types of goods delivered. The Group is principally engaged in the manufacturing and trading of electronic and electrical parts and components. The Group's operation is attributable to a single reportable and operating segment under HKFRS 8 and no segment information is presented. No operating segments have been aggregated in arriving at the reportable segment of the Group.

Revenue represents revenue arising on manufacturing and trading of electronic and electrical parts and components.

(a) Geographical information

The Group's operation is mainly located in Hong Kong and the PRC. However, the external customers of the Group are located world-wide, such as Hong Kong, the PRC and Asia Pacific etc.

Information about the Group's revenue from external customers is presented based on the location of customers and information about its non-current assets is presented based on the location of assets as detailed below:

	Revenue from external customers		Non-current assets	
	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000	**As at 31 December 2018 HK$'000**	As at 31 December 2017 HK$'000
Hong Kong	**174,510**	175,568	**1,402**	2,788
Elsewhere in the PRC	**205,703**	283,872	**19,590**	27,364
Asia Pacific	**49,357**	65,189	**554**	846
Others	**16,363**	17,453	**–**	–
Total	**445,933**	542,082	**21,546**	30,998

All revenue are generated from contracts with customers under HKFRS 15 and HKAS 18 for the years ended 31 December 2018 and 2017 respectively.

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Information about major customers

During the year ended 31 December 2018, there was a Group's individual customer who contributed revenue of approximately HK$82,458,000 (2017: HK$90,967,000), which accounted for more than 10% to the total revenue of the Group.

8. OTHER INCOME

	2018 HK$'000	2017 HK$'000
Bank interest income	10	12
Net gain on disposals of property, plant and equipment	317	45
Net exchange gain	–	2,591
Write-back of accruals	–	232
	327	2,880

9. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Imputed interest expenses on convertible notes (note 26)	16,941	15,203

10. TAXATION

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2018 and 2017 as the Group has no assessable profits arising in Hong Kong for both reporting periods.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. For the year ended 31 December 2018, Hong Kong profits tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other Group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%. For the year ended 31 December 2017, Hong Kong profits tax was calculated at a flat rate of 16.5% of the estimated assessable profits.

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 subsidiary registered in the PRC is 25% from 1 January 2008 onwards. No provision for the Enterprise Income Tax has been made for the years ended 31 December 2018 and 2017 as the subsidiary of the Company has no assessable profits for both reporting periods.

Under the Law of Vietnam on Corporate Income Tax, the tax rate of the subsidiary registered in Vietnam is 20% (2017: 20%). No provision for the Corporate Income Tax has been made for the years ended 31 December 2018 and 2017 as the subsidiary of the Company has no assessable profits for both reporting periods.

10. TAXATION *(Continued)*

Taxation for the year can be reconciled to the loss before taxation per the consolidated statement of profit or loss as follows:

	2018 HK$'000	2017 HK$'000
Loss before taxation	(85,881)	(42,749)
Tax calculated at the domestic income tax rate of 16.5% (2017: 16.5%)	(14,170)	(7,054)
Tax effect of different tax rates	(319)	(275)
Tax effect of expenses not deductible for tax purpose	10,013	4,037
Tax effect of income not taxable for tax purpose	(45)	(874)
Tax effect of other deductible temporary differences not recognised	12	69
Tax effect of share of loss of joint ventures	224	2
Tax effect of tax losses not recognised	4,285	4,095
Taxation	–	–

Details of deferred tax are set out in note 28.

11. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2018 HK$'000	2017 HK$'000
Cost of inventories recognised as expenses	435,408	500,910
Impairment loss on inventories (included in cost of sales)	8,338	–
Staff costs (note 12)	28,496	29,261
Depreciation of property, plant and equipment	11,255	9,584
Auditor's remuneration	835	810
Write-offs of property, plant and equipment (included in other expenses)	–	4
Impairment loss on trade receivables (included in other expenses)	178	–
Net exchange loss	698	–

12. STAFF COSTS

	2018 HK$'000	2017 HK$'000
Staff costs (including Directors' emoluments) comprise:		
Salaries, allowances and benefits	27,721	29,269
Retirement benefits scheme contributions	724	721
Provision (Reversal of provision) for other employee benefits and long service payments	51	(729)
	28,496	29,261

13. DIVIDENDS

No dividend was paid or proposed for the year ended 31 December 2018, nor has any dividend been proposed since the end of the year ended 31 December 2018 (2017: nil).

14. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to owners of the Company of approximately HK$85,881,000 (2017: HK$42,749,000) and the weighted average number of approximately 13,897,183,000 (2017: 13,889,199,000) ordinary shares in issue during the year ended 31 December 2018.

For the years ended 31 December 2018 and 2017, the diluted loss per share is the same as the basic loss per share.

The computation of diluted loss per share for the years ended 31 December 2018 and 2017 did not assume the exercise of the Company's share options as the exercise prices of the share options were higher than the average market price for shares. The computation of diluted loss per share for the years ended 31 December 2018 and 2017 did not assume the conversion of the Company's outstanding convertible notes as the conversion of convertible notes would result in a decrease in loss per share.

15. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the six (2017: six) Directors and the chief executive were as follows:

For the year ended 31 December 2018

	Executive Directors			Independent non-executive Directors			
	Wang Zhaofeng HK$'000	Lam Yat Keung HK$'000	Huang Hanshui HK$'000	Ho Chi Fai HK$'000	Liu Yanfang HK$'000	Zhang Jue HK$'000	Total HK$'000
Emoluments paid or receivable in respect of a person's service as a director, whether of the Company or its subsidiary undertakings							
Fees	600	600	600	90	90	90	2,070
Contributions to retirement benefits	18	18	–	–	–	–	36
	618	618	600	90	90	90	2,106
Emoluments paid or receivable in respect of a director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings							
Other emoluments:							
Salaries and other benefits	–	5,417	2,148	–	–	–	7,565
Contributions to retirement benefits	–	18	180	–	–	–	198
	–	5,435	2,328	–	–	–	7,763
Total emoluments	618	6,053	2,928	90	90	90	9,869

15. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

For the year ended 31 December 2017

	Executive Directors			Independent non-executive Directors			
	Wang Zhaofeng HK$'000	Lam Yat Keung HK$'000	Huang Hanshui HK$'000	Ho Chi Fai HK$'000	Liu Yanfang HK$'000	Zhang Jue HK$'000	Total HK$'000
Emoluments paid or receivable in respect of a person's service as a director, whether of the Company or its subsidiary undertakings							
Fees	600	600	600	90	90	90	2,070
Contributions to retirement benefits	18	18	–	–	–	–	36
	618	618	600	90	90	90	2,106
Emoluments paid or receivable in respect of a director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings							
Other emoluments:							
Salaries and other benefits	25	5,368	2,099	–	–	–	7,492
Contributions to retirement benefits	–	18	180	–	–	–	198
	25	5,386	2,279	–	–	–	7,690
Total emoluments	643	6,004	2,879	90	90	90	9,796

No Director and chief executive waived or agreed to waive any emoluments for the years ended 31 December 2018 and 2017.

16. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2017: two) were Directors whose emoluments are disclosed in note 15. The emoluments of the remaining three (2017: three) individuals were as follows:

	2018	2017
	HK$'000	HK$'000
Salaries, allowances and benefits	**4,556**	4,857
Retirement benefits scheme contributions	**42**	54
	4,598	4,911

Their emoluments were within the following bands:

	Number of employees	
	2018	2017
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**2**	2
	3	3

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to the five highest paid individuals (including Directors and employees) or other Directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

17. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery	Leasehold improvements and others	Total
	HK$'000	HK$'000	HK$'000
COST			
At 1 January 2017	157,198	74,425	231,623
Exchange realignment	818	–	818
Additions	19,733	2,852	22,585
Write-offs	(209)	(82)	(291)
Disposals	(12,540)	(67)	(12,607)
At 31 December 2017 and 1 January 2018	165,000	77,128	242,128
Exchange realignment	(605)	(18)	(623)
Additions	3,048	128	3,176
Write-offs	(62)	(29)	(91)
Disposals	(18,873)	(49)	(18,922)
At 31 December 2018	**148,508**	**77,160**	**225,668**
DEPRECIATION AND IMPAIRMENT			
At 1 January 2017	142,830	73,386	216,216
Exchange realignment	803	–	803
Depreciation provided for the year	8,739	845	9,584
Eliminated on write-offs	(209)	(78)	(287)
Eliminated on disposals	(12,540)	(62)	(12,602)
At 31 December 2017 and 1 January 2018	139,623	74,091	213,714
Exchange realignment	(605)	(5)	(610)
Depreciation provided for the year	10,393	862	11,255
Eliminated on write-offs	(62)	(29)	(91)
Eliminated on disposals	(18,873)	(48)	(18,921)
At 31 December 2018	**130,476**	**74,871**	**205,347**
CARRYING VALUES			
At 31 December 2018	**18,032**	**2,289**	**20,321**
At 31 December 2017	25,377	3,037	28,414

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Plant and machinery	10% to 30%
Leasehold improvements and others	10% to 30% or over the term of lease

18. INTERESTS IN JOINT VENTURES

	2018 **HK$'000**	2017 HK$'000
Cost of unlisted investment in joint ventures	**5,998**	5,998
Share of post-acquisition losses and other comprehensive expenses and impairment loss	**(4,773)**	(3,414)
	1,225	2,584

Details of each of the Group's joint ventures, which are accounted for using the equity method in the consolidated financial statements, as at 31 December 2018 and 2017, are as follows:

Name	Form of business structure	Place of incorporation	Principal place of operation	Class of shares held	Proportion of ownership interest and voting power held by the Group				Principal activities
					2018		2017		
					Direct	**Indirect**	Direct	Indirect	
Semtech International (B.V.I.) Limited ("Semtech BVI")	Corporation	British Virgin Islands	Hong Kong	Ordinary	**50%**	**–**	50%	–	Investment holding
Semtech Electronics Limited ("Semtech Electronics")	Corporation	Hong Kong	Hong Kong	Ordinary	**–**	**50%**	–	50%	Trademark holding

18. INTERESTS IN JOINT VENTURES *(Continued)*

Semtech BVI and its wholly-owned subsidiary, Semtech Electronics (collectively referred to as "Semtech BVI Group") have been classified as joint ventures on the basis that certain significant decisions about the financial and operating activities of the Semtech BVI Group require the unanimous consent of both the Group and the other shareholder of Semtech BVI Group.

Semtech BVI is the only directly held joint venture of the Group. Summarised financial information of Semtech BVI Group is set out below. The summarised financial information below represents amounts shown in Semtech BVI's consolidated management accounts prepared in accordance with HKFRSs.

