太睿國際控股有限公司

PacRay International Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 1010

ANNUAL REPORT 2018

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Printed on environmentally friendly paper

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Yang Lin *(Chairman)*[Note 5]

Mr. Wei Xiao *(Chief Executive Officer)*[Note 3]

Mr. Leung Pok Man

Ms. Lau Mei Ying

Mr. Liew Fui Kiang *(Chairman)*[Note 4]

Non-executive Director

Mr. Zhou Danqing

Independent Non-executive Directors

Mr. Lee Man To

Ms. Choi Yee Man

Dr. Zhang Shengdong[Note 6]

Ms. Zhuge Chang[Note 2]

Dr. Yang Yung-Ming[Note 1]

BOARD COMMITTEES

Audit Committee

Mr. Lee Man To *(Chairman)*

Ms. Choi Yee Man

Dr. Zhang Shengdong[Note 6]

Ms. Zhuge Chang[Note 2]

Dr. Yang Yung-Ming[Note 1]

Remuneration Committee

Ms. Choi Yee Man *(Chairman)*

Mr. Lee Man To

Dr. Zhang Shengdong[Note 6]

Ms. Zhuge Chang[Note 2]

Nomination Committee

Ms. Choi Yee Man *(Chairman)*

Mr. Lee Man To

Dr. Zhang Shengdong[Note 6]

Ms. Zhuge Chang[Note 2]

Notes:

1. Resigned on 15 June 2018
2. Appointed on 15 June 2018 and resigned on 4 March 2019
3. Appointed on 31 December 2018
4. Resigned on 15 January 2019
5. Appointed on 15 January 2019
6. Appointed on 4 March 2019

COMPANY SECRETARY

Ms. Wong Po Ling, Pauline

STOCK CODE

1010

WEBSITE

http://pacray.com.hk

AUDITOR

Zenith CPA Limited
Certified Public Accountants

LEGAL ADVISOR

Michael Li & Co.

PRINCIPAL BANKERS

Bank of Communications (Hong Kong) Limited
Dah Sing Bank, Limited
The Hongkong & Shanghai Banking Corporation Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 902, Unicorn Trade Centre
127-131 Des Voeux Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM 08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

EXECUTIVE DIRECTORS

Mr. Yang Lin ("**Mr. Yang**"), aged 45, has been appointed as executive director and the chairman of the Board of the Company on 15 January 2019. Mr. Yang is a senior management of Shenzhen Magic Display Technology Co., Ltd* (深圳奇屏科技有限公司), a company was acquired 70% equity interest by an indirect wholly-owned subsidiary of the Company. Mr. Yang was a chief executive officer (CEO) of Shenzhen Zhong Shi Tai He Digital Technology Limited* (深圳中視泰和數碼科技有限公司) from April 2013 to May 2015. Mr. Yang has extensive experience in the area of management.

Mr. Wei Xiao ("**Mr. Wei**"), aged 28, has been appointed as executive director and chief executive officer of the Company on 31 December 2018. Mr. Wei graduated from Peking University with bachelor's degree in 2012. Also, he obtained a Master degree from The University of Hong Kong in 2013. Mr. Wei has extensive experience in the area of investment and management in Internet and TMT sectors. Mr. Wei also acts as the standing council member of Peking University Alumni Association (Hong Kong) Limited. Mr. Wei also acts as the director of wholly-owned subsidiaries of the Company.

Mr. Leung Pok Man ("**Mr. Leung**"), aged 50, has been appointed as executive director of the Company on 31 August 2017. He graduated from York University in Toronto, Canada with a bachelor's degree in business studies. He has over 15 years' experience in sales management & business development in the industry relating to information technology and audio visual systems. He is currently the sales and business development consultant of a trading company of information technology and network products and mobile accessories. Mr. Leung also acts as the director of wholly-owned subsidiaries of the Company.

Mr. Leung is currently the independent non-executive director and a member of each of the audit committee, nomination committee and remuneration committee of China Healthcare Enterprise Group Limited (stock code: 1143) which is listed on the Main Board of The Stock Exchange of Hong Kong (the "**Stock Exchange**").

Ms. Lau Mei Ying ("**Ms. Lau**"), aged 37, has been appointed as executive director of the Company on 31 August 2017. She graduated from The Chinese University of Hong Kong with a Bachelor of Social Science degree in Economics. She is currently a fellow member of Life Management Institute issued by Life Office Management Association since November 2008. She is currently an independent non-executive director of Cornerstone Financial Holdings Limited (stock code: 8112) which is listed on GEM Board of the Stock Exchange. She was an independent non-executive director of Boill Healthcare Holdings Limited (stock code: 1246) from 15 July 2015 to 17 July 2017. Ms. Lau has extensive experience in the financial market and insurance underwriting. Ms. Lau also acts as the director of wholly-owned subsidiaries of the Company.

NON-EXECUTIVE DIRECTOR

Mr. Zhou Danqing (“**Mr. Zhou**”), aged 32, has been re-designated as a non-executive director of the Company on 15 April 2018 and was appointed as independent non-executive director of the Company from 31 August 2017 to 15 April 2018. He obtained a bachelor’s degree in business administration from the Chinese University of Hong Kong. Mr. Zhou is a Chartered Financial Analyst and Financial Risk Manager charter-holder. Mr. Zhou has over 8 years of experience in finance.

Mr. Zhou was the executive director of DeTai New Energy Group Limited (stock code:559) which is listed on the Main Board of the Stock Exchange from 21 August 2018 to 18 October 2018 and had been re-designated to non-executive director from 18 October 2018 to 26 October 2018.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee Man To (“**Mr. Lee**”), aged 45, has been appointed as independent non-executive director, the chairman of the audit committee and a member of each of the remuneration committee and nomination committee of the Company on 15 April 2018. Mr. Lee graduated in the Hong Kong Polytechnic University with Bachelor degree in accountancy in 1995. Mr. Lee is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Lee has over 23 years of experience in auditing, accounting and finance.

Mr. Lee is currently the executive director, financial controller, qualified accountant and company secretary of Combest Holdings Limited (stock code: 8190) which is listed on the GEM of the Stock Exchange. He is also currently an independent non-executive director, the chairman of the audit committee and a member of each of the remuneration committee and nomination committee of Sino Harbour Holdings Group Limited (stock code: 1663) which is listed on Main Board of the Stock Exchange.

Ms. Choi Yee Man (“**Ms. Choi**”), aged 29, has been appointed as independent non-executive director, the chairman of each of the nomination committee and remuneration committee and a member of audit committee of the Company on 15 April 2018. Ms. Choi graduated in The City University of Hong Kong with Bachelor degree in Accountancy. She is a fellow member of the Hong Kong Institute of Certified Public Accountants. Ms. Choi is currently a company secretary of Teamway International Group Holdings Limited (stock code: 1239) which is listed on the Main Board of the Stock Exchange. She is also currently a company secretary of Yuk Wing Group Holdings Limited (stock code: 1536) which is listed on the Main Board of the Stock Exchange. She has extensive experience in the area of accounting, finance, auditing and corporate secretarial matters.

Dr. Zhang Shengdong (“**Dr. Zhang**”), aged 54, has been appointed as independent non-executive director and a member of each of the audit committee, nomination committee and remuneration committee of the Company on 4 March 2019. He graduated in Peking University (北京大學) with doctoral degree in Sciences in 2002. Dr. Zhang is currently a professor of Peking University (北京大學) and the Dean of Peking University – School of Electronic and Computer Engineering (北京大學– 信息工程學院). Dr. Zhang was a director of Shenzhen Topray Solar Co., Ltd (深圳拓日新能源科技股份有限公司) from February 2010 to May 2016, which is listed on the Shenzhen Stock Exchange in the People’s Republic of China.

SENIOR MANAGEMENT

CHIEF FINANCIAL OFFICER

Ms. Hou Jie ("**Ms. Hou**"), aged 40, has been appointed as chief financial officer of the Company on 31 October 2018. Ms. Hou graduated in Central University of Finance and Economics* (中央財經大學) with Bachelor degree in Economics (Taxation) in 1999. Ms. Hou is a non-practising member of CICPA (The Chinese Institute of Certified Public Accountants)* (中國註冊會計師協會). Prior to joining the Company, Ms. Hou worked at AVIC International Holding Corporation* (中國航空技術國際控股有限公司) from March 2005 to June 2016. Ms. Hou has over 15 years of experience in finance, auditing and risk control. She has strong management and communication skills with demonstrated ability to motivate team members.

CHIEF STRATEGY OFFICER

Ms. Chu Yung-Yi ("**Ms. Chu**"), aged 44, was appointed as the chief executive officer of the Company on 31 August 2017 and has been re-designated as chief strategy officer of the Company on 31 December 2018. Ms. Chu obtained a Bachelor of Laws degree from the National Taiwan University in 1997 and a Master of Laws degree from Duke University School of Law in 2003. Ms. Chu had worked in several law firms since 1997 and has extensive experience in areas of mergers and acquisitions, capital markets, direct investment and general and securities consultation. In addition, Ms. Chu was a director of the foundation that manages the Grand Hotel (Taipei and Kaohsiung) (圓山大飯店(台北暨高雄)) from 2014 to 2016. At present, Ms. Chu is (i) a special counsel in Baker & McKenzie's Taipei office; (ii) a director of Cayenne's Ark Mobile Co., Ltd., of which the shares are listed in Emerging Stock Board in the Taipei Exchange (6611: TT); and (iii) a shareholder interested in 5% of the total issued share capital of Glory Genius International Holdings Limited, a substantial shareholder of the Company.

COMPANY SECRETARY

Ms. Wong Po Ling, Pauline ("**Ms. Wong**"), aged 41, has been appointed by the Company from an external corporate services provider as its Company Secretary of the Company on 31 August 2017. She obtained a bachelor's degree in accountancy and a master degree in corporate governance from The Hong Kong Polytechnic University. She is a fellow member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Institute of Chartered Accountants in England and Wales. She is also a member of the Institute of Chartered Secretaries and Administrator, the Hong Kong Institute of Chartered Secretaries and the Taxation Institute of Hong Kong. Ms. Wong has over 15 years of experience in financial management, mergers and acquisitions and corporate governance matters.

* *For identification purposes only*

A summary of the results and of the assets, liabilities and total equity of the Group for the last five financial years, as extracted from the audited financial statements and this Annual Report of the Company for the year ended 31 December, is set out below:

RESULTS

	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Revenue	**60,709**	36,580	17,337	13,614	13,646
(Loss)/profit before tax	**(40,167)**	(2,637)	(4,895)	(25,798)	17,268
Income tax (expense)/credit	**(20)**	(49)	(99)	545	–
(Loss)/profit for the year	**(40,187)**	(2,686)	(4,994)	(25,253)	17,268
Attributable to owners of the parent	**(40,187)**	(2,686)	(4,994)	(25,253)	17,268

ASSETS AND LIABILITIES

	31 December 2018 HK$'000	31 December 2017 HK$'000	31 December 2016 HK$'000	31 December 2015 HK$'000	31 December 2014 HK$'000
Non-current assets	**34,298**	44,300	49,932	3,618	3,294
Net current assets	**84,050**	116,803	103,297	163,824	190,240
Total assets less current liabilities	**118,348**	161,103	153,229	167,442	193,534
Non-current liabilities	**–**	–	–	–	(269)
Net assets	**118,348**	161,103	153,229	167,442	193,265
Shareholders' equity					
Share capital	**134,922**	134,922	134,922	134,922	134,922
Reserves	**(16,574)**	26,181	18,307	32,520	58,343
	118,348	161,103	153,229	167,442	193,265

LETTER FROM THE BOARD

On behalf of the board of directors (the "**Board**") (the "**Directors**") of PacRay International Holdings Limited (the "**Company**"), I hereby report on the financial results and operations of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2018.

FINANCIAL REVIEW

For the year ended 31 December 2018, the Group achieved a revenue of HK$60.7 million, representing an increase of 66% as compared to the corresponding period in 2017, which was principally contributed by the Group's (i) design and sales of integrated circuit and semiconductor parts business operations, and (ii) the trading of construction materials.

For the year ended 31 December 2018, loss for the year attributable to owners of the parent is HK$40.2 million, as compared to HK$2.7 million for the corresponding period of last year. The increase in loss was mainly attributable to increase in both impairment of financial assets and the employee benefits expenses during the period. Basic loss per share attributable to ordinary equity holders of the parent is HK$11.94 cents, as compared to HK$ 0.8 cents for the corresponding period of last year.

FINAL DIVIDEND

No dividend for the year ended 31 December 2018 (2017: Nil) is recommended by the Board.

APPRECIATION

I would like to take this opportunity to thank our employees for their efforts taken in the past year and our shareholders for the continued support to our Group.

For and on behalf of the Board
PacRay International Holdings Limited

Yang Lin
Chairman and Executive Director

Hong Kong, 22 March 2019

BUSINESS REVIEW

The Group is principally engaged in the design and sales of integrated circuits and semi-conductor parts in People's Republic of China (the "**PRC**"), Hong Kong and Taiwan; trading of construction materials; financial leasing in the PRC, money lending in Hong Kong and investment holding.

During the year, despite the uncertain and volatile global macro-economic environment, the PRC continues to be under the world's spotlight and maintains a moderate growth. It was overall a challenging year in 2018, but nevertheless the Group performed better than it did in 2017.

Design and sales of integrated circuit and semi-conductor parts

Design and distribution of integrated circuit and semi-conductor parts are core business of the Group. The Group acquires raw material integrated circuit ("**IC**") and semi-conductor related parts from external suppliers and relies on internet technology and related equipment for design of IC related products before sourcing out to external sub-contractors for production and does not involve in any internal manufacturing processes in the course of business.

The Group's IC products are used in industrial and house measuring tools and electronic bicycles battery charger market. In particular, our core research and development team in Shanghai operations provides the design of the products and the products are then sourced to certain external suppliers or sub-contractors for subsequent productions. After conducting successful testing of the sub-contracted products in Shanghai operations, the Group then sold the products to customers, which are usually end-product manufacturers/producers.

For the year ended 31 December 2018, the operation recorded a revenue of approximately HK$36.4 million, which is basically in line with the corresponding period last year, which was due to the management's continuous effort on (i) improving the competitiveness of the products; and (ii) developing new product lines and sales and distribution channels, resulting in a better performance of operations in Shanghai as compared with that of the PRC IC market.

There are mainly two types of products in integrated circuit and semi-conductor parts: caliper and microcontroller unit ("**MCU**"), each of the products has approximately 10 different models. The total product mix between caliper and MCU during the period remains stable, approximately 68% (2017: 70%) and 32% (2017: 30%) of the revenue was generated from the caliper and MCU respectively.

Trading of construction materials

Since the end of 2017, the Group has been exploring the trading of construction materials.

For the year ended 31 December 2018, the operation recorded a revenue of approximately HK$23.9 million (2017: 0.13 million), representing 39% (2017: 0.36%) of total revenue during the year.