	2018 HK$'000	2017 HK$'000
Current assets	2,458	2,476
Non-current assets	–	2,700
Current liabilities	(9)	(8)

	2018 HK$'000	2017 HK$'000
Net assets of Semtech BVI Group	2,449	5,168
Proportion of the Group's ownership interest in Semtech BVI Group	50%	50%
Carrying amount of the Group's interest in Semtech BVI Group	1,225	2,584

18. INTERESTS IN JOINT VENTURES *(Continued)*

As at 31 December 2018 and 2017, the management of the Group reviewed the interests in joint ventures for impairment and determined that interests in joint ventures was impaired based on a valuation on trademarks held by the joint ventures. The fair value of trademarks, measured by an independent professional valuer not connected with the Group, was determined using the income approach based on financial budgets prepared by the management. The unobservable inputs used in level 3 fair value measurements included the following:

(i) royalty rate of 0.38% (2017: 0.38%);

(ii) after tax discount rate of 20.46% (2017: 20.44%) per annum; and

(iii) negative revenue growth rate of 30% per annum for years 2019 to 2022 (2017: negative revenue growth rate of 10% per annum for years 2018 to 2022).

Based on the results of the valuation, an impairment on trademark of approximately HK$2,700,000 was recognised by the joint venture for the year ended 31 December 2018 (2017: nil). The management of the Group determine that no impairment loss on interests in joint ventures recognised for the years ended 31 December 2018 and 2017.

19. INVENTORIES

	2018	2017
	HK$'000	HK$'000
Raw materials	**30,151**	26,977
Work-in-progress	**629**	778
Finished goods	**36,591**	58,156
	67,371	85,911

20. TRADE RECEIVABLES

The Group allows an average credit period of 30 to 120 days (2017: 30 to 120 days) to its trade customers.

	2018 HK$'000	2017 HK$'000
Trade receivables	91,718	175,592
Less: Accumulated impairment	(1,635)	(1,402)
	90,083	174,190

The Group did not hold any collateral over the trade receivables.

The following is an ageing analysis of trade receivables, net of impairment, presented based on the due date at the end of the reporting periods:

	2018 HK$'000	2017 HK$'000
Current	83,192	154,018
Overdue:		
– within 3 months	6,887	16,287
– 4-6 months	4	3,885
	6,891	20,172
	90,083	174,190

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

20. TRADE RECEIVABLES *(Continued)*

As at 31 December 2017, included in the allowance for impairment on trade receivable are individually impaired trade receivables with an aggregate balance of approximately HK$1,402,000 since the management considered the prolonged outstanding balance was uncollectible.

As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the group's different customer bases.

The Group recognised lifetime ECL for trade receivables based on individually significant customer or the ageing of customers collectively that are not individually significant as follows:

	Weighted average expected loss rate	Gross carrying amount	Loss allowance
Individually			
Over 12 months past due	100%	1,328	1,328
Collectively			
Current (not past due)	0.305%	83,446	254
Less than 3 month past due	0.305%	6,908	21
3 to 6 months past due	0.780%	4	–
More than 6 months past due	100%	32	32
		91,718	1,635

20. TRADE RECEIVABLES *(Continued)*

The movement in the allowance for impairment on trade receivables is set out below:

	2018 HK$'000	2017 HK$'000
Balance at beginning of the year	**1,402**	1,304
Effect on adoption of HKFRS 9 (note 2)	**129**	–
Impairment loss recognised	**178**	–
Exchange realignment	**(74)**	98
Balance at end of the year	**1,635**	1,402

Included in trade receivables are the following amounts denominated in currencies other than the functional currency of the respective reporting entity of the Group:

	2018 '000	2017 '000
HK$	**33,001**	27,673
RMB	**27,288**	96,549

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018	2017
	HK$'000	HK$'000
Other receivables	19,937	19,793
Less: Accumulated impairment	(19,585)	(19,585)
	352	208
Prepayments and deposits	4,002	3,405
	4,354	3,613

The Directors recognise lifetime ECL for other receivables and the impairment is assessed individually. The impairment on other receivables with an aggregate balance of approximately HK$19,585,000 (2017: HK$19,585,000) was made due to the management considered the prolonged outstanding balances were uncollectible.

The Group does not hold any collateral over these balances.

Included in prepayments, deposits and other receivables are the following amounts denominated in currencies other than the functional currency of the respective reporting entity of the Group:

	2018	2017
	'000	'000
HK$	5	5

22. DEPOSITS IN OTHER FINANCIAL INSTITUTIONS

The amounts at 31 December 2018 and 2017 represented deposits placed with securities brokers for trading securities and carried interest at prevailing market rates.

23. BANK BALANCES AND CASH

At 31 December 2018 and 2017, cash at bank carried interest at floating rates based on daily bank deposits rates.

Included in bank balances and cash are the following amounts denominated in currencies other than the functional currency of the respective reporting entity of the Group:

	2018	2017
	'000	'000
HK$	379	605
US$	67	281
RMB	24	24

24. TRADE PAYABLES

The following is an ageing analysis of trade payables presented based on the due date at the end of the reporting periods:

	2018	2017
	HK$'000	HK$'000
Current	24,142	73,042
Overdue:		
– within 3 months	1,310	5,407
– 4-6 months	1,848	910
	27,300	79,359

The average credit period on purchases is 30 to 120 days (2017: 30 to 120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

24. TRADE PAYABLES *(Continued)*

Included in trade payables are the following amounts denominated in currencies other than the functional currency of the respective reporting entity of the Group:

	2018	2017
	'000	'000
HK$	5,194	9,910
RMB	14,801	51,448

25. OTHER PAYABLES AND ACCRUALS

Included in other payables and accruals are the following amounts denominated in currencies other than the functional currency of the respective reporting entity of the Group:

	2018	2017
	'000	'000
HK$	1,239	1,327
RMB	1,110	3,159

26. CONVERTIBLE NOTES

On 19 November 2009, the Company issued unsecured convertible notes for the partial settlement of the consideration for the acquisition of CITIC Logistics (International) Company Limited (liquidated). Details of the transaction are set out in the Company's circular dated 16 October 2009. The sole holder of the convertible notes, Mr. Li Weimin ("Mr. Li"), is a substantial shareholder of the Company.

Details of the Group's convertible notes outstanding as at 31 December 2018 and 2017 are set out below:

		2018	2017
Date of issue	:	19 November 2009	19 November 2009
Original principal amount	:	HK$950,400,000	HK$950,400,000
Date of modification	:	31 December 2018	16 January 2017
Remaining principal amount	:	HK$158,400,000	HK$260,400,000
Coupon rate	:	Nil	Nil
Conversion price	:	HK$0.011 per share	HK$0.035 per share
Conversion period	:	The period commencing from the date of modification of the convertible notes and ending on the maturity date	The period commencing from the date of modification of the convertible notes and ending on the maturity date
Collaterals	:	Nil	Nil
Maturity date	:	31 January 2022	31 January 2019

Subject to the occurrence of an event of default (as defined in the terms and conditions of the convertible notes), the convertible notes may be redeemed in amounts of HK$100,000 or integral multiples thereof at the option and in the absolute discretion of the Company on any business day prior to the maturity date by giving not less than seven days notice to the holder of the convertible notes.

The convertible notes contain two components, liability and equity components. The equity component is presented in equity under the heading of convertible notes reserve. The effective interest rate of the liability component of the convertible notes is 12.85% (2017: 7.00%) per annum. The liability and equity components of the convertible notes were measured at fair values at the date of modification and the valuation was determined by an independent valuer.

26. CONVERTIBLE NOTES *(Continued)*

On 14 November 2014, the Company and Mr. Li entered into a deed of variation, pursuant to which it was agreed that, subject to the fulfillment of conditions precedent, (i) the maturity date of the outstanding convertible notes with an aggregate principal amount of HK$302,400,000 would be extended from 15 November 2014 to 31 December 2016; and (ii) the original conversion price of HK$0.12 per share would be adjusted to the conversion price of HK$0.035 per share. Save for the above alterations, all other terms and conditions of the outstanding convertible notes remained unchanged. On 9 January 2015, the relevant ordinary resolution was duly passed at the special general meeting and the extension of the maturity date and the adjustment of the conversion price of the outstanding convertible notes became effective. For details, please refer to the announcements of the Company dated 14 November 2014, 17 November 2014 and 9 January 2015, as well as the circular of the Company dated 19 December 2014 and the Company's annual report for the year ended 31 December 2015.

Convertible notes of the Company with an aggregate principal amount of HK$42,000,000 were converted into 1,199,999,998 ordinary shares of HK$0.01 each (the "Share(s)") at a conversion price of HK$0.035 per share on 4 June 2015.

On 14 December 2016, the Company and Mr. Li entered into a deed of further variation, pursuant to which it was agreed that, subject to the fulfillment of conditions precedent, the maturity date of the outstanding convertible notes with an aggregate principal amount of HK$260,400,000 would be extended from 31 December 2016 to 31 January 2019. Save for the above alteration, all other terms and conditions of the outstanding convertible notes remained unchanged. On 16 January 2017, the relevant ordinary resolution was duly passed at the special general meeting and the extension of the maturity date of the outstanding convertible notes became effective. For details, please refer to the announcements of the Company dated 14 December 2016 and 16 January 2017, as well as the circular of the Company dated 29 December 2016 and the Company's annual report for the year ended 31 December 2017.

The extension of the maturity date resulted in the extinguishment of the financial liability of the convertible notes and related equity component and the recognition of new financial liability and equity components. On 16 January 2017, the carrying values of liability component and equity component of the convertible notes immediately before the modification were approximately HK$260,400,000 and HK$49,464,000 respectively. According to a valuation report issued by an independent valuer not connected with the Group, the fair values of the new liability component and equity component immediately following the modification are approximately HK$226,812,000 and HK$78,400,000 respectively. These caused an increase of approximately HK$32,871,000 (net of the transaction costs of approximately HK$717,000) in other reserve in the consolidated statement of changes in equity and a transfer of a net amount of approximately HK$28,936,000 between the convertible notes reserve and accumulated losses with no profit or loss impact during the year ended 31 December 2017.