Financial leasing in the PRC

The Group entered into a sale and purchase agreement (the "**Sale and Purchase Agreement**") for the acquisition of the entire equity interest in Wit Sky Limited ("**Wit Sky**") together with its subsidiaries (collectively, the "**Wit Sky Group**") on 13 November 2017 ("**Acquisition Wit Sky**"). Wit Sky is the holding company of Solomon International Leasing (Tianjin) Company Limited* 索羅門國際租賃(天津)有限公司 ("**Solomon**") which is principally engaged in industrial equipment, medical equipment, transportation equipment (aircraft, ships, vehicles, etc.), household products, product upstream and downstream supply chain and various types of financial leasing such as direct leasing, sublease, hire purchase, leveraged leasing, entrusted leasing and joint leasing the sale and dealing of the residual value of lease items and leasing consultation business. The Acquisition Wit Sky was completed on 28 February 2018.

Upon the completion of the Acquisition Wit Sky, the Group expanded its business to financial leasing in the PRC which would diversify the Group's business base. For the year ended 31 December 2018, the operations recorded a revenue of approximately HK$0.3 million (2017: Nil).

Money lending in Hong Kong

A money lenders licence valid for 12 months has been granted by the Licensing Court to Wellba Investment Limited (裕霸投資有限公司), a subsidiary of the Company, under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) (the "**Money Lenders Ordinance**") on 11 December 2018, which will remain valid until 12 December 2019.

For the year ended 31 December 2018, the Group recorded an interest revenue of approximately 2 million (2017: Nil).

* *For identification purposes only*

Investment holding

As at 31 December 2017, the Group held 130,262 ChipMOS Technologies Inc. ("**ChipMOS Taiwan**") American depositary shares ("**ChipMOS Taiwan ADS**"), which is listed on the NASDAQ Global Select Market (ticker symbol "**IMOS**").

On 24 January 2018, the Group proposed a possible disposal of an aggregate of 130,362 ChipMOS Taiwan ADS, representing all of its holding of ChipMOS Taiwan ADS (the "**Possible Disposals**"). An ordinary resolution regarding the Possible Disposals was approved by the shareholders of the Company at the special general meeting (the "**SGM**") on 12 March 2018.

Subsequent to the SGM, the Group further disposed 118,262 ChipMOS Taiwan ADS.

As at 31 October 2018, the Group held 12,100 ChipMOS Taiwan ADS. On 30 November 2018, the number of ChipMOS Taiwan ADS held by the Group was reduced from 12,100 to 10,284 due to the capital reduction plan of ChipMOS Technologies Inc.

As at 31 December 2018, the Group held 10,284 ChipMOS Taiwan ADS and the quoted market of ChipMOS Taiwan ADS was approximately US$16.84 per ADS.

On 7 March 2019, the Group disposed all of its remaining 10,284 ChipMOS Taiwan ADS at the prevailing market price of US$16.881 per ChipMOS Taiwan ADS, subject to the restrictions approved by shareholders in the SGM.

BUSINESS OUTLOOK

Facing economic uncertainties and cost inflation, the Group will continue with its prudent business approach.

Design and sales of integrated circuit and semi-conductor parts

In view of the increasing uncertainties reflecting the global economic environment and changes in China's economic environment, the business growth has become increasingly challenging in our operation. The two main issues of operation are: scalability and diversification. The management shall carry on the tremendous effort to improve the existing products over competitors both in terms of performance as well as price. Meanwhile, the management is diligently diversifying its product lines and exploring new sales and distribution channels in order to broaden the revenue source.

Software and hardware integration services for real time 2D-3D conversion display products

On 9 November 2018, the Group announced a possible acquisition of the majority equity interest of Shenzhen Qiping Technology Company Limited* (深圳奇屏科技有限公司), a company incorporated in the PRC with limited liability ("**Target Company**"). The Target Company is a technology service company and is principally engaged in providing software and hardware integration services for real time 2D-3D conversion display products.

On 21 November 2018, Yunrui Technology (Shenzhen) Company Limited* (蘊睿科技（深圳）有限公司) (the "**Purchaser**"), an indirect wholly-owned subsidiary of the Group, entered into (i) the Equity Transfer Agreement with Shenzhen Kuyin Culture Communication Company Limited* (深圳酷音文化傳播有限公司) ("**Vendor A**") and Ms. Li Qiuchen (李秋晨) ("**Vendor B**") (the collectively "**Vendors**") and the Target Company, pursuant to which the Vendors have conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the 70% equity interest in the Target Company, for an aggregate consideration of RMB2 million in cash; and (ii) the Shareholders' Agreement with Vendor A, the existing shareholder and the Target Company in relation to the operation and management of the Target Company (the "**Acquisition Qiping**").

The Acquisition Qiping was completed in January 2019. The Group believes that the Acquisition Qiping represents a good opportunity for the Group to expand our offerings of hardware and software integration services for real time 2D-3D conversion display products, and tap into the high-tech industry for our core business. The Acquisition Qiping will also broaden the Group's revenue base.

Trading of construction materials

The trading of construction materials was a newly explored business of the Group since the end of 2017. The Group will carefully assess the feasibility of future business development based on the current business development.

Financial leasing in the PRC

The Group has been in constant discussions with local management of Wit Sky Group on Soloman's business development and planning of financial leasing projects going forward.

Money lending in Hong Kong

The Group will prudently carry out money lending business in accordance with the Money Lenders Ordinance.

* *For identification purposes only*

Investment holding

Given ongoing uncertainties over international trade and longer-term global economic and financial trends, we will continue to exercise caution and prudence in exploring any new investment opportunities to enhance shareholder's value.

FINANCIAL REVIEW

For the year ended 31 December 2018, the Group achieved a revenue of HK$60.7 million, representing an increase of 66% as compared to the corresponding period in 2017, which was principally contributed by the Group's (i) design and sales of integrated circuit and semiconductor parts business operations, and (ii) the trading of construction materials.

For the year ended 31 December 2018, loss for the year attributable to owners of the parent is HK$40.2 million, as compared to HK$2.7 million for the corresponding period of last year. The increase in loss was mainly attributable to increase in both impairment of financial assets and the employee benefits expenses during the period. Basic loss per share attributable to ordinary equity holders of the parent is HK$11.94 cents, as compared to HK$ 0.8 cents for the corresponding period of last year.

Revenue

Revenue of the Group for the year ended 31 December 2018 increased by approximately HK$24.1 million as compared with the same period last year, which was mainly due to the (i) the management's continuous efforts on improving the competitiveness of the products; (ii) the development of new sales and distribution channels of IC related products; and (iii) the new business for the trading of construction materials.

Operating expenses

Operating expenses increased to HK$46.9 million in the year ended 31 December 2018 (2017: HK$23.2 million) which was mainly due to the increased in both impairment of financial assets and the employee benefits expenses during the period.

LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, the Group had no fund raising activities.

As at 31 December 2018, the cash and cash equivalents of the Group amounted to approximately HK$25.6 million as compared to approximately HK$43.3 million as at 31 December 2017.

As at 31 December 2018, the Group had no outstanding bank loan and no financing cost was incurred for the year (2017: Nil).

GEARING RATIO

The gearing ratio of the Group, defined as total liabilities expressed as a percentage of the total of equity and liabilities, was approximately 3.76% as at 31 December 2018 (2017: approximately 1.9%). The Group did not have any debt financing during the year, and no finance cost was incurred.

FOREIGN CURRENCY EXPOSURE

The Group's results were exposed to exchange fluctuations of Renminbi as the Group mainly had operations in the PRC. The Board considers that the Group was not exposed to significant foreign exchange risk, and had not employed any financial instrument for hedging. The Board will review the Group's foreign exchange risk and exposure from time to time and will apply hedging where necessary.

CAPITAL STRUCTURE

During the year, there was no change to the authorised share capital of the Group.

As at 31 December 2018, the Group had no bank borrowings (2017: Nil). As at 31 December 2018, the shareholders' fund amounted to approximately HK$118.3 million (2017: approximately HK$161.1 million).

INVESTMENTS AND CAPITAL ASSETS

The Group acquired property, plant and equipment of approximately HK$2.96 million for the year ended 31 December 2018 (2017: approximately HK$0.6 million).

As at 31 December 2018, the Group held 10,284 (31 December 2017: 130,362) ChipMOS Taiwan ADS and its quoted market price was US$16.84 (31 December 2017: US$17.65) per ADS.

As at 31 December 2018, the Group held shares of a Hong Kong listed company amounted to approximately HK$0.8 million (31 December 2017: nil).

PLEDGE OF ASSETS

As at 31 December 2018, the Group did not have any pledge of assets (2017: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Disposal of ChipMOS Taiwan ADS

On 24 January 2018, having regard to the share market conditions and the trading price of ChipMOS Taiwan ADS in the open market through the NASDAQ Global Select Market, the Group considered the possible disposals represent good opportunities for the Company to realise a gain in its investment in ChipMOS Taiwan. The Company intended to dispose of an aggregate of 130,362 ChipMOS Taiwan ADS ("**Possible Disposals**").

The Possible Disposals constituted a major transaction for the Company under the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), for which shareholders' approval was required. A special general meeting (the "**SGM**") was held on 12 March 2018 and an ordinary resolution was approved by the shareholders of the Company regarding the Possible Disposals. No shareholder was required to abstain from voting on the approval of the Possible Disposals.

Subsequent to the SGM, the Group disposed a total of 118,262 ChipMOS Taiwan ADS.

As at 31 October 2018, the Group held 12,100 ChipMOS Taiwan ADS. On 30 November 2018, the number of ChipMOS Taiwan ADS held by the Group was reduced from 12,100 to 10,284 due to the capital reduction plan of ChipMOS Technologies Inc.

As at 31 December 2018, the Group held 10,284 ChipMOS Taiwan ADS and the quoted market price of ChipMOS Taiwan ADS was approximately US$16.84 per ADS.

On 7 March 2019, the Group disposed all of the remaining shares of 10,284 ChipMOS Taiwan ADS at the prevailing market price of US$16.881 per ChipMOS Taiwan ADS, subject to the restrictions approved by shareholders in the SGM.

Acquisition of the Entire Issued Share Capital in Wit Sky Limited

Sunny Fast International Investment Limited (迅朗國際投資有限公司) (the "**Purchaser**"), a wholly-owned subsidiary of the Group, and Fortune Favour International Limited (the "**Vendor Fortune**") entered into the Sale and Purchase Agreement on 13 November 2017, pursuant to which the Vendor Fortune conditionally agreed to sell and the Purchaser conditionally agreed to purchase the entire issued share capital of the Wit Sky Limited ("**Wit Sky**"), at the consideration of HK$40.0 million. Details of the acquisition have been disclosed in the announcements of the Company dated 27 October 2017 and 13 November 2017, respectively.

Wit Sky owns the entire equity interests in a company incorporated in Hong Kong with limited liability, which in turn owns the entire equity interests in the PRC with limited liability, which is principally engaged in industrial equipment, medical equipment, transportation equipment (aircraft, ships, vehicles, etc.), household products, product upstream and downstream supply chain and various types of financial leasing such as direct leasing, sublease, hire purchase, leveraged leasing, entrusted leasing and joint leasing the sale and dealing of the residual value of lease items, and leasing consultation business.

All conditions to the Sale and Purchase Agreement were fulfilled and completion of the acquisition (the "**Completion**") with the consideration adjusted to HK$30.0 million on 28 February 2018. Following the Completion, the Wit Sky Group became wholly-owned subsidiaries of the Company. Details of the Completion were disclosed in the announcement of the Company dated 28 February 2018.

Acquisition of the majority equity interest in Shenzhen Qiping Technology Company Limited

On 9 November 2018, the Group announced a possible acquisition of the majority equity interest of Shenzhen Qiping Technology Company Limited* (深圳奇屏科技有限公司), a company incorporated in the PRC with limited liability ("**Target Company**"). The Target Company is a technology service company and is principally engaged in providing software and hardware integration services for real time 2D-3D conversion display products.

On 21 November 2018, Yunrui Technology (Shenzhen) Company Limited* (蘊睿科技（深圳）有限公司) (the "**Purchaser**"), an indirect wholly-owned subsidiary of the Company, entered into (i) the Equity Transfer Agreement with Shenzhen Kuyin Culture Communication Company Limited* (深圳酷音文化傳播有限公司) ("**Vendor A**") and Ms. Li Qiuchen (李秋晨) ("**Vendor B**") (the collectively "**Vendors**") and the Target Company, pursuant to which the Vendors have conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the 70% equity interest in the Target Company, for an aggregate consideration of RMB2 million in cash; and (ii) the Shareholders' Agreement with the Vendor A, the Existing Shareholder and the Target Company in relation to the operation and management of the Target Company (the "**Acquisition Qiping**").

All conditions to Equity Transfer Agreement were fulfilled and completion of the Acquisition Qiping (the "**Completion**") in January 2019. Following the completion of the Acquisition Qiping, Shenzhen Qiping become an indirect non wholly-owned subsidiary of the Group.

Save as disclosed above, the Group did not have any material acquisition or disposals of subsidiaries, associates or joint ventures of the Company in the course of 2018.

* *For identification purposes only*

CONTINGENT LIABILITIES

No material contingent liabilities of the Group were noted as at 31 December 2018 (2017: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed above for the disposals of ChipMOS Taiwan ADS and the completion of the acquisition for the target group/company, there were no specific future plans for material investments or capital assets of the Group as at 31 December 2018.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had approximately 56 employees (2017: 33 employees). Total employee benefits expenses, including Directors' emoluments, amounted to approximately HK$22.4 million (2017: HK$11.0 million) for the year.

The remuneration packages of employees are reviewed annually with reference to market level and individual staff performance. The Group's remuneration packages include basic salaries, bonus, contributions to provident fund and medical benefits.

APPROACH TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE AND REPORTING

This Environmental, Social and Governance Report (the "**ESG Report**") summarises the initiatives, programmes and performance of the Group as well as demonstrates its commitment to sustainability.

The core businesses of the Group are principally engaged in design and distribution of integrated circuits and semi-conductor parts in the People's Republic of China (the "**PRC**").

The Group believes that environmental protection, low carbon footprint, resource conservation and sustainable development are the key trends in society. In order to follow the key trends and pursue a successful and sustainable business model, the Group recognises the importance of integrating ESG aspects into its risk management system and has taken corresponding measures in its daily operation and governance perspective.

REPORTING SCOPE

Unless stated otherwise, this Annual Report mainly covers the Group's major operating revenue activities under direct management control, including its design and distribution of integrated circuits and semi-conductor parts in the PRC.

The Group will continue to assess the major environmental, social and governance aspects of different businesses to determine whether it needs to be included in the environmental, social and governance reporting.

REPORTING FRAMEWORK

This ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in the Appendix 27 of the Listing Rules (the "**ESG Reporting Guide**").