26. CONVERTIBLE NOTES *(Continued)*

On 12 November 2018, the Company and Mr. Li entered into a deed of further variation, pursuant to which it was agreed that, subject to the fulfillment of conditions precedent, (i) the maturity date of the remaining convertible notes with an aggregate principal amount of HK$158,400,000 would be extended from 31 January 2019 to 31 January 2022; and (ii) the conversion price of HK$0.035 per share would be adjusted to the conversion price of HK$0.011 per share. Save for the above alterations, all other terms and conditions of the remaining convertible notes remained unchanged. On 28 December 2018, the relevant ordinary resolution was duly passed at the special general meeting. On 31 December 2018, the extension of the maturity date and the adjustment of the conversion price of the remaining convertible notes became effective. For details, please refer to the announcements of the Company dated 12 November 2018, 28 December 2018 and 31 December 2018, as well as the circular of the Company dated 11 December 2018.

Convertible notes of the Company with an aggregate principal amount of HK$102,000,000 were converted into 2,914,285,714 Shares at a conversion price of HK$0.035 per share on 31 December 2018.

The extension of the maturity date and the adjustment of the conversion price resulted in the extinguishment of the financial liability of the convertible notes and related equity component and the recognition of new financial liability and equity components. On 31 December 2018, the carrying values of liability component and equity component of the convertible notes immediately before the modification were approximately HK$157,541,000 and HK$47,690,000 respectively. According to a valuation report issued by an independent valuer not connected with the Group, the fair values of the new liability component and equity component immediately following the modification are approximately HK$109,053,000 and HK$41,814,000 respectively. These caused an increase of approximately HK$47,743,000 (net of the transaction costs of approximately HK$745,000) in other reserve in the consolidated statement of changes in equity, a transfer of approximately HK$32,871,000 between other reserve and accumulated losses, and a transfer of a net amount of approximately HK$5,876,000 between the convertible notes reserve and accumulated losses with no profit or loss impact during the year ended 31 December 2018.

26. CONVERTIBLE NOTES *(Continued)*

Movements of the liability and equity components of the convertible notes for the years ended 31 December 2018 and 2017 are set out below:

	Liability component HK$'000	**Equity component** HK$'000	**Total** HK$'000
At 1 January 2017	260,400	49,464	309,864
Derecognition of original liability/equity component upon modification of terms of convertible notes	(260,400)	(49,464)	(309,864)
Recognition of new liability/equity component upon modification of terms of convertible notes	226,812	78,400	305,212
Imputed interest charged to the consolidated statement of profit or loss (note 9)	15,203	–	15,203
At 31 December 2017 and 1 January 2018	242,015	78,400	320,415
Conversion into shares of the Company (note 29(b))	(101,415)	(30,710)	(132,125)
Derecognition of original liability/equity component upon modification of terms of convertible notes	(157,541)	(47,690)	(205,231)
Recognition of new liability/equity component upon modification of terms of convertible notes	109,053	41,814	150,867
Imputed interest charged to the consolidated statement of profit or loss (note 9)	16,941	–	16,941
At 31 December 2018	**109,053**	**41,814**	**150,867**

As at 31 December 2018, the principal amount of convertible notes remained outstanding is HK$158,400,000 (2017: HK$260,400,000).

27. EMPLOYEE BENEFITS

	2018 HK$'000	2017 HK$'000
Liabilities for employee benefit comprise:		
Annual leave payments accrual	**1,814**	1,765
Long service payments obligation (note 34(a))	**15**	13
	1,829	1,778
Categorised as:		
Due within one year (included in other payables and accruals)	**1,814**	1,765
Due after one year (shown under non-current liabilities)	**15**	13
	1,829	1,778

28. DEFERRED TAX

The followings are the major deferred tax liabilities (assets) recognised and movements thereon during the years ended 31 December 2018 and 2017:

	Accelerated tax depreciation HK$'000	**Tax losses** HK$'000	**Total** HK$'000
At 1 January 2017	37	(37)	–
(Credited) charged to profit or loss	(14)	14	–
At 31 December 2017 and 1 January 2018	23	(23)	–
(Credited) charged to profit or loss	(1)	1	–
At 31 December 2018	**22**	**(22)**	**–**

28. DEFERRED TAX *(Continued)*

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2018	2017
	HK$'000	HK$'000
Deferred tax liabilities	**22**	23
Deferred tax assets	**(22)**	(23)
	–	–

As at 31 December 2018, the Group has unused estimated tax losses of approximately HK$176,721,000 (2017: HK$151,821,000). A deferred tax asset has been recognised in respect of such tax losses of approximately HK$133,000 (2017: HK$140,000). No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$176,588,000 (2017: HK$151,681,000) due to the unpredictability of future profits streams.

Included in unrecognised tax losses are losses of approximately HK$14,544,000 (2017: HK$13,750,000) that will expire after five years from the year of assessment to which they relate to. Other losses may be carried forward indefinitely.

As at 31 December 2018, the Group has deductible temporary differences of approximately HK$1,558,000 (2017: HK$1,486,000). No deferred tax asset is recognised in respect of these deductible temporary differences as at 31 December 2018 and 2017 due to the unpredictability of future profits streams.

29. SHARE CAPITAL

	Number of shares '000	HK$'000
Authorised ordinary shares of HK$0.01 each:		
At 1 January 2017, 31 December 2017 and 1 January 2018	30,000,000	300,000
Increase in authorised share capital (note a)	30,000,000	300,000
At 31 December 2018	60,000,000	600,000
Issued and fully paid ordinary shares of HK$0.01 each:		
At 1 January 2017, 31 December 2017 and 1 January 2018	13,889,199	138,892
Issue of new shares upon conversion of convertible notes (note b)	2,914,286	29,143
At 31 December 2018	16,803,485	168,035

Notes:

(a) On 31 December 2018, the authorised share capital of the Company increased from HK$300,000,000 divided into 30,000,000,000 Shares to HK$600,000,000 divided into 60,000,000,000 Shares by the creation of additional 30,000,000,000 new Shares which ranked *pari passu* with the existing Shares in all respects upon allotment and issue.