Information relating to the corporate governance practices of the Group has been set out in the Corporate Governance Report on pages 41 to 55 of this Annual Report.

REPORTING PERIOD

The ESG Report specifics the environmental, social and governance activities, challenges and measures being taken during the year ended 31 December 2018.

STAKEHOLDER ENGAGEMENT

The Group values its stakeholders and their views relating to its businesses and environmental, social and governance issues. In order to understand and address stakeholders' concerns, the Group communicates with its key stakeholders, including but not limited to employees, investors, customers, suppliers, government bodies and communities through different channels such as conferences, electronic platforms and public events. In formulating operational strategies and environmental, social and governance measures, the Group takes into account the stakeholders' expectations and strives to improve its performance through mutual cooperation with the stakeholders, resulting in creating greater value for the community.

Materiality Assessment

The management and employees who are responsible for the key functions of the Group have participated in preparing this Annual Report, assisted the Group in reviewing its operation, identifying key environmental, social and governance issues and assessing the importance of these issues to our businesses and stakeholders. We compiled a questionnaire in reference to the identified material environmental, social and governance issues to collect the information from relevant departments and business units of the Group.

The following table summarises the Group's significant environmental, social and governance issues as set out in this Annual Report:

The ESG Reporting Guide	Material ESG aspects of the Group	Page
A. Environmental		
A1. Emissions	Waste Management	P. 20
	Greenhouse Gas ("**GHG**") Emission	P. 21
A2. Use of Resources	Energy Consumption	P. 23
	Water Consumption and Use of Packaging Materials	P. 23
A3. The Environment and Natural Resources	Environmental Impact Management	P. 24
	Noise Pollution	P. 24
	Landscape and Natural Habitat	P. 25
B. Social		
B1. Employment	Employee Benefits and Equal Opportunities Policies	P. 25
B2. Health and Safety	Occupational Health and Safety	P. 26
B3. Development and Training	Staff Development and Training	P. 26
B4. Labor Standards	Prevention of Child Labor or Forced Labor	P. 27
B5. Supply Chain Management	Environmental and Social Risk Management of Supply Chain	P. 27
B6. Product Responsibility	Quality and Safety of Products and Services	P. 28
	Intellectual Property Management	P. 28
B7. Anti-Corruption	Prevention of Corruption and Fraud	P. 29
B8. Community Investment	Contributions to Society	P. 30

During the year ended 31 December 2018, the Group confirmed that appropriate and effective management policies and internal control systems for environmental, social and governance issues are in place and confirmed the information disclosed in the ESG Report meets the ESG Reporting Guide.

Contact us

Comments and suggestions are welcome from our stakeholders. You may provide comments on ESG Report or towards our performance in respect of sustainable development.

A. ENVIRONMENTAL

A1. Emissions

General Disclosure and Key Performance Indicators ("KPI")

The core businesses of the Group, which mainly involves design and distribution of integrated circuits and semi-conductor parts in the PRC, mainly rely on internet technology and related equipment and do not involve any manufacturing processes in the course of business. Therefore, during the year ended 31 December 2018, the Group and its office did not generate significant emissions, water pollutants and hazardous wastes during the operation, except for GHG emissions and non-hazardous waste.

Global warming and climate change have become major environmental issues to the world. The Group aims to minimize energy consumption and carbon emissions and has been exploring ways of adopting operational model which incurs less adverse impact on the environment. From the reporting of environmental perspective, we mainly focused on the environmental impact of the Group's offices in China and relevant measures to be taken during the daily operation and have formulated policies and procedures relating to the environmental management to govern limited greenhouse gas emissions and non-hazardous waste generated from our operation.

Waste Management

The Group adheres to waste management principle and strives to properly manage and dispose wastes produced by our business activities. Our waste management practice has been complied with relevant laws and regulations relating to environmental protection. The non-hazardous wastes generated by the Group's operations mainly consist of paper and toner cartridges. During the year ended 31 December 2018, the consumption volume generated by the Group is shown as below:

Non-hazardous waste category	Quantity	Unit
Paper	0.2	Tonnes
Toner cartridge	9.0	Pieces

We regularly monitor the consumption volume of paper, toner cartridges and ink cartridges and have implemented a number of reduction measures. The Group's office has also provided suitable facilities and encouraged our staff to sort and recycle the wastes to achieve the objectives in mitigating wastes, reusing and recycling in its operations. The Group maintains high standard in waste reduction, educates its employees the significance of sustainable development and provides relevant support in order to enhance their skills and knowledge in sustainable development.

Apart from recycling, the office has implemented various programs and activities to encourage employees to participate in waste reduction management, including:

- Promote green information and electronic communication, such as e-mail and electronic workflows, to implement "paperless system" concept;
- Place "Green Message" reminders on office equipment;
- Utilise used envelopes and double-side printing. Paper for single-side printing would be only adopted when handling official documents and confidential documents when necessary; and
- Recommend the use of recycled paper.

The Group does not produce any hazardous wastes in its business activities.

GHG Emission

The consumption of electricity at the offices and petrol are the largest sources of greenhouse gas emissions of the Group. During the year ended 31 December 2018, the Group's total GHG emissions amounted to approximately 15.2 tonnes. The detailed summary of the GHG emission is shown as below:

GHG Performance Summary

GHG Scope[1]	**Tonnes**
Direct GHG emission (Scope 1) – petrol consumption	6.8
Indirect GHG emission (Scope 2) – electricity consumption	7.4
Other indirect GHG emission (Scope 3) – paper and water consumption	1.0
Total GHG emission	15.2

[1] GHG emissions data is presented in carbon dioxide equivalent and was in reference to, including but not limited to, the reporting requirements of the "GHG Protocol Corporate Accounting and Reporting Standard" issued by the World Resources Institute and the World Business Council for Sustainable Development, the "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes)" and the latest published Baseline Emission Factors for Regional Power Grids in China.

The Group has implemented a number of measures to mitigate energy consumption such as turning off the air conditioning system at night or when leaving office, keeping the office temperature at 25°C in summer and using LED lights or energy-saving light in the office, etc.

At the project level, the Group considers the principle of environmental protection when launching each of its projects. For example, in the course of selecting suppliers, we assess whether the materials used by the suppliers in the activities are hazardous to the environment and whether they can effectively conserve energy and minimize carbon emissions. In addition to the above-mentioned measures, the Group issues environmental-related memorandum to its staff to raise their awareness of environmental preservation. Notices and posters relating to the environmental information have been placed in the offices to promote the best practice of the environmental management.

The Group has complied with relevant environmental laws and regulations, including but not limited to Environmental Protection Law of the People's Republic of China, Water Pollution Prevention and Control Law of the People's Republic of China, Law of the People's Republic of China on Prevention and Control of Air Pollution and Environmental Protection Law of Solid Waste Pollution of the People's Republic of China. During the year ended 31 December 2018, the Group was not aware of any material noncompliance with laws and regulations relating to the air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste that would have a significant impact on the Group.

On top of complying with the general disclosure requirement of Aspect A1, we have complied with the KPI requirement which is summarised below:

"Comply or explain" Provisions		
KPI A1.1	The types of emissions and respective emissions data.	Disclosed
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity.	Disclosed
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity.	Not applicable
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity.	Disclosed
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Disclosed
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Disclosed

A2. Use of Resources

General Disclosure and KPI

Energy Consumption
Due to the business nature of the Group, the volume of energy consumption, electricity consumption and water consumption are considered as relatively low, in particular water consumption is very minimal. As mentioned in the Aspect A1 section, the Group has formulated policies and procedures relating to the environmental management, including energy management. Electricity consumption and petrol consumption account for a substantial part of the carbon emission for the Group.

During the year ended 31 December 2018, the Group's consumption in petrol and electricity were:

Energy Type	Quantity	Unit
Petrol	2,534	litre
Electricity	9,261	kWh

On top of the measures of mitigating the energy consumption mentioned in previous section, the Group strives to utilize telephone or video conference to minimize face-to-face meeting in order to reduce petrol consumption in traveling and unnecessary business trips. The Group encourages resources saving in daily office operation and proactively fosters a low-carbon corporate culture, which further increases our employees' awareness in energy conservation.

Water Consumption and Use of Packaging Materials
As the water consumed by the Group is managed by the property management office of the office building where the Group is located, there is no relevant date on water consumption. The water consumed by the Group in its business activities are of insignificant amount. Regardless of limited water consumption, we still promote behavioral changes at office and encourage water conservation. Pantry and toilets are posted with environmental messages to remind employees for water conservation, which results in further enhancing our employees' awareness in water conservation.

In addition, due to the nature of business, the Group did not have physical products for sale and therefore did not involve any use of packaging materials. Therefore, this disclosure is not applicable to the Group.

On top of complying with the general disclosure requirement of Aspect A2, we have complied with the KPI requirement which is summarised below:

"Comply or explain" Provisions		
KPI A2.1	Direct and/or indirect energy consumption by type and intensity.	Disclosed
KPI A2.2	Water consumption in total and intensity.	Disclosed
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Disclosed
KPI A2.4	Description on whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Issue in sourcing water – not applicable due to its business nature; Remaining – disclosed
KPI A2.5	Total packaging material used for finished products.	Not applicable

A3. Environment and Natural Resources

General Disclosure and KPI

Environmental Impact Management

The Group pursues the best practices in the environment protection and focuses on the impact of the Group's businesses to the environment and natural resources. In addition to complying with relevant environmental laws and regulations as well as properly preserve the natural environment, the Group has integrated the concept of environmental protection into its internal management and daily operations, with the aim of achieving environmental sustainability.

The Group strives to promote environmental protection and make effective use of resources. It carries out continuous monitoring if the business operations incur any potential impact to the environment, and minimises such impact to the environment through promoting green office and operating environment by adopting four basic principles which comprise of reduce, reuse, recycle and replacement. Where applicable, we adopt green purchasing strategies and the most practical technologies to protect our natural resources.

Noise Pollution

Noise pollution practices are implemented during our design and distribution of integrated circuits and semi-conductor parts, in order to minimise the noise pollution. Programs are produced in the studios with good soundproof facilities.

Landscape and Natural Habitat

The Group strives to minimise any unnecessary interference to the natural landscape and animal habitat in the process of design and distribution of integrated circuits and semi-conductor parts, in order to maintain the natural beauty of the environment.

The Group regularly reviews its environmental protection policies and has adopted the necessary precautionary measures and actions to reduce significant impact on the environment and natural resources, and ensure that the Group complies with relevant laws and regulations.

During the year ended 31 December 2018, the Group has not found any non-compliance with laws and regulations in respect of the environment and natural resources.

On top of complying with the general disclosure requirement of Aspect A3, we have complied with the KPI requirement which is summarized below:

"Comply or explain" Provisions		
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Disclosed

B. SOCIAL

B1. Employment

General disclosure

Employee Benefits and Equal Opportunities Policies

Employees are regarded as the Group's largest and most valuable assets and the core of competitive advantage. They provide the driving force for continuous innovation to the Group.

During the year ended 31 December 2018, the Group has fully complied with relevant rules and regulations in the PRC, including the Company Law of the People's Republic of China, the Contract Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China and the Regulations on Labor Inspection and Security, as well as the statutory requirements in Hong Kong, including the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong), the Minimum Wages Ordinance, the Personal Data Privacy Ordinance and other relevant rules and regulations.

The Group is committed to maintaining a diverse workforce that includes age, gender, family status, sexual orientation, disability, ethnicity, religion and equal opportunities.

The Group's staff handbook contains polices in regards to recruitment, promotion, discipline, working hours and leave. The human resources department has been responsible for ensuring all employees have fully understood the contents of the handbook.

The management regularly reviews the Group's remuneration and benefits policies in reference to the market standards and is committed to safeguarding the rights and interests of the staff. Remuneration and benefits have been adjusted on an annual basis in accordance with the employees' individual performance, contribution and market conditions.

During the year ended 31 December 2018, the Group was not aware of any material non-compliance with laws and regulations relating to employment and labour practices.

B2. Health and Safety

General disclosure

Occupational Health and Safety
The Group has always placed emphasis on occupational safety and has set up an occupational health and safety management system to provide a safe working environment for office employees.

During the year ended 31 December 2018, the Group has complied with relevant rules and regulations in the PRC, including the Law of the People's Republic of China on Work Safety and Occupational Disease Prevention and Control Law of the People's Republic of China, as well as the legislative requirements in Hong Kong, including the Occupational Safety and Health Ordinance.

During the year ended 31 December 2018, the Group was not aware of any non-compliance with the health and safety laws and regulations.

B3. Development and Training

General disclosure

Staff Development and Training
Employees are regarded as the Group's largest and most valuable assets and an essential part of maintaining a competitive advantage. The Group provides its staff with training courses for upgrading skills and development as needed.

The Group encourages and supports employees to participate in personal and professional training to fulfill the needs of emerging technologies and new equipment. The Group also encourages the culture of sharing of knowledge and experience.

The Group has made good use of its internal resources to organise various forms of training for its office in China, including management, customer service and financial knowledge with the assistance of the Hong Kong Office of General Services.

B4. Labour Standards

General disclosure

Prevention of Child Labor or Forced Labor

The Group strictly prohibits employing any child labor or forced labor in its operations in Hong Kong and the PRC. The Group has established a well-defined recruitment process which examines the background of candidates and a formal reporting procedure for handling any exception. During the recruitment process, the age of the applicant is verified against the identity documents of the applicant. In addition, the Group conducts regular reviews and inspections to prevent any child labor or forced labor in operation.

In the meantime, the Group also avoids engaging vendors and contractors which are already known to be employing child labor or forced labor in their operations. The Group has complied with the Employment of Children Regulations (Chapter 57B of the Laws of Hong Kong) under the Employment Ordinance (Chapter 57 of the Laws of Hong Kong), the Convention on the Abolition of Forced Labor with respect to Employment of Workers, the Labor Law of the People's Republic of China on the Employment of Adolescents under the Age of 16 and their Legal Rights and Interests and Provisions on the Prohibition of Child Labor in the People's Republic of China.

During the year ended 31 December 2018, the Group complied with all the laws and regulations relating to the prevention of child labor or forced labor. The Group was not aware of any material non-compliance with laws and regulations relating to employment and labour practices.

B5. Supply Chain Management

General disclosure

Environmental and Social Risk Management of Supply Chain

The Group has established and implemented the Supplier Management Policy. In order to strengthen the selection of suppliers, the Group welcomes qualified, competent and high-quality suppliers to join. The Group's procurement department has specially formulated this policy in order to standardise the supplier management and improve the operational standard.

The Group's procurement department is also responsible for organising the supplier evaluation work in two ways which include the ongoing project evaluation and the annual assessment. The evaluation results will serve as the basis of supplier management. Suppliers need to react quickly to the assessment result, taking effective measures to improve the services provided within prescribed period. The Group has the rights to terminate the cooperation with service providers who violate the rules or do not meet the targets.

In the selection of new suppliers, the Group has compared at least three different companies, taking account of their operational and compliance records as well as their commitment level on top of cost consideration. Prior to conducting business with suppliers, we carry out annual reviews and evaluations in various aspects including occupational health and safety, employee rights protection, environmental protection and corporate social responsibility. This ensures that our operations comply with national standards or relevant regulations and that we have no child or forced labor issues. The assessment results will be used as a benchmark for the continuation or termination of cooperation in the future.

The Group maintains close liaison with its suppliers to monitor its performance to ensure that it is consistent with its service commitment.

B6. Product Responsibility

General disclosure

Quality and Safety of Products and Services
The Group pays high attention to the quality and safety of its services. The Group has established relevant quality and safety inspection policies for different projects, communicates with our customers and confirms their project expectation and direction prior launching any project, and actively coordinates projects with customers in the process of providing services.

Intellectual Property Management
The Group's day-to-day operations involve the use of the intellectual property owned by customers, suppliers or the Group itself. Therefore, the protection of intellectual property rights is an extremely important task for the Group. When the Group engages with its customers or suppliers, it will include the protection of intellectual property in the contractual terms. The Group's legal department will also review all the contracts in operation and ensure that the contractual terms protect both parties' intellectual property rights. The Group also requires technical professionals to sign strict confidentiality agreements. Confidential information of our customers is only accessible to employees who are responsible for the corresponding project.

During the year ended 31 December 2018, the Group complies with relevant laws governing the confidentiality of data and intellectual property, including but not limited to Hong Kong Intellectual Property Law, Patent Law of the People's Republic of China, Trademark Law of the People's Republic of China and Copyright Law of the People's Republic of China.

During the year ended 31 December 2018, the Group was not aware of any non-compliance with relevant laws and regulations related to product responsibility.

B7. Anti-Corruption

General disclosure

Prevention of Corruption and Fraud

Preventive Measures, Enforcement and Monitoring

The Group has implemented the Prevention of Commercial Bribery Management Policy, strengthening its internal control mechanism, anti-corruption and anti-bribery work so as to achieve the business philosophy of "abiding by the law, integrity and quality service". For projects with higher monetary value, the Group makes an open bidding invitation to at least three suppliers. Different level of approval and authorisation is required according to the size of the tender agreement.

Reporting Mechanism

The mechanism includes the establishment of an inspection team and the establishment of a channel for evaluation and reporting. It is strictly forbidden to use the business opportunities or powers to obtain personal interests or benefits. If there is a conflict of interest, it needs to be reported to the management of the Group on a timely basis. The Group also encourages employees and all persons with whom the Group does business, including customers and suppliers, to report the suspected wrongdoing within the Group voluntarily.

The Group has complied with major relevant laws and regulations including Hong Kong's "Prevention of Bribery Ordinance" and the Mainland's "Corruption Ordinance of the People's Republic of China".

The Group has also taken many measures to prevent any money laundering activities in the Group. At the time of account opening in its securities brokerage business, the Group will perform a name search in an anti-money laundering database system maintained and provided by a third-party vendor, in order to screen each new client against current terrorist and sanction designations, and check whether the client is a Politically Exposed Person (PEP). New account applications lodged by terrorists or sanctioned entities would be rejected. Regular name checks of existing clients against the latest terrorist and sanction list issued by US Treasury Department, as recommended by the regulators, are also conducted. The Group performs regular reviews on transactions by high-risk clients, in order to identify suspicious transactions. In the event any suspicious transactions are noted, we will report them to the Joint Financial Intelligence Unit in due course.

During the year ended 31 December 2018, the Group was not aware of any non-compliance with relevant laws and regulations related to anti-corruption.

B8. Community Investment

General disclosure

Contributions to Society

As a responsible company, the Group actively strives to become a positive force in the community and maintains close communication and interaction with the community to contribute to community development.

The Group enhances the quality of life of community through arts, culture and entertainment using on demand systems and activities. Following the development of culture, the community can gain a deeper understanding of history and culture and cultivate higher appreciation of the present and future cultural activities and to a greater level of enjoyment.

The Group will also actively encourage employees to contribute their time and skills to community volunteer works to benefit local communities by giving them opportunities to learn more about social and environmental issues and enhance the corporate value of the Group.

As a moral and responsible enterprise, the Group will consider from time to time to make donations to charities when the Group records after-tax profits and has sufficient funds.

The Board of Directors of the Company submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS AND BUSINESS REVIEW

The principal activity of the Company is investments holding. The activities of its subsidiaries are set out in note 1 to the Consolidated Financial Statements of this Annual Report.

An analysis of the Group's performance for the year by operating segments is set out in note 5 to the Consolidated Financial Statements of this Annual Report.

Further discussion and analysis of business review as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the "Five-Year Financial Summary", "Letter from the Board" and "Management Discussion and Analysis" set out on page 7, page 8 and pages 9 to 17 respectively of this Annual Report. Additionally, the financial risk management objectives and policies of the Group can be found in Note 34 to the Consolidated Financial Statements of this Annual Report. Discussions on the Group's environmental policies, relationships with its key stakeholders, and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the Environmental, Social and Governance Report on pages 18 to 30 of this Annual Report. The above discussion forms part of the Report of the Directors.

COMPLIANCE WITH THE LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements and the risks of non-compliance with the applicable laws and regulations. During the year under review, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. There was no material breach or non-compliance with the applicable laws and regulations by the Group during the year under review.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2018 are set out in the Consolidated Statement of Profit or Loss and the Consolidated Statement of Comprehensive Income on pages 64 and 65 respectively of this Annual Report.

The Board does not recommend the payment of dividend for the year ended 31 December 2018.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 67 and note 29 to the Consolidated Financial Statements of this Annual Report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 14 to the Consolidated Financial Statements of this Annual Report.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 28 to the Consolidated Financial Statements of this Annual Report.

CHARITABLE DONATIONS

The Group made HK$10,000 charitable donations during the year.

DISTRIBUTABLE RESERVES

As at 31 December 2018, no reserves are available for distribution to shareholders by the Company as calculated in accordance with the Companies Act 1981 of Bermuda.

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

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

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws ("**Bye-laws**") or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 7 of this Annual Report.

TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders by reason of their holding of the Company's listed securities.

EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2018, the Group has not entered into any equity-linked agreement.

DIRECTORS

The Directors who held office during the year and up to the date of this Annual Report are as follows:

Executive Directors:

Mr. Yang Lin[7]
Mr. Wei Xiao[6]
Mr. Leung Pok Man
Ms. Lau Mei Ying
Mr. Liew Fui Kiang[8]

Non-executive Director:

Mr. Zhou Danqing[3]

Independent non-executive Directors:

Mr. Lee Man To[1]
Ms. Choi Yee Man[1]
Dr. Zhang Shengdong[9]
Ms. Zhuge Chang[4]
Ms. Chow Chui Ying[2]
Dr. Yang Yung-Ming[5]

1 *appointed on 15 April 2018*
2 *resigned on 15 April 2018*
3 *re-designated on 15 April 2018*
4 *appointed on 15 June 2018 and resigned on 4 March 2019*
5 *resigned on 15 June 2018*
6 *appointed on 31 December 2018*
7 *appointed on 15 January 2019*
8 *resigned on 15 January 2019*
9 *appointed on 4 March 2019*

In accordance with Bye-Law 99 and 102, Mr. Yang Lin, Mr. Wei Xiao, Ms. Lau Mei Ying, Mr. Zhou Danqing and Dr. Zhang Shengdong shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

CHANGE OF DIRECTORS

(i) Mr. Zhou Danqing has been re-designated as non-executive Director with effect from 15 April 2018;

(ii) Each of Mr. Lee Man To and Ms. Choi Yee Man has been appointed as independent non-executive Director with effect from 15 April 2018;

(iii) Each of Ms. Chow Chui Ying and Dr. Yang Yung-Ming has resigned as independent non-executive Director with effect from 15 April 2018 and 15 June 2018 respectively;

(iv) Ms. Zhuge Chang has been appointed as independent non-executive Director with effect from 15 June 2018 and resigned as independent non-executive Director with effect from 4 March 2019;

(v) Mr. Wei Xiao has been appointed as executive Director and chief executive officer of the Company with effect from 31 December 2018;

(vi) Mr. Liew Fui Kiang has resigned as executive Director and the chairman of the Board, Mr. Yang Lin has been appointed as executive Director and the chairman of the Board with effect from 15 January 2019; and

(vii) Dr. Zhang Shengdong has been appointed as independent non-executive Director with effect from 4 March 2019.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

Biographical details of the Directors and senior management of the Company are set out on pages 4 to 6 of this Annual Report.

ANNUAL CONFIRMATION OF INDEPENDENCE

The Company has received, from each independent non-executive Director, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

None of the Director or an entity connected with any of them is or was materially interested, either directly or indirectly, in any transactions, arrangements and contract of significance subsisting during or at the year ended 31 December 2018.

DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Details of the emoluments of the Directors and senior management of the Company are set out in note 9 to the Consolidated Financial Statements of this Annual Report.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors of the Company is currently in force and was in force throughout the financial year. The Company has taken out and maintained Directors and officers liability insurance which provides appropriate cover for, among others, the Directors of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its associated corporations a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors or their spouses or children under 18 years of age was granted any right to subscribe for any shares in, or debentures of, the Company or any of its associated corporations.

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

As at 31 December 2018, the interest and short positions in the shares and underlying shares of the Company (within the meaning of Part XV of the SFO) of the substantial shareholders (other than the Directors and chief executives of the Company) as recorded in the register required to be kept under Section 336 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange, were as set out below:

		Number of ordinary shares/Percentage of total issued shares as at 31 December 2018 (Note 1)						
Name of shareholders	**Capacity**	**Long positions**	**%**	**Short positions**	**%**	**Lending pool**	**%**	**Note**
Glory Genius International Holdings Limited	Beneficial owner	146,392,770	43.49%	–	–	–	–	(2)
Mr. Tong Liang	Interest of controlled corporation	146,392,770	43.49%	–	–	–	–	(2)
Vision2000 Venture Ltd.	Beneficial owner	106,043,142	31.51%	–	–	–	–	(3)
Mosel Vitelic Inc.	Interest of controlled corporation	106,043,142	31.51%	–	–	–	–	(3)

Notes:

(1) Based on 336,587,142 ordinary shares of the Company in issue as at 31 December 2018.

(2) Glory Genius International Holdings Limited is owned as to 95% by Mr. Tong Liang and 5% by Ms. Chu Yung-Yi, Mr. Tong Liang and Ms. Chu Yung-Yi are therefore deemed to be interested in the shares held by Glory Genius International Holdings Limited.

(3) The 106,043,142 shares relate to the same batch of shares of the Company. According to the form of disclosure of interests submitted by Mosel Vitelic Inc. on 27 June 1997, Vision2000 Venture Ltd. is the controlled corporation of Mosel Vitelic Inc. and accordingly, Mosel Vitelic Inc. is deemed to be interested in the 106,043,142 shares of the Company held by Vision2000 Venture Ltd.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 31 December 2018, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise 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.

Save for those disclosed above, as at 31 December 2018, no other persons had 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, or as otherwise notified to the Company and the Stock Exchange.

FINANCIAL ASSISTANCE AND GUARANTEES TO AFFILIATED COMPANIES

There is no advance, which is of non-trading nature, to any of the affiliated companies as at 31 December 2018 as defined under Chapter 13 of the Listing Rules.

MANAGEMENT CONTRACTS

No contracts, other than a contract of service with any Director or any person engaged in the full-time employment of the Company, concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year ended 31 December 2018 attributable to the Group's major suppliers and customers are as follows:

	Percentage of the total purchases/sales accounted for
Purchases	
– the largest supplier	15%
– five largest suppliers combined	54%
Sales	
– the largest customer	39%
– five largest customers combined	86%

None of the Directors, or any of their close associates, or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in any of the major customers and suppliers noted above.

CONTRACTS OF SIGNIFICANCE AND RELATED PARTY TRANSACTIONS

No contract of significance had been entered between the Company or any of its subsidiaries, and the controlling shareholders of the Company (as defined in the Listing Rules) or any of its subsidiaries. No contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholders of the Company (as defined in the Listing Rules) or any of its subsidiaries.

Details of the related party transactions undertaken in the usual course of business are set out in note 32 to the Consolidated Financial Statements of this Annual Report. None of these related party transactions constitutes "connected transactions" or "continuing connected transactions" as defined under Chapter 14A of the Listing Rules and therefore there is no disclosure requirements in accordance with Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE PRACTICES

The Board confirms that the Company has adopted and complied with all code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Listing Rules during the year ended 31 December 2018 except for the deviation from Code Provisions A.4.1 and A.6.7. Details of such deviations are disclosed in the Corporate Governance Report on page 41 in this Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Board has adopted the Model Code as set out in Appendix 10 to the Listing Rules to regulate the Directors' securities transactions. The Company had made specific enquiry of all Directors regarding any non-compliance with the Model Code for the period under review, and they all have confirmed their respective full compliance with the required standard set out in the Model Code during the year ended 31 December 2018.

EMOLUMENT POLICY OF THE GROUP

The emolument policy of the employees of the Group is reviewed regularly by the Board. Remuneration packages are structured to take into account the merit, qualifications and competence of individual employees as well as the general market conditions.

The emoluments of Directors are recommended by the remuneration committee and determined by taking into consideration of their duties and responsibilities with the Company, the market rate and their time, effort and expertise to be input into the Group's affairs and the Company's performance.

SUFFICIENCY OF PUBLIC FLOAT

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

COMPETING BUSINESS

None of the Directors is interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

DISCLOSURE OF CHANGE IN INFORMATION OF DIRECTORS AND CHIEF EXECUTIVES

Save as disclosed in the section headed "Directors and Senior Management Biographies" and "Change of Directors of Report of The Directors", there was no change in information of the Directors and chief executives of the Company since the date of the Annual Report of the Company which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Save as disclosed above and in the section headed "Directors and Senior Management Biographies", there was no change in information of the Directors and chief executives of the Company up to the date of this Annual Report of the Company which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

AUDIT COMMITTEE

The audit committee of the Company comprises solely independent non-executive Directors, namely Mr. Lee Man To (Chairman), Ms. Choi Yee Man and Dr. Zhang Shengdong. The Group's annual results for the year ended 31 December 2018 have been reviewed by the audit committee of the Company.

AUDITOR

Zenith CPA Limited was appointed as the auditors of the Company to fill the casual vacancy following the resignation of PricewaterhouseCoopers Certified Public Accountants with effect from 21 November 2017.

The audited financial statement of the Group for the year ended 31 December 2018 have been audited by Zenith CPA Limited, who retires and a resolution for its reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board
PacRay International Holdings Limited

Yang Lin
Chairman and Executive Director

Hong Kong, 22 March 2019

PacRay International Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") recognizes the value and importance to achieving high corporate governance standards to enhance corporate performance and accountability.