(b) On 31 December 2018, convertible notes of the Company with an aggregate principal amount of HK$102,000,000 were converted into 2,914,285,714 new Shares at a conversion price of HK$0.035 per share. These new Shares issued ranked *pari passu* with other Shares then in issue in all aspects. Details of the convertible notes are set out in note 26 to the consolidated financial statements.

30. SHARE OPTION SCHEME

The Company has adopted a share option scheme on 28 November 2002 (the "2002 Share Option Scheme") for the purpose of providing incentives or rewards to wider classes of person or entity to be the participants (the "Participants") thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest ("Invested Entity").

On 8 June 2012, a new share option scheme (the "2012 Share Option Scheme") was adopted by the shareholders of the Company, pursuant to an ordinary resolution passed at the annual general meeting held on 8 June 2012. The 2002 Share Option Scheme was terminated accordingly on the same day and no further options will be granted under the 2002 Share Option Scheme but in all other aspects, the provisions of the 2002 Share Option Scheme shall remain in full force and effect in respect of any options granted prior to the adoption of the 2012 Share Option Scheme and any such options shall continue to be valid and exercisable in accordance with their terms of issue. The 2012 Share Option Scheme will be expired on 7 June 2022.

Terms of 2012 Share Option Scheme

Pursuant to the terms of the 2012 Share Option Scheme, the Directors may, at their absolute discretion, invite any person belonging to any of the following classes of Participants, to take up options to subscribe for shares:

(a) any eligible employee;

(b) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of the Group or any Invested Entity;

(e) any person or entity that provides research, development or technological support or services to the Group or any Invested Entity;

(f) any shareholder or any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and

(g) any ex-employee who has contributed to the development and growth of the Group and any Invested Entity.

30. SHARE OPTION SCHEME *(Continued)*

Terms of 2012 Share Option Scheme *(Continued)*

The basis of eligibility of any of the above class of Participants to the grant of any options shall be determined by the Directors from time to time on the basis of their contribution to the development and growth of the Group and any Invested Entity based on his work experience, industry knowledge or other relevant factors, or is expected to be able to contribute to the business development of the Group and any Invested Entity based on his business connections or other relevant factors, and subject to such conditions as the Directors think fit.

The subscription price for the shares under the 2012 Share Option Scheme shall be a price determined by the Directors, but shall not be lower than the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (ii) the average closing price of the shares stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares. Options granted are exercisable at any time during a period to be notified by the Directors but limited to a maximum period of ten years after the date the options are granted. Options granted should be accepted within 28 days from the date of offer. A consideration of HK$1 is payable on acceptance of the offer of grant of an option.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2012 Share Option Scheme and the other schemes shall not exceed 10% of the shares in issue at the date on which the 2012 Share Option Scheme is conditionally adopted by the Company at a general meeting of the shareholders.

The Company may, by the approval of the shareholders in general meeting, grant options beyond the 10% limit provided that the options in excess of the 10% limit are granted only to Participants specifically identified by the Company before shareholders' approval is sought.

Unless approved by the shareholders as set out herein, the total number of shares issued and to be issued upon exercise of the options granted to each Participant (including both exercised and outstanding options) in any twelve-month period must not exceed 1% of the shares of the Company in issue. Where any further grant of options to a Participant would result in the shares issued and to be issued upon exercise of any options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the twelve-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by the shareholders in general meeting with such Participant and his associates abstaining from voting.

However, the overall limit on the number of shares which may be issued upon exercise of all options granted under all share option schemes of the Company must not exceed 30% of the shares in issue from time to time.

30. SHARE OPTION SCHEME *(Continued)*

Terms of 2012 Share Option Scheme *(Continued)*

Unless the Directors otherwise determined and stated in the offer of the grant of options to a Participant, a Participant is not required to achieve any performance targets before any options granted under the 2012 Share Option Scheme can be exercised.

At 31 December 2018 and 2017, the number of shares in respect of which options had been granted and remained outstanding and exercisable under the 2002 Share Option Scheme was 399,940,000, representing 2% (2017: 3%) of the shares of the Company in issue at that date. No option is granted under the 2012 Share Option Scheme during the years ended 31 December 2018 and 2017.

The following table disclosed the movements of the Company's share options for the years ended 31 December 2018 and 2017:

Participants	Date of grant	Exercise price per share	Number of share options Outstanding at 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018 '000
Director			
Mr. Huang Hanshui	6 December 2010	HK$0.305	86,828
Customers, suppliers and other eligible persons (in aggregate)	6 December 2010	HK$0.305	86,828
	30 November 2011	HK$0.098	226,284
			399,940
Exercisable at the end of the reporting period			399,940
Weighted average exercise price			HK$0.188

The option outstanding at 31 December 2018 had an exercisable period of 10 years from the date of grant and a weighted average remaining contractual life of 2.5 years (2017: 3.5 years).