The Board of Directors of the Company is committed to maintain sound corporate governance standard and procedures to ensure integrity, transparency and quality of disclosure in order to enhance the shareholders' value.

CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2018, the Company has complied with the principles as set out in the Corporate Governance Code ("**CG Code**") contained in Appendix 14 to the Listing Rules and complied with the code provisions contained therein except for the following deviation:

(1) Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election. The non-executive Director and the independent non-executive Directors were not appointed for specific terms. They are subject to retirement by rotation at least once every three years and re-election at the Company's annual general meeting in accordance with the Bye-laws. At every annual general meeting of the Company, one-third of the Directors for the time being or, if their number is not three or a multiple of three, then the nearest but no less than one-third shall retire from office by rotation. Every Director should be subject to retirement by rotation at least once every three years.

(2) Code provision A.6.7 stipulates that independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders. Two independent non-executive Directors were unable to attend the SGM held on 12 March 2018 due to their business commitment and other engagements. Besides, one non-executive Director and one independent non-executive Director were unable to attend the annual general meeting of the Company held on 15 June 2018 due to their business commitment and other engagements.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting the required standard set out in the model code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules (the "**Model Code**"). The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code for the year ended 31 December 2018, all Directors confirmed their respective full compliance with the required standard as set out in the Model Code during the year ended 31 December 2018.

THE BOARD

During the year and up to the date of this Annual Report, the Board comprises 8 Directors, of which 4 executive Directors, 1 non-executive Director and 3 independent non-executive Directors. The number of independent non-executive Directors has met the minimum requirement of the Listing Rules and represented more than one-third of the total Board members. Further, one of the independent non-executive Directors possesses appropriate professional accounting qualifications and/or financial management expertise. As of the date of this Annual Report, the members of the Board are as follows:

Executive Directors

Mr. Yang Lin *(Chairman)*
Mr. Wei Xiao *(Chief Executive Officer)*
Mr. Leung Pok Man
Ms. Lau Mei Ying

Non Executive Director

Mr. Zhou Danqing

Independent Non-executive Directors

Mr. Lee Man To
Ms. Choi Yee Man
Dr. Zhang Shengdong

The biographical details of the Directors are contained in the section headed "Directors and Senior Management Biographies".

There is no fixed term or proposed length of service for each of the Directors (including the non-executive Director and independent non-executive Directors) except that the appointment is subject to the requirements under the Listing Rules, the Bye-laws and any other applicable laws and regulations, and the appointment can be terminated by either party by giving the other party one months' written notice in advance.

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

When the Board considers any material proposal or transaction in which a Director has a conflict of interest, the Director who has interests declares his/her interest and is required to abstain from voting and is not counted in the quorum.

Other than the regulatory and statutory responsibilities of the Board, the key functions of the Board are to formulate strategy and to monitor and control operating and financial performance in pursuit of the Group's strategic objective. The Board, led by the Chairman, retains full responsibility for setting objective and business development plans. All Directors (including executive and non-executive) have been consulted on major and material matters of the Company and have made active contribution to the affairs of the Board. The Board is committed to make decisions in the best interest of the Group. The main responsibilities of the management of the Company is to manage, operate and co-ordinate the business of the Company, execute the strategies formulated by the Board and make decisions in respect of daily matters.

There is no relationship (including financial, business, family or other material/relevant relationship(s)) between Board members and in particular, between the Chairman and the Chief Executive Officer.

During the year, four regular Board meetings were convened by the Company.

The attendance of the Directors at the Board meetings and general meetings of the Company during the year 2018 is summarised below.

	Number of Board meetings attended/held	**Number of General meetings attended/held**
Executive Directors		
— Mr. Wei Xiao *(Chief Executive Officer)* *(Note 6)*	N/A	N/A
— Mr. Leung Pok Man	11/11	1/2
— Ms. Lau Mei Ying	11/11	2/2
— Mr. Liew Fui Kiang *(Note 7)*	8/11	2/2
Non-executive Director		
— Mr. Zhou Danqing *(Notes 3)*	11/11	0/2
Independent Non-executive Directors		
— Mr. Lee Man To *(Note 1)*	8/11	1/2
— Ms. Choi Yee Man *(Note 1)*	7/11	1/2
— Ms. Zhuge Chang *(Note 4)*	6/11	0/2
— Ms. Chow Chui Ying *(Note 2)*	3/11	1/2
— Dr. Yang Yung-Ming *(Note 5)*	1/11	0/2

Notes:

1 *appointed on 15 April 2018*
2 *resigned on 15 April 2018*
3 *re-designated on 15 April 2018*
4 *appointed on 15 June 2018*
5 *resigned on 15 June 2018*
6 *appointed on 31 December 2018*
7 *resigned on 15 January 2019*

Apart from regular Board meetings, the Chairman also held meetings with the independent non-executive Directors without presence of executive Directors during the year.

Notice of at least 14 days of a regular Board meeting is to given all Directors who are given an opportunity to attend. For all other Board meetings, reasonable notice has been given.

The agenda accompanying Board papers are sent to all Directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the Directors to review the documents. All businesses transacted at the Board meetings were well-documented. Draft and final versions of Board minutes are circulated to all Directors for their comments and records respectively.

Between Board meetings, the management provides to Directors from time to time updates and other information on the Group's business, operations and financial matters.

Directors are entitled to have access to Board papers and related materials and access to the advice and services of company secretary of the Company. Directors have the liberty to seek independent professional advice, if so required, at the Company's expenses as arranged by company secretary of the Company and they are at liberty to propose appropriate matters for inclusion in Board agendas.

For ensuring that Board procedures are followed and activities of the Board are efficient and effective, company secretary of the Company assists the Chairman to prepare agendas for regular board meetings and ensure the Board papers are disseminated to the Directors and Board Committees in a timely and comprehensive manner.

For the Group's compliance with the continuing obligations of the Listing Rules, The Codes on Takeovers and Mergers and Share Buy-backs, the SFO and the Companies Ordinance etc., including publication and dissemination of reports and financial statements and interim reports within the periods laid down in the Listing Rules, timely dissemination of announcements and information relating to the Group to the market and ensuring that proper notification is made of Director's dealings in securities of the Group, the Board engages the professional parties' input from time to time.

Directors are aware of their obligations for disclosure of interests in securities, connected transactions and inside information and ensure that the standards and disclosures required by the Listing Rules and the SFO are observed.

The Company has maintained liability insurance for Directors and senior management officers with appropriate coverage for certain legal liabilities which may arise in the course of performing their duties.

DIRECTORS' TRAINING

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company would provide each newly appointed director a comprehensive induction package covering the summary of the responsibilities and liabilities of a director of a Hong Kong listed company, the Group's business and the Company's constitutional documents and guides on directors' duties to ensure that he/she is sufficiently aware of his/her responsibilities and obligations under the Listing Rules and other applicable regulatory requirements.

From time to time, relevant reading materials are provided to Directors with regard to regulatory and governance developments as well as organizes in-house training programme to refresh their knowledge and skills on the roles, functions and duties of a director of a listed company. The Company has devised a training record to assist the Directors to record the training they have undertaken.

During the year, the Directors participated in the following trainings to develop and refresh their knowledge and skills:

	Types of training
Executive Directors	
Mr. Wei Xiao *(Chief Executive Officer)* *(Note 6)*	A, B
Mr. Leung Pok Man	A, B
Ms. Lau Mei Ying	B
Non-executive Director	
Mr. Zhou Danqing *(Note 3)*	B
Independent Non-executive Directors	
Mr. Lee Man To *(Note 1)*	A
Ms. Choi Yee Man *(Note 1)*	A, B
Ms. Zhuge Chang *(Note 4)*	B
Ms. Chow Chui Ying *(Note 2)*	B
Dr. Yang Yung-Ming *(Note 5)*	B

Notes:

1 *appointed on 15 April 2018*
2 *resigned on 15 April 2018*
3 *re-designated on 15 April 2018*
4 *appointed on 15 June 2018*
5 *resigned on 15 June 2018*
6 *appointed on 31 December 2018*

A: attending seminars and/or programmes and/or conferences
B: reading materials relating to the economy, general business or regulatory updates etc.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge that they are primarily responsible for the preparation of the financial statements for the year ended 31 December 2018 which give a true and fair view and that appropriate accounting policies are selected and applied consistently.

To the best knowledge of the Directors, there is no uncertainty relating to events or conditions that may cast significant count upon the Company's ability to continue as a going concern.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year, the Chairman and the Chief Executive Officer are Mr. Liew Fui Kiang and Ms. Chu Yung-Yi respectively. The Chairman bears primary responsibility for the work of the Board, by ensuring its effective function, while the Chief Executive Officer bears executive responsibility for the Company's business and the management of the day-to-day operations of the Company.

BOARD COMMITTEES

The Board has established three Board Committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, to assist the Board in discharging its duties and to oversee particular aspects of the Group's affairs. All the Board Committees have clear written terms of reference and have to report on their decisions and recommendation to the Board. These written terms of reference are available for access at the principal place of business of the Company in Hong Kong and each of the committee members was furnished with a copy of the respective terms of reference.

The written terms of reference of the Board Committees are also available on the websites of the Company (http://pacray.com.hk) and the Stock Exchange.

All business dealt with by the Board Committees were well-documented. Draft and final versions of the Board Committees minutes are sent to all the respective Board Committees members for comments and records within reasonable time.

1. Audit Committee

The Audit Committee comprises solely independent non-executive Directors. As at 31 December 2018, the Audit Committee consists of three independent non-executive Directors, namely, Mr. Lee Man To (Chairman), Ms. Choi Yee Man and Ms. Zhuge Chang.

The Audit Committee is responsible for the following:

— reviewing and supervising the Company's financial reporting process, risk management and internal control systems;

— reviewing the accounting principles and practices adopted by the Group and other financial reporting matters and ensure the completeness, accuracy and fairness of the financial statements;

— making recommendations as to the effectiveness of internal control and risk management;

— monitoring the compliance with statutory and listing requirements and to oversee the relationship with the external auditor; and

— reviewing arrangements to enable employees of the Company to raise concerns about improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee meets the external auditor and the senior management twice a year to discuss any areas of concern during the audits.

During the year, the Audit Committee has reviewed (i) the annual report of the Group for the year ended 31 December 2017, (ii) the interim report of the Group for the 6 months ended 30 June 2018, (iii) the external auditor's engagement letter with recommendation to the Board for approval, (iv) the determination and reporting of key audit matters, and (v) the effectiveness of the risk management and internal control systems and internal audit function.

During the year, three meetings were held with the management and/or the external auditor. Members of the Audit Committee and their respective attendance at committee meetings were held during their term of office are listed below:

	Number of Audit Committee Meetings attended/held
Committee members	
— Mr. Lee Man To *(Chairman)* *(Note 1)*	2/3
— Ms. Choi Yee Man *(Note 1)*	2/3
— Ms. Zhuge Chang *(Note 3)*	2/3
— Ms. Chow Chui Ying *(Note 2)*	1/3
— Mr. Zhou Danqing *(Note 2)*	1/3
— Dr. Yang Yung-Ming *(Note 4)*	N/A

Notes:

1 *appointed on 15 April 2018*
2 *resigned on 15 April 2018*
3 *appointed on 15 June 2018*
4 *resigned on 15 June 2018*

2. Remuneration Committee

The Remuneration Committee comprises solely independent non-executive Directors. As at 31 December 2018, the Remuneration Committee consists of three independent non-executive Directors, namely, Ms. Choi Yee Man (Chairman), Mr. Lee Man To and Ms. Zhuge Chang. Its primary responsibilities include recommending, reviewing and determining the remuneration policy and packages of directors and senior management. Directors do not participate in the determination of their own remuneration.

During the year, the Remuneration Committee has reviewed and recommended to the Board the Directors' remuneration. In making recommendations to the Board on the Directors' remuneration, the Remuneration Committee considered a number of factors including time commitment, responsibilities, qualification and the prevailing market rate. The remuneration of the Directors will be determined by the Board after obtaining authorization at its general meetings.

During the year, the Remuneration Committee held five meetings. Members of the Remuneration Committee and their respective attendance at the committee meeting during their term of office are listed below:

	Number of Remuneration Committee Meetings attended/held
Committee members	
— Ms. Choi Yee Man *(Chairman)* *(Note 1)*	2/5
— Mr. Lee Man To *(Note 1)*	3/5
— Ms. Zhuge Chang *(Note 3)*	2/5
— Mr. Zhou Danqing *(Note 2)*	2/5
— Ms. Chow Chui Ying *(Note 2)*	2/5

Notes:

1 *appointed on 15 April 2018*
2 *resigned on 15 April 2018*
3 *appointed on 15 June 2018*

3. Nomination Committee

The Nomination Committee comprises solely independent non-executive Directors. As at 31 December 2018, the Nomination Committee consists of three independent non-executive Directors, namely, Ms. Choi Yee Man (Chairman), Mr. Lee Man To and Ms. Zhuge Chang.

Its primary responsibilities are to assist the Board to review the structure of the Board and make recommendations to the Board on the appointment or re-appointment of directors to the Board. It also reviews the Company's adopted board diversity policy, as appropriate, to ensure its continued effectiveness and make recommendations to the Board for consideration and approval.

Board Diversity Policy

Pursuant to the CG Code, the Board adopted a board diversity policy (the "**Board Diversity Policy**") in November 2013. Such policy aims to set out the approach to achieve diversity for the Board.

The Company recognizes the benefits of a Board that possesses a balance of skills, experience, expertise and diversity of perspectives appropriate to the requirements of the businesses of the Company.

All Board appointments shall be based on merits and candidates shall be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates for Board members shall be based on a range of diversity perspectives including, but not limited to, gender, age, race, experience, cultural and educational background, skills and other qualities considered relevant and applicable. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board.

The Nomination Committee monitors the implementation of the Board Diversity Policy and reviews, as appropriate, from time to time. The Nomination Committee also ensure the continued effectiveness of the policy. The Nomination Committee shall discuss any revisions that may be required and recommend any such revisions to the Board for consideration and approval.

Nomination Policy

The Company adopted a nomination policy (the "**Nomination Policy**") in compliance with CG Code. The Nomination Committee and/or the Board shall consider the following criteria in evaluating and selecting candidates for directorships:–

- Character and integrity

- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy.

- Willingness to devote adequate time to discharges duties as a Board member and other directorships and significant commitments.

- Requirement for the Board to have independent directors in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) (the "**Listing Rules**") and whether the candidates would be considered independent with reference to the independence guidelines set out in the Listing Rules.

- Such other perspectives appropriate to the Company's business.

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

During the year, the Nomination Committee has reviewed the structure, size and composition of the Board and the independence of the independent non-executive Directors.

During the year, the Nomination Committee held five meetings with the management. Members of the Nomination Committee and their respective attendance at the committee meeting during their term of office are listed below:

	Number of Nomination Committee Meetings attended/held
Committee members	
— Ms. Choi Yee Man *(Chairman)* *(Note 1)*	3/5
— Mr. Lee Man To *(Note 1)*	4/5
— Ms. Zhuge Chang *(Note 3)*	3/5
— Mr. Zhou Danqing *(Note 2)*	2/5
— Ms. Chow Chui Ying *(Note 2)*	2/5

Notes:

1 *appointed on 15 April 2018*
2 *resigned on 15 April 2018*
3 *appointed on 15 June 2018*

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company. During the year, the Board has discharged the following corporate governance duties:

— To develop and review the Company's policies and practices on corporate governance and make recommendations on changes and updating;

— To review and monitor the training and continuous professional development of directors and senior management;

— To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

— To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors;

— To review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and

— To implement such other corporate governance duties and functions set out in the CG Code (as amended from time to time) for which the Board are responsible.

AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their reporting responsibility on the Company's consolidated financial statements for the year ended 31 December 2018 is set out in the section headed "Independent Auditor's Report" of this Annual Report.

As at 31 December 2018, auditor's remuneration for audit services and non-audit services were approximately HK$760,000 and HK$Nil respectively.

COMPANY SECRETARY

Ms. Wong Po Ling, Pauline has engaged and appointed by the Company from an external service provider as its Company Secretary since 31 August 2017. Its primary contact person at the Company is Ms. Hou Jie, the chief financial officer of the Company. Ms. Wong has complied with Rule 3.29 of the Listing Rules of taking no less than 15 hours of relevant professional training.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems and internal controls are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has established risk management manual to formulate the risk management process. The staff in all levels within the Group are also required to take the relevant responsibility on the risk management process. With reference to enterprise risk management — integrated framework issued by the Committee of Sponsoring Organisations of the Treadway Commission and the Company's enterprise risk management processes is summarised as follows:

1. Project initiation
2. Risk identification
3. Risk analysis
4. Risk treatment
5. Risk monitoring
6. Risk reporting

The risk management and internal control systems are reviewed at least annually to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security to ensure appropriateness and effectiveness.

The management, in coordination with division/department heads, assessed the likelihood of risk occurrence, provided treatment plans, and monitored the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2018.

The Heads of each core business segment monitor compliance with policies and procedures and the effectiveness of internal control systems in respect of their responsible business segments. The Company also engaged an independent external consulting firm to review and assess the effectiveness of the risk management and internal control systems of the Group during the year. The assessment covers all material controls including financial, operational and compliance controls, as well as risk management functions during the year. The Audit Committee has reviewed the assessment report with the management, and noted that no significant areas of improvement are brought to its attention. The Company also conducted a review on the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function for the year under review. Accordingly, the Board was satisfied that the prevailing risk management and internal control systems of the Group are effective and adequate.

The Audit Committee reviews and approves the annual internal audit plan and reviews the internal audit reports and activities. The Audit Committee is of the view that the Internal Auditor has adequate qualification and resources to perform its functions and have discharged its duties to the best of their abilities and is independent of the activities that it performs audit.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the effectiveness of risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2018, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources. Based on the above, the Board is of the view that the Company has established proper risk management and internal control systems which are effective and adequate.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to maintain a high level transparency in communicating with its shareholders.

The Company welcomes the attendance of shareholders at general meetings to express their views. All the Directors are encouraged to attend the general meetings to have personal communication with shareholders. The Chairman of the Board as well as the chairmen of the Board Committees or other members of the respective committees are normally available to answer questions at general meetings. External auditor is also invited to attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies adopted by the Company in relation to the preparation of the financial statements and independence of the auditor in relation to the conduct of the audit.

The Company is committed to maximizing the use of its website as a channel to provide updated information in a timely manner and strengthen the communication with shareholders.

Separate resolutions are proposed at the general meetings on each substantially separate issue, including the re-election of individual directors. The notice of general meeting is distributed to all shareholders and accompanying circular with details of each proposed resolution and other relevant information as required under the Listing Rules.

Resolutions put to vote at the general meetings (other than on procedural and administrative matters) are taken by poll. Procedures regarding the conduct of the poll are explained to the shareholders at the commencement of each general meeting. Poll results of the general meetings are published on the websites of the Company (http://pacray.com.hk) and the Stock Exchange after the meeting.

The Company held an annual general meeting on 15 June 2018 ("**2018 AGM**"). All resolutions proposed at the 2018 AGM were passed.

SHAREHOLDERS' ENQUIRIES

Shareholders of the Company may direct their enquiries about their shareholdings to the Company's branch share registrar through the online holding enquiry service at www.tricoris.com or by email to is-enquiries@hk.tricorglobal.com or hotline at (852) 2980 1333 or in person at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Shareholders may also send written enquiries in respect of corporate governance or other matters of the Company to the Board to the following:

Address:	Unit 902, Unicorn Trade Centre, 127-131 Des Voeux Road Central, Hong Kong For the attention of Chairman of the Board/Chief Executive Officer
Telephone:	(852) 2534 7888
Fax:	(852) 2851 3055

SHAREHOLDERS' RIGHTS

1. Convening a special general meeting by shareholders

The Directors shall, on the requisition of shareholders of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company which as at the date of the deposit carries the right of voting at general meetings of the Company, convene a special general meeting. The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the principal office of the Company at Unit 902,Unicorn Trade Centre, 127-131 Des Voeux Road Central, Hong Kong (the "**Principal Office**"), and may consist of several documents in like form each signed by one or more requisitionists.

If the Directors do not within twenty-one days from the date of the deposit of the written requisition proceed to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

The special general meeting convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by Directors.

2. Putting forward proposed resolution(s) to be considered at general meetings

Shareholders of the Company can submit a requisition in writing to the Company to requisite the Company (i) to give notice to the shareholders entitled to receive notice of the next annual general meeting in respect of any resolution which may properly be moved and is intended to be moved at an annual general meeting of the Company and/or (ii) to circulate a statement to shareholders entitled to have notice of any general meeting of the Company in respect of the matter referred to in any proposed resolution or business to be considered at any general meeting of the Company. These will be done at the expense of the requisitionist unless the Company resolves otherwise. The number of shareholders necessary for such requisition shall be (i) either any number of shareholders representing not less than one-twentieth of the total voting rights of all shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or (ii) not less than one hundred shareholders holding the shares.

In the case of a requisition to circulate a statement to shareholders, please note that the statement shall contain no more than one thousand words. All requisition must be signed by all of the requisitionist(s) and be deposited at the Principal Office not less than six weeks before the general meeting in case of a requisition requiring notice of a resolution; and not less than one week before the general meeting in case of any other requisition.

The requisitionist(s) must deposit or tender with the requisition a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and/or circulating the statement (as applicable) in giving effect to the requisition.

DIVIDEND POLICY

The Company adopted a policy on payment of dividends (the "**Dividend Policy**") in compliance with the CG Code, which establishes an appropriate procedure on declaring and recommending the dividend payment of the Company.

The Company may declare and pay dividends to the shareholders of the Company (the "**Shareholders**") by way of cash or by other means that the Board of the Company considers appropriate. It is the policy of the Board, in recommending dividends, to allow the Shareholders to participate in the Company's profits, and at the same time, to ensure the Company to retain adequate reserves for future growth.

Factors to be considered

The Company's decision to declare or to pay any dividends in the future, and the amount of such dividends will depend upon, among other things, the current and future operations, financial condition, liquidity position and capital requirements of the Group, as well as dividends received from the Company's subsidiaries and associates, which in turn will depend on the ability of those subsidiaries and associates to pay a dividend. In addition, any final dividends for a financial year will be subject to the approval of the Shareholders.

General Principle

The declaration and payment of dividends by the Company is also subject to any restrictions under the laws of Bermuda, the laws of Hong Kong, the Company's articles of association, Bye-laws and any applicable laws, rules and regulations.

Review of the Dividend Policy

Whilst this Dividend Policy reflects the Board's current views on the financial and cash-flow position of the Group, the Board will continue to review this Dividend Policy from time to time and the Board may exercise its sole and absolute discretion to update, amend and/or modify this Dividend Policy at any time as it deems fit and necessary. There is no assurance that dividends will be declared or paid in any particular amount for any given period. The Dividend Policy shall in no way constitute a legally binding commitment by the Company that any dividend will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

CONSTITUTIONAL DOCUMENTS

There was no change in the Company's constitutional documents during the year. An up-to-date version of the Company's memorandum of association and Bye-laws are available on the websites of the Company and the Stock Exchange.

ZENITH 誠豐
ASSURANCE | TRANSACTIONS | ADVISORY

To the shareholders of PacRay International Holdings Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of PacRay International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 64 to 142, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

To the shareholders of PacRay International Holdings Limited *(Continued)*
(Incorporated in Bermuda with limited liability)

Key Audit Matter	How our audit addressed the Key Audit Matter
Provision for inventories	
At 31 December 2018, the Group held inventories of HK$7,142,000, net of impairment provision of HK$3,668,000. Inventories are carried at the lower of cost and net realisable value ("NRV"). The cost of inventories is written down to NRV when there is an objective evidence that the cost of inventories may not be recoverable if those inventories are damaged, if they have become obsolete, or if their selling prices have declined. Management evaluates the NRV at each period end based on the estimated selling price less cost to sell, which requires significant judgements and assumptions to be made to determine the estimated selling price of individual products, including historical experience of selling products of similar nature and expectation of future sales based on current market conditions and available information. The estimations are also subject to uncertainty as a result of future changes of market trends, customer demands and technology development. Relevant disclosures are included in notes 4 and 20 to the consolidated financial statements.	Our audit procedures in relation to provision for inventories included: – Understanding and evaluating management's assessment on impairment provision for inventories; – Involving client's inventories counts to identify whether there is any damaged or obsolete inventories; – Performing testing on inventory ageing on a sample basis, on individual inventories items to ascertain the accuracy of classification of inventories by ages; – Comparing estimated selling price and sales quantity with the actual selling price and sales quantity subsequent to the year end or the latest sales data of each individual inventory, on a sample basis, to assess the reasonableness of the NRV used by management in the carrying value assessment; and – Evaluating management's estimation to understand any additional factors that were considered on the relevant inventories items which have long stock turnover period or no subsequent sales after year end. We independently evaluated the relevance of these factors and obtained evidence, such as sales plan, to assess the reasonableness of the NRV estimated.

To the shareholders of PacRay International Holdings Limited *(Continued)*
(Incorporated in Bermuda with limited liability)

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit losses ("ECL") for trade and finance lease receivables	
As at 31 December 2018, the Group had trade and finance lease receivables HK$23,107,000 and HK$5,775,000, respectively. As at 31 December 2018, a loss allowance for trade receivables of HK$2,465,000 and finance lease receivables of HK$2,644,000 were recorded by the Group. The Group has adopted HKFRS 9 on its mandatory effective date of 1 January 2018. The key changes arising from the adoption of HKFRS 9 are that the Group's loss allowance is now estimated based on an expected credit loss model rather than an incurred loss model. Management uses the simplified approach to calculate ECL for trade and finance receivables. Management has engaged an external valuer to determine the calculation of the ECL. We focused on this area because significant management judgements and estimates were involved in determining the ECL with reference to historical loss record and forward-looking information. Related disclosures are included in notes 4 and 19 and 21 to the consolidated financial statements.	Our audit procedures in relation to valuation of trade and finance lease receivables included: – Understanding of the Group's credit risk management and practices, and assessed the Group's policy on determining the loss allowance in accordance with the requirements of HKFRS 9, including an evaluation of management judgements on (i) the level of disaggregation of categories for collective assessment; and (ii) the use of available credit risk information, including historical and forward-looking information; – Obtaining and reviewing the provision matrix established by management which was based on the Group's historical credit loss experience and, with the aid of the external specialist, adjusted for forward-looking factors specific to the debtors and the economic environment; and – Evaluating the competence, objectivity and independence of the Group's external specialist.

To the shareholders of PacRay International Holdings Limited *(Continued)*
(Incorporated in Bermuda with limited liability)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessments for goodwill	
The goodwill arising from acquisition of 100% equity interest of Wit Sky Limited and its subsidiaries (the "Wit Sky Group") of HK$5,144,000 was assessed to be fully impaired and the impairment loss was recognised in the consolidated statement of profit or loss during the year ended 31 December 2018. Management determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating unit (the "CGU") to which the goodwill was allocated. Management has estimated the fair value less cost of disposal based on the residual value of the finance leasing services CGU, which comprised mainly in plant and equipment and other financial assets and liabilities. Relevant disclosures are included in notes 4 and 15 to the consolidated financial statements.	Our procedures in relation to the impairment of goodwill included: – Understanding the recoverable amount prepared by the Group and evaluating the reasonableness of the recoverable amount against relevant documents as well as externally derived data; – Assessing the competency, objectivity and independence of the external specialist used by management; and – Discussing with the external valuer their work scope, and assessing the appropriateness of the valuation methodology used on our industry knowledge and market practices.

To the shareholders of PacRay International Holdings Limited *(Continued)*
(Incorporated in Bermuda with limited liability)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessments of loans receivables	
As at 31 December 2018, the Group had loans receivables amounted to HK$19,032,000. Impairment losses recognised in the consolidated statement of profit or loss in respect of the Group's loans receivables amounting to HK$3,500,000. The adoption of HKFRS 9 *Financial Instruments* ("HKFRS 9") has fundamentally changed the Group's accounting for impairment losses of loans receivables by replacing the incurred loss model. Significant management judgement and estimates are required in determining the impairment losses of related loans receivables under the expected credit loss model in accordance with HKFRS 9. Management applied the general approach in calculating expected credit losses under HKFRS 9 for the related loans receivables and engaged an external valuer to assess the credit risk of individual debtor and prepare the expected credit loss calculations. The external valuer applied various elements, which involved forward-looking information, in assessing the ECL. Relevant disclosures are included in notes 4 and 23 to the consolidated financial statements.	Our audit procedures to assess the impairment assessments of loans receivables included: – Evaluating the Group's processes and controls over the approvals and recording of the loans receivables; – Reviewing the background information and repayment capacity of the debtors such as credit assessment prepared by management and public information about the financial strength of the debtors (if any); – Obtaining and reviewing the expected credit loss calculations prepared by the external specialist engaged by the Group; and – Assessing the external valuer's qualifications, experience and expertise and considering its objectivity and independence.

To the shareholders of PacRay International Holdings Limited *(Continued)*
(Incorporated in Bermuda with limited liability)

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

To the shareholders of PacRay International Holdings Limited *(Continued)*
(Incorporated in Bermuda with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

To the shareholders of PacRay International Holdings Limited *(Continued)*
(Incorporated in Bermuda with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Cheng Po Yuen.