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 HK$'000	2017 HK$'000
Non-current asset		
Investments in subsidiaries	–	46,400
Current assets		
Prepayments, deposits and other receivables	1,114	1,119
Amounts due from subsidiaries (note a)	162,446	175,743
Bank balances and cash	5,011	19,170
	168,571	196,032
Current liability		
Other payables and accruals	1,140	1,611
Net current assets	167,431	194,421
Total assets less current liability	167,431	240,821
Non-current liability		
Convertible notes	109,053	242,015
Net assets (liabilities)	58,378	(1,194)
Capital and reserves		
Share capital	168,035	138,892
Reserves (note b)	(109,657)	(140,086)
Total equity (deficit)	58,378	(1,194)

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes:

(a) The amounts are unsecured, interest-free and repayable on demand.

(b) Movements in the reserves during the years are as follows:

	Share premium HK$'000	Contributed surplus HK$'000	Share-based compensation reserve HK$'000	Convertible notes reserve HK$'000	Other reserve (note) HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	2,271,283	62,315	21,668	49,464	–	(2,535,289)	(130,559)
Loss and total comprehensive expenses for the year	–	–	–	–	–	(42,398)	(42,398)
Derecognition upon modification of terms of convertible notes (note 26)	–	–	–	(49,464)	–	49,464	–
Recognition upon modification of terms of convertible notes (note 26)	–	–	–	78,400	33,588	(78,400)	33,588
Transaction costs attributable to modification of terms of convertible notes (note 26)	–	–	–	–	(717)	–	(717)
At 31 December 2017 and 1 January 2018	2,271,283	62,315	21,668	78,400	32,871	(2,606,623)	(140,086)
Loss and total comprehensive expenses for the year	–	–	–	–	–	(89,586)	(89,586)
Issue of new shares upon conversion of convertible notes (notes 26 and 29(b))	102,982	–	–	(30,710)	–	–	72,272
Derecognition upon modification of terms of convertible notes (note 26)	–	–	–	(47,690)	(32,871)	80,561	–
Recognition upon modification of terms of convertible notes (note 26)	–	–	–	41,814	48,488	(41,814)	48,488
Transaction costs attributable to modification of terms of convertible notes (note 26)	–	–	–	–	(745)	–	(745)
At 31 December 2018	**2,374,265**	**62,315**	**21,668**	**41,814**	**47,743**	**(2,657,462)**	**(109,657)**

Note: Other reserve represents the deemed contribution from the substantial shareholder of the Company in respect of the modification of terms of convertible notes in 2018.

32. LEASE COMMITMENTS

The Group as lessee

	2018 HK$'000	2017 HK$'000
Lease payments paid under operating leases in respect of:		
– land and buildings	**12,347**	11,502
– others	**10,917**	9,517
	23,264	21,019

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**16,735**	17,380
In the second to fifth years inclusive	**8,727**	22,545
	25,462	39,925

Operating lease payments represent rentals payable by the Group for certain of its godowns, offices, production plant and motor vehicles. Leases are negotiated for original terms ranging from 1 to 6 years (2017: 1 to 6 years). Rentals are fixed over the terms of respective leases.

33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following table details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Amount due to a joint venture	**Convertible notes**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2017	2,495	260,400	262,895
Financing cash flows:			
Transaction costs paid	–	(717)	(717)
Repayment	(20)	–	(20)
Non-cash changes:			
Derecognition of original liability component upon modification of terms	–	(260,400)	(260,400)
Recognition of new liability component upon modification of terms	–	226,812	226,812
Transaction costs	–	717	717
Imputed interest	–	15,203	15,203
At 31 December 2017 and 1 January 2018	2,475	242,015	244,490
Financing cash flows:			
Transaction costs paid	–	(745)	(745)
Repayment	(22)	–	(22)
Non-cash changes:			
Conversion into shares of the Company	–	(101,415)	(101,415)
Derecognition of original liability component upon modification of terms	–	(157,541)	(157,541)
Recognition of new liability component upon modification of terms	–	109,053	109,053
Transaction costs	–	745	745
Imputed interest	–	16,941	16,941
At 31 December 2018	**2,453**	**109,053**	**111,506**

34. RETIREMENT BENEFIT OBLIGATIONS

(a) Long service payments obligation

	2018 HK$'000	2017 HK$'000
Long service payments obligation (note 27)	15	13

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employees' final salary and years of service and is reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group at a discount rate of 8% (2017: 8%) and an assumed retirement age of 65 years old. The Group does not set aside any assets to fund any remaining obligations.

Movement for the year:

	2018 HK$'000	2017 HK$'000
Balance at beginning of the year	13	157
Increase (decrease) in obligation	2	(144)
Balance at end of the year	15	13

(b) Retirement benefit scheme contributions

Hong Kong

The Group joins a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, the employee contributes 5% of the relevant payroll to the MPF Scheme while the Group contributes from 5% to 10% of the relevant payroll to the MPF Scheme. For those making contributions to the scheme at 5% of the employees' relevant income, it is subject to a cap of monthly relevant income of HK$30,000. Contributions to the scheme vest immediately.

34. RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

(b) Retirement benefit scheme contributions *(Continued)*

The PRC and Vietnam

The Group also participates in defined contribution retirement schemes organised by the governments in the PRC and Vietnam. All employees of the Group in the PRC and Vietnam are entitled to an annual pension equal to a fixed portion of their individual final basic salaries at their retirement date. The Group is required to contribute a specified percentage of the payroll of its employees to the retirement date. No forfeited contributions may be used by the employers to reduce the existing level of contributions.

35. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties:

(a) The following balances were outstanding at the end of the reporting periods:

	Amounts due to related parties	
	2018	2017
	HK$'000	HK$'000
A joint venture (note)	**2,453**	2,475
Directors' emoluments payables (included in other payables) (note)	**956**	1,701

Note:

The amount due to a joint venture and directors' emoluments payables were unsecured, interest-free and repayable on demand. The balances were denominated in HK$ other than the functional currency of the respective reporting entity of the Group.

(b) Semtech BVI Group is the registered owner of various trademarks. Those trademarks are provided for the Group's use at nil consideration for both years ended 31 December 2018 and 2017.

35. RELATED PARTY TRANSACTIONS *(Continued)*

(c) During the year ended 31 December 2018, remuneration of approximately HK$1,807,000 (2017: HK$1,870,000) were paid or payable to a close family member of a Director as the position of a director of certain subsidiaries of the Group. In addition, remuneration of approximately HK$2,389,000 (2017: HK$2,394,000) were paid or payable to other close family members of the above-mentioned Director as staff costs of certain subsidiaries of the Group. Remuneration of approximately HK$210,000 (2017: nil) were payable to a close family member of a substantial shareholder of the Company as the position of the chairman of the Vietnam subsidiary of the Group.

(d) Compensation of key management personnel

The remuneration of the Directors and other members of key management during the year was as follows:

	2018 HK$'000	2017 HK$'000
Short-term benefits	9,635	9,562
Post-employment benefits	234	234
	9,869	9,796

The remuneration of Directors and key executives were determined by the remuneration committee and the board of Directors having regard to the performance of individuals and market trends.

36. CONTINGENT LIABILITY

On 15 July 2009, one of the subsidiaries of Classic Line International Limited ("Classic Line"), a former subsidiary of the Company, has been and is the subject of a judgement (in the amount of US$13.5 million) obtained in a United States court in an action in respect of damages allegedly arising out of use of fire lighters sold by the subsidiary of Classic Line. The Company is one of the co-defendants in the case. On 28 September 2009, the Company entered into an agreement to dispose of the entire equity interest in Classic Line and the disposal was completed on 31 October 2009.

Based on the legal advice received by the Company, the Directors considered that the Company has valid grounds in opposing the enforcement of any judgement of the said case against the Company, if obtained, in Hong Kong and Bermuda. Accordingly, no provision has been made in the consolidated financial statements.

37. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2018 and 2017 are as follows:

Name	Form of business structure	Place of incorporation / registration and operations	Issued and paid-up ordinary share/ registered capital	Proportion of ownership interest and voting power held by the Company				Principal activities
				2018		2017		
				Direct %	Indirect %	Direct %	Indirect %	
Sino-Tech International (B.V.I.) Limited	Corporation	British Virgin Islands	US$2	100	–	100	–	Investment holding
Ruixin Universal Limited	Corporation	Hong Kong	HK$1	–	100	–	100	Provision of sub-letting service
Fast Harvest Limited	Corporation	Hong Kong	HK$2	–	100	–	100	Provision of management service
LWM Management Limited	Corporation	Hong Kong	HK$1	–	100	–	100	Provision of management service
Semtech RFID Limited	Corporation	Hong Kong	HK$100	–	100	–	100	Trading of radio-frequency identification tag and antenna
Super Victory Enterprises Limited	Corporation	Hong Kong	HK$2	–	100	–	100	Manufacture and trading of electronic and electrical parts and components
東莞泰豐射頻識別有限公司 (note a)	Corporation	PRC	US$1,500,000	–	100	–	100	Manufacture and trading of radio-frequency identification tag and antenna
Phoenix Asia Pacific Investment Company Limited (note b)	Corporation	Vietnam	US$100,000	–	100	–	100	Provision of management consulting services

Notes:

(a) The company is a foreign enterprise in the PRC.

(b) The company is a foreign enterprise in Vietnam established in 2017.

37. PRINCIPAL SUBSIDIARIES *(Continued)*

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting at the end of both years or at any time during the years.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. The principal activities of these subsidiaries are summarised as follows:

Principal activities	Principal place of business	Number of subsidiaries	
		2018	2017
Investment holding	British Virgin Islands	**5**	5
Inactive	British Virgin Islands	**1**	1
Inactive/not commenced business yet	Hong Kong	**3**	3

Summary of Financial Information

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years prepared on the bases set out in the note below is as follows. This summary does not form part of the audited consolidated financial statements.

RESULTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**445,933**	542,082	478,845	545,055	599,867
Loss before taxation	**(85,881)**	(42,749)	(50,011)	(23,211)	(40,434)
Net loss attributable to owners of the Company	**(85,881)**	(42,749)	(66,703)	(23,211)	(40,434)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**214,524**	340,670	334,748	408,317	399,871
Total liabilities	**(146,660)**	(336,342)	(320,130)	(327,544)	(368,373)
Non-controlling interests	**–**	–	–	–	–
	67,864	4,328	14,618	80,773	31,498

Note: The results of the Group for the years ended 31 December 2018, 31 December 2017, 31 December 2016, 31 December 2015 and 31 December 2014 have been extracted from the audited consolidated financial statements for the years ended 31 December 2018, 31 December 2017, 31 December 2016, 31 December 2015 and 31 December 2014.