Zenith CPA Limited
Certified Public Accountants
Cheng Po Yuen
Practising Certificate Number: P04887
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	6	**60,709**	36,580
Cost of sales		**(49,458)**	(23,721)
Gross profit		**11,251**	12,859
Other income and gains/(losses), net	7	**(3,829)**	7,981
Distribution costs		**(652)**	(259)
General and administrative expenses		**(46,937)**	(23,218)
LOSS BEFORE TAX	8	**(40,167)**	(2,637)
Income tax expense	11	**(20)**	(49)
LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		**(40,187)**	(2,686)
		HK cents	HK cents
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic and diluted	13	**(11.94)**	(0.80)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 HK$'000	2017 HK$'000
LOSS FOR THE YEAR	**(40,187)**	(2,686)
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**–**	14,005
Release of available-for-sale revaluation reserve upon disposal	**–**	(4,420)
	–	9,585
Exchange differences:		
Exchange differences on translation of foreign operations	**(2,764)**	975
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	**(2,764)**	10,560
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designed at fair value through other comprehensive income:		
Changes in fair value	**196**	–
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(2,568)**	10,560
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	**(42,755)**	7,874

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**4,428**	2,508
Goodwill	15	**–**	–
Intangible assets	16	**–**	–
Deferred tax assets	17	**619**	479
Equity investments designated at fair value through other comprehensive income	18	**23,196**	–
Available-for-sale investments	18	**–**	40,947
Finance lease receivables	19	**5,775**	–
Long-term deposits	22	**280**	366
Total non-current assets		**34,298**	44,300
CURRENT ASSETS			
Inventories	20	**7,142**	4,807
Trade and bills receivables	21	**24,733**	12,507
Prepayments, other receivables and other assets	22	**9,848**	43,214
Loans receivables	23	**19,032**	15,700
Financial assets at fair value through profit or loss	24	**2,154**	–
Tax recoverable		**159**	327
Cash and cash equivalents	25	**25,601**	43,296
Total current assets		**88,669**	119,851
CURRENT LIABILITIES			
Trade payables	26	**361**	150
Other payables and accruals	27	**4,251**	2,898
Tax payable		**7**	–
Total current liabilities		**4,619**	3,048
NET CURRENT ASSETS		**84,050**	116,803
NET ASSETS		**118,348**	161,103
EQUITY			
Share capital	28	**134,922**	134,922
Other reserves		**(1,796)**	1,886
(Accumulated loss)/retained earnings		**(14,778)**	24,295
Total equity		**118,348**	161,103

WEI Xiao
Director

LEUNG Pok Man
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to owners of the Company			
	Share capital HK$'000 (note 28)	Other reserves HK$'000 (note 29)	(Accumulated loss)/ retained earnings HK$'000	Total HK$'000
At 1 January 2017	134,922	(8,674)	26,981	153,229
Loss for the year	–	–	(2,686)	(2,686)
Other comprehensive income/(loss) for the year:				
Changes in fair value on available-for-sale investments	–	14,005	–	14,005
Release of investment reserve upon disposal of available-for-sale investments	–	(4,420)	–	(4,420)
Exchange differences on translation	–	975	–	975
Total comprehensive income/(loss) for the year	–	10,560	(2,686)	7,874
At 31 December 2017	**134,922**	**1,886**	**24,295**	**161,103**
Effect of adoption of HKFRS 9 (note 2.2)	**–**	**(1,114)**	**1,114**	**–**
At 1 January 2018 (restated)	**134,922**	**772**	**25,409**	**161,103**
Loss for the year	**–**	**–**	**(40,187)**	**(40,187)**
Other comprehensive income/(loss) for the year:				
Changes in fair value of equity investments designed at fair value through other comprehensive income	**–**	**196**	**–**	**196**
Exchange differences on translation	**–**	**(2,764)**	**–**	**(2,764)**
Total comprehensive loss for the year	**–**	**(2,568)**	**(40,187)**	**(42,755)**
At 31 December 2018	**134,922**	**(1,796)**	**(14,778)**	**118,348**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(40,167)**	(2,637)
Adjustments for:			
Interest income	7	**(1,976)**	(727)
Dividend income	7	**(13)**	(2,034)
Depreciation of property, plant and equipment	8	**898**	561
Loss on disposal of property, plant and equipment	7	**6**	30
Gains on disposals of available-for-sale investments	7	**–**	(4,420)
Fair value loss of financial assets at fair value through profit or loss	7	**947**	–
Impairment of goodwill	7	**5,144**	–
Impairment of trade receivables	8	**2,465**	–
Impairment of finance lease receivables	8	**2,644**	–
Impairment of loans receivables	8	**3,500**	–
Impairment of financial assets included in prepayments, other receivables and other assets	8	**1,869**	–
Gains on disposal of investments at fair value through profit or loss	7	**–**	(166)
Impairment of inventories	8	**4,182**	693
Operating cash flows before movements in working capital		**(20,501)**	(8,700)
Changes in working capital:			
– Inventories		**(2,994)**	(885)
– Finance lease receivables		**3,952**	–
– Trade and bills receivables		**9,051**	(8,213)
– Prepayments, other receivables and other assets		**(23,121)**	(711)
– Trade payables		**211**	35
– Other payables and accruals		**1,352**	292
Cash used in operations		**(32,050)**	(18,182)
Oversea income tax paid, net		**(27)**	(345)
Net cash flows used in operating activities		**(32,077)**	(18,527)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	14	**(2,955)**	(640)
Purchases of available-for-sale investments		**–**	(23,000)
Proceeds from disposal of items of property, plant and equipment		**25**	–
Proceeds from disposals of financial assets at fair value through profit or loss		**21,246**	884
Proceeds from disposals of available-for-sale investments		**–**	43,217
Loans advanced to third parties		**–**	(15,700)
Refundable deposit paid for a proposed acquisition of a subsidiary		**–**	(30,000)
Interest received		**990**	446
Dividend received		**13**	4,819
Purchases of financial assets at fair value through profit or loss		**(6,400)**	–
Acquisition of a subsidiary	30	**1,511**	–
Net cash flows from/(used in) investing activities		**14,430**	(19,974)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(17,647)**	(38,501)
Cash and cash equivalents at 1 January		**43,296**	81,726
Effect of foreign exchange rate changes, net		**(48)**	71
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**25,601**	43,296

1 CORPORATE AND GROUP INFORMATION

PacRay International Holdings Limited (the "Company") was incorporated in Bermuda as an investment holding company with limited liability under the Companies Act 1981 of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is Unit 902, Unicorn Trade Centre, 127-131 Des Voeux Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the Company and its subsidiaries (collectively referred hereinafter as the "Group") are involved in the following principal activities: design and sales of integrated circuits and semi-conductor parts, provision of finance lease services, trading of construction materials and corporate administration and investment functions.

In the opinion of the directors, Glory Genius International Holdings Limited, is the holding company and ultimate holding company of the Company, which is incorporated in the British Virgin Islands.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Able Summit Investment Limited[2]	British Virgin Islands	US$1	100%	–	Investment holding
Brilliant Express Global Investment Limited[2]	British Virgin Islands	US$1	–	100%	Investment holding
Fasty Technology Limited	Hong Kong	HK$1	–	100%	Inactive
Harvest Century Enterprises Limited	Hong Kong	HK$10,000	100%	–	Inactive
Rockey Company Limited	Hong Kong	HK$2	100%	–	Investment holding and trading
Shanghai SyncMOS Semiconductor Company Limited[1, 2]	PRC	US$7,000,000	–	100%	Design, distribution and trading of integrated circuit products and provision of related agency services in the PRC
Sunny Fast International Investment Limited[2]	British Virgin Islands	US$1	100%	–	Investment holding

1 CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
SyncMOS Technologies, Inc. (BVI)[2]	British Virgin Islands	US$1	100%	–	Investment holding
Top Return Investments Limited	Hong Kong	HK$1	100%	–	Investment holding
Total Way Technology Limited	Hong Kong	HK$1	–	100%	Trading
Wellba Investment Limited	Hong Kong	HK$2 ordinary shares and HK$2,000,001 non-voting deferred shares	50%	50%	Inactive
Win Win Property Investments Limited[2]	British Virgin Islands	US$1	100%	–	Investment holding
Wit Sky Limited[2,4]	British Virgin Islands	US$100	–	100%	Investment holding
AST 3G Limited[4]	Hong Kong	HK$10,000	–	100%	Investment holding
Solomon International Leasing (Tianjin) Co., Ltd[1,2,4]	PRC	US$18,000,000	–	100%	Finance lease services
R Capital Investment Holding Limited[2,3]	British Virgin Islands	US$1	100%	–	Inactive
R Capital Limited[2,3]	British Virgin Islands	US$1	–	100%	Inactive
Bright Team International Group Limited[2,3]	British Virgin Islands	US$1	100%	–	Inactive
Sunny Trillion Limited[2,3]	Hong Kong	HK$1	–	100%	Investment holding
Yunrui Technology (Shenzhen) Company Limited[1,2,3]	PRC	RMB10,000,000	–	100%	Inactive

1 The entity is registered as wholly-foreign-owned enterprise under PRC law.

2 The statutory financial statements of the above subsidiaries were not audited by Zenith CPA Limited.

3 These entities are incorporated during the year.

4 These entities are acquired during the year, further details of this acquisition are included in note 30 to the financial statements.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments which have been measured at fair value. These financial statements presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand ("HK$'000") except which otherwise indicated.

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Other than as explained below, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

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

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) *(Continued)*

Classification and measurement

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

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

	Available-for-sale investments HK$'000	Equity investments designated at fair value through other comprehensive income HK$'000	Financial assets at fair value through profit or loss HK$'000	Available-for-sale investment revaluation/ fair value reserve HK$'000	Retained earnings HK$'000
At 31 December 2017 (As originally presented)					
– HKAS 39	40,947	–	–	1,114	24,295
Effect arising from initial application of HKFRS 9:					
Reclassification					
From available-for-sale investments (note)	(40,947)	23,000	17,947	(1,114)	1,114
At 1 January 2018 (Restated)	–	23,000	17,947	–	25,409

Note:

From available-for-sale investments to financial assets at fair value through profit or loss
At the date of initial application of HKFRS 9, the Group's equity investments of HK$17,947,000 were reclassified from available-for-sale investments to financial assets at fair value through profit or loss. The gain on fair value changes of HK$1,114,000 relating to those equity investments previously recognised in available-for-sale revaluation reserve was transferred to retained profits as at 1 January 2018.

From available-for-sale investments to equity investments at fair value through other comprehensive income
The Group has elected the option to irrevocably designate of its previous available-for-sale equity investments of HK$23,000,000 as equity investments at fair value through other comprehensive income.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) *(Continued)*

Impairment

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade and finance lease receivables. To measure the ECL, trade and finance lease receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of loan and other receivables, are measured on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition. The Group considers, the ECL for other financial assets are insignificant as at 1 January 2018.

The Group did not have any significant impact for the remeasurement of provision of ECL against retained profits as at 1 January 2018.

Hedge accounting

The adoption of the hedge accounting requirements of HKFRS 9 has had no impact on the Group's financial statements as the Group does not have any hedging activities.

(b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including, disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 3 and 6 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 3 to the financial statements.

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

The Group considers that the adoption of HKFRS 15 has no material impact on the Group's financial position and results of operation.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(c) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$1,273,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement

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

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

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

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

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

Related parties

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

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

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

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Leasehold improvements	4 – 6 years or shorter of the lease term
Furniture, fixtures and equipment	4 – 5 years
Motor vehicles	5 years

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill)

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of two to five years. Cost associated with maintaining computer software programmes are recognised as expenses as incurred.

Leases

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

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's new investment in the leases. Finance lease income is allocated to accounting period so as to reflect a constant periodic rate of return of the Group's net investment outstanding in respect of the leases.

Finance lease income is recognised on an accrual basis using effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the next investment of the finance lease or a shorter period, when appropriate, to the net carrying amount of the next investment of the finance lease.

The Group as lessee

The total rentals payable under the operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

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

Initial recognition and measurement

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Initial recognition and measurement *(Continued)*

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

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive Income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive Income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Subsequent measurement *(Continued)*

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

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

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

Financial assets at fair value through profit or loss

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Subsequent measurement *(Continued)*

Financial assets at fair value through profit or loss (Continued)

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

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid contract is not measured at fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

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

Initial recognition and measurement

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

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

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

If there is objective evidence that an impairment loss has been incurred on such unlisted equity investments, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial assets. Impairment losses on these assets are not reversed.

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

General approach

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

General approach *(Continued)*

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade and finance lease receivables which apply the simplified approach as detailed below:

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

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

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

Simplified approach

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Financial assets carried at amortised cost

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale investments

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

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

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available-for-sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings.

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

The Group's financial liabilities include trade and other payables.

Subsequent measurement

Loans and borrowings

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

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

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other indirect costs and related production overheads based on normal operating capacity. Net realisable value is base on estimated selling price in the ordinary course of business, less applicable variable selling and distribution costs.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

Income tax comprises current and deferred tax.

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

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

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

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

(a) Sale of goods

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

(b) Finance lease income

Finance lease income is recognised on an accrual basis using effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the next investment of the finance lease or a shorter period, when appropriate, to the net carrying amount of the next investment of the finance lease.

(c) Interest income

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

(d) Dividend income

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (applicable before 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Sales of goods are recognised when the title to the goods has been passed to the customer, which is at the date when the customer receives and accepts the goods, and the collectability of the related receivables is reasonably assured.

(b) Interest income

Interest income from bank deposits is recognised on a time-proportion basis using the effective interest method.

(c) Dividend income

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

Contract liabilities (applicable from 1 January 2018)

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

Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date. Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

(b) Bonus plans

Provision for bonus plans is recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(c) Retirement benefits schemes

The Group contributes to various employee retirement benefit plans organised by municipal and provincial governments in Mainland China for its PRC based employees. Under these plans, the municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees of the Group. Contributions to these plans are expensed as incurred. The Group has no further payment obligations once the contributions have been paid.

The Group's contributions to the Mandatory Provident Fund Scheme established under the Hong Kong Mandatory Provident Fund Schemes Ordinance are expensed as incurred. Both the Group and its employees in Hong Kong are required to contribute 5% of each individual's relevant income with a maximum amount of HK$1,500 per month as a mandatory contribution. Employees may also elect to contribute more than the minimum as a voluntary contribution. The assets of the scheme are held separately from those of the Group and managed by independent professional fund managers. The Group has no further payment obligations once the contributions have been paid.

Foreign currencies

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

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

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

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

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value when there is an objective evidence that the cost of inventories may not be recoverable. The cost of inventories may not be recoverable if those inventories are aged and damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs to be incurred to make the sales have increased.

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

(Continued)

Inventories *(Continued)*

The amount written off to the statement of profit or loss is the difference between the carrying value and net realisable value of the inventories. In determining whether the inventories can be recoverable, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

Loss allowance for trade and finance lease and loans receivables

The Group's management uses a provision matrix to calculate ECL for trade and finance lease receivables. The provision rates are based on various inputs and assumptions including but not limited to risk of default. The estimation involves high degree of uncertainty which is based on the Group's historical information, existing market conditions as well as forward-looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and finance lease receivables.

For the impairment assessment of loan receivables, the Group's management assesses on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition. Assessment are done based on the Group's historical credit loss experience, general conditions, internal credit ratings and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions. The loss allowance for loan receivables is sensitive to changes in estimates.

The information about the ECLs on the Group's finance lease and trade and loan receivables is disclosed in notes 19, 21 and 23 to the financial statements, respectively.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 15.

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

(Continued)

Impairment of non-financial assets (other than goodwill)

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

5 SEGMENT INFORMATION

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

(i) design and sales of integrated circuits used in industrial and household measuring tools;

(ii) provision of finance lease services;

(iii) sales and distribution of construction materials; and

(iv) the "Headquarter" segment comprises principally the Group's corporate administration and investment functions.

5 SEGMENT INFORMATION *(Continued)*

These main operations are the basis on which the management identifies the primary segment information.

The management regularly reviews the basis in order to make decisions about resources to be allocated to the segment and assess its performance.

	Design and sales of integrated circuits HK$'000	Finance lease services HK$'000	Trading of construction materials HK$'000	Headquarter HK$'000	Total HK$'000
Year ended 31 December 2018					
Revenue from external customers	36,447	324	23,938	–	60,709
Operating profit/(loss)	2,619	(8,873)	(2,744)	(33,145)	(42,143)
Interest income	25	383	–	1,568	1,976
Profit/(loss) before income tax	2,644	(8,490)	(2,744)	(31,577)	(40,167)
Other segment information:					
Depreciation	(727)	(30)	–	(141)	(898)
Impairment of goodwill	–	(5,144)	–	–	(5,144)
Provision for inventories	(1,070)	–	(3,112)	–	(4,182)
Impairment of finance lease receivables	–	(2,644)	–	–	(2,644)
Impairment of trade receivables	–	–	(2,465)	–	(2,465)
Impairment of loans receivables	–	–	–	(3,500)	(3,500)
Impairment of financial assets included in prepayment, other receivables and other assets	–	(1,579)	–	(290)	(1,869)
Fair value losses on financial assets at fair value through profit or loss	–	–	–	(947)	(947)
Dividend income	–	–	–	13	13
Capital expenditures*	(2,114)	(80)	–	(841)	(3,035)
Segment assets	18,431	17,488	21,074	65,974	122,967
Segment liabilities	1,295	178	63	3,083	4,619

* Capital expenditure consists of additions to property, plant and equipment, including assets from the acquisition of subsidiaries.

5 SEGMENT INFORMATION *(Continued)*

	Design and sales of integrated circuits HK$'000	Trading of construction materials HK$'000	Headquarter HK$'000	Total HK$'000
Year ended 31 December 2017				
Revenue from external customers	36,448	132	–	36,580
Operating profit/(loss)	3,279	52	(6,695)	(3,364)
Interest income	14	–	713	727
Profit/(loss) before income tax	3,293	52	(5,982)	(2,637)
Other segment information:				
Depreciation and amortisation, included in results for the year	(535)	–	(26)	(561)
Gain on disposal of available-for-sales investments	–	–	4,420	4,420
Gains on disposal of financial assets at fair value through profit or loss	–	–	166	166
Dividend income	–	–	2,034	2,034
Capital expenditures	(618)	–	(22)	(640)
Segment assets	25,900	10,137	128,114	164,151
Segment liabilities	2,008	–	1,040	3,048

5 SEGMENT INFORMATION *(Continued)*

Geographical information

(a) Revenue from external customers

	2018 **HK$'000**	2017 HK$'000
Hong Kong	**33,036**	8,114
Mainland China	**27,673**	24,606
Taiwan	**–**	3,860
	60,709	36,580

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

(b) Non-current assets

	2018 **HK$'000**	2017 HK$'000
Hong Kong	**24,058**	23,240
Mainland China	**9,621**	2,634
The United States of America	**–**	17,947
	33,679	43,821

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

5 SEGMENT INFORMATION *(Continued)*

Information about major customers

During the year ended 31 December 2018, revenue of HK$23,262,000 (2017: HK$29,718,000) was derived from design and sales of integrated circuits to three (2017: five) customers, and HK$23,938,000 (2017: Nil) was derived from trading of construction materials to one (2017: Nil) customer which individually accounted for over 10% of the Group's total revenue.

	2018	2017
	HK$'000	HK$'000
Customer A	**23,938**	N/A*
Customer B	**9,098**	7,982
Customer C	**7,249**	6,322
Customer D	**6,915**	5,613
Customer E	**N/A***	5,941
Customer F	**N/A***	3,860

* The corresponding revenue of these customers are not disclosed as it individually did not contribute over 10% of the Group's total revenue for the year.

6 REVENUE

	2018	2017
	HK$'000	HK$'000
Revenue from contracts with customers	**60,385**	–
Sale of goods	**–**	36,580
Revenue from other sources		
Finance lease income	**324**	–
	60,709	36,580

6 REVENUE *(Continued)*

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	Design and sales of integrated circuits HK$'000	Trading of construction materials HK$'000	Total HK$'000
Type of goods or services			
Sale of goods	36,447	23,938	60,385
Geographical markets			
Hong Kong	9,098	23,938	33,036
Mainland China	27,349	–	27,349
	36,447	23,938	60,385
Timing of revenue recognition			
Goods transferred at a point in time	36,447	23,938	60,385

The following table shows the movement in contract liabilities:

	Sales of goods 2018 HK$'000
Balance at 1 January 2018	406
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(406)
Increase in contract liabilities as a result of cash received	2
Balance at 31 December 2018	2

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 90 days from delivery.

7 OTHER INCOME AND GAINS/(LOSSES), NET

	2018 HK$'000	2017 HK$'000
Interest income	**1,976**	727
Dividend income from equity investments at fair value through other comprehensive income/available-for-sale investments	**13**	2,034
Sundry income	**207**	112
Fair value losses of financial assets at fair value through profit or loss	**(947)**	–
Gains on disposals of available-for-sale investments	**–**	4,420
Gains on disposals of financial assets at fair value through profit or loss	**–**	166
Exchange gains, net	**72**	552
Loss on disposal of property, plant and equipment	**(6)**	(30)
Impairment of goodwill	**(5,144)**	–
	(3,829)	7,981

8 LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	Notes	2018 HK$'000	2017 HK$'000
Cost of inventories sold		**45,276**	23,028
Depreciation	14	**898**	561
Auditor's remuneration		**760**	650
Minimum lease payments under operating leases		**1,483**	1,520
Employee benefits expenses (excluding directors' remuneration (note 9)):			
Salaries, allowances and benefits in kind		**18,044**	8,190
Pension scheme contributions		**1,546**	1,259
		19,590	9,449
Provision for inventories*		**4,182**	693
Impairment of finance lease receivables#	19	**2,644**	–
Impairment of trade receivables#	21	**2,465**	–
Impairment of loans receivables#	23	**3,500**	–
Impairment of financial assets included in prepayments, other receivables and other assets#	22	**1,869**	–

* Included in "Cost of sales" in the consolidated statement of profit or loss.

\# Included in "General and administrative expenses" in the consolidated statement of profit or loss.

9 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the List of Securities on the Stock Exchange, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

Name of director	Fees HK$'000	Salaries, allowances and other benefits HK$'000	Discretionary bonus HK$'000	Employer's contribution to retirement benefit contributions HK$'000	Share-based payments HK$'000	Total HK$'000
2018						
Executive directors:						
Mr. Liew Fui Kiang (note (ix))	480	920	–	–	–	1,400
Mr. Leung Pok Man	480	–	–	–	–	480
Ms. Lau Mei Ying	480	–	–	–	–	480
Mr. Wei Xiao (note (i))	–	–	–	–	–	–
	1,440	920	–	–	–	2,360
Non-executive director:						
Mr. Zhou Danqing (note (vi))	120	–	–	–	–	120
Independent non-executive directors:						
Ms. Chow Chui Ying (note (ii))	35	–	–	–	–	35
Dr. Yang Yung-Ming (note (iii))	55	–	–	–	–	55
Mr. Lee Man To (note (iv))	85	–	–	–	–	85
Ms. Choi Yee Man (note (iv))	85	–	–	–	–	85
Ms. Zhuge Chang (note (v))	65	–	–	–	–	65
	325	–	–	–	–	325
	1,885	920	–	–	–	2,805

9 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' remuneration *(Continued)*

Name of director	Fees	Salaries, allowances and other benefits	Discretionary bonus	Employer's contribution to retirement benefit contributions	Share-based payments	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2017						
Executive directors:						
Mr. Liew Fui Kiang (note (vii))	160	320	–	–	–	480
Mr. Leung Pok Man (note (vii))	160	–	–	–	–	160
Ms. Lau Mei Ying (note (vii))	160	–	–	–	–	160
Mr. Cheng Chow-Chun (note (viii))	107	–	–	–	–	107
Mr. Lee Chao-Chun (note (viii))	107	–	–	–	–	107
Mr. Sun Tao-Heng (note (viii))	107	–	–	–	–	107
Mr. Yuan Chun-Tang (note (viii))	107	–	–	–	–	107
	908	320	–	–	–	1,228
Independent non-executive directors:						
Ms. Chow Chui Ying (note (vii))	40	–	–	–	–	40
Mr. Zhou Danqing (note (vii))	40	–	–	–	–	40
Dr. Yang Yung-Ming (note (vii))	40	–	–	–	–	40
Mr. Suen Sai Wah Simon (note (viii))	80	–	–	–	–	80
Mr. Li Kwan In (note (viii))	80	–	–	–	–	80
Mr. Wang Chiang-Ming (note (viii))	80	–	–	–	–	80
	360	–	–	–	–	360
	1,268	320	–	–	–	1,588

Notes:

(i) Appointed on 31 December 2018
(ii) Resigned on 15 April 2018
(iii) Resigned on 15 June 2018
(iv) Appointed on 15 April 2018
(v) Appointed on 15 June 2018 and subsequently resigned on 4 March 2019
(vi) Re-designated on 15 April 2018
(vii) Appointed on 31 August 2017
(viii) Resigned on 31 August 2017
(ix) Subsequently resigned on 15 January 2019

9 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(b) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the financial year (2017: Nil).

(c) Consideration provided to third parties for making available directors' services

During the financial year ended 31 December 2018, the Company does not pay consideration to any third parties for making available directors' services (2017: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled body corporates by and connected entities with such directors

As at 31 December 2018, there are no loans, quasi-loans and other dealing arrangements in favour of directors, controlled body corporates by and controlled entities with such directors (2017: Nil).

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

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

10 FIVE HIGHEST PAID INDIVIDUALS

One of the five highest paid individuals serves as a director during the year (2017: None) of the Company whose emoluments are reflected in Note 9. Details of the remuneration for the year of the remaining four (2017: five) highest paid employees who are neither serves as a director nor chief executive of the Company are as follows:

	2018	2017
	HK$'000	HK$'000
Basic salaries and allowances	**4,831**	3,193
Bonuses	**1,737**	502
Pension costs – defined contribution plan	**39**	229
	6,607	3,924

The emoluments of these four (2017: five) highest paid individuals fell within the following bands:

	Number of individuals	
	2018	2017
Nil – HK$1,000,000	**–**	4
HK$1,000,001 – HK$1,500,000	**2**	1
HK$1,500,001 – HK$2,000,000	**1**	–
HK$2,000,001 – HK$2,500,001	**1**	–
	4	5

During the years ended 31 December 2018 and 2017, no emolument was paid by the Group to the directors or the five highest paid individuals and directors as an inducement to join or upon joining the Group or as compensation for loss of office.

11 INCOME TAX EXPENSE

The Company is exempted from taxation in Bermuda. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year (2017: Nil). Shanghai SyncMOS Semiconductor Company Limited, a wholly-owned subsidiary of the Group, was registered as a New and High Technology Enterprise during the year ended 31 December 2018 and is subjected to a preferential Corporate Income Tax ("CIT") rate of 15% (2017: preferential CIT rate of 15%).

	2018 **HK$'000**	2017 HK$'000
Current – Hong Kong	**7**	–
– Mainland China	**157**	83
Underprovision in prior year – Mainland China	**27**	–
Deferred (note 17)	**(171)**	(34)
Total tax charge for the year	**20**	49

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using domestic tax rates applicable to loss in the respective countries as follows:

	2018 **HK$'000**	2017 HK$'000
Loss before tax	**(40,167)**	(2,637)
Tax calculated at domestic tax rates applicable to profit in the respective countries	**(6,964)**	(369)
Income not subject to tax	**(137)**	(1,244)
Expenses not deductible for tax	**1,144**	351
Tax incentives for research and development expenses (note)	**(422)**	(366)
Tax losses not recognised	**6,363**	1,774
Tax losses utilised from previous periods	**–**	(8)
Others	**36**	(89)
Income tax expense	**20**	49

Note:

According to relevant laws and regulations promulgated by the State Administration of Tax of the PRC effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the year ("Super Deduction"). The additional deduction of 50% of qualified research and development expenses is subject to the approval from the relevant tax authorities in the annual CIT filling. The Group has made its best estimate for the Super Deduction to be claimed in ascertaining the assessable profits for the years ended 31 December 2018 and 2017.

12 DIVIDEND

No dividend has been paid or proposed during the year 31 December 2018 nor has any dividend been proposed since the end of the reporting period (2017: Nil).

13 LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

(a) Basic

Basic loss per share is calculated by dividing the consolidated loss attributable to owners of the parent by the weighted average number of ordinary shares in issue during the year.

	2018	2017
	HK$'000	HK$'000
Loss attributable to ordinary equity holders of the parent	**(40,187)**	(2,686)

	Number of shares	
	2018	2017
	'000	'000
Weighted average number of ordinary shares in issue	**336,587**	336,587

	HK cents	HK cents
Basic loss per share	**(11.94)**	(0.80)

(b) Diluted

The Company has not issued any potentially dilutive ordinary shares during the years ended 31 December 2018 and 2017.

14 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor Vehicle HK$'000	Total HK$'000
Cost				
At 1 January 2017	104	7,818	–	7,922
Additions	–	640	–	640
Disposals	(30)	(328)	–	(358)
Exchange realignment	–	578	–	578
At 31 December 2017 and 1 January 2018	74	8,708	–	8,782
Additions	–	1,974	981	2,955
Acquisition of subsidiaries (note 30)	–	80	–	80
Disposals	–	(348)	–	(348)
Exchange realignment	–	(508)	(11)	(519)
At 31 December 2018	74	9,906	970	10,950
Accumulated depreciation				
At 1 January 2017	(90)	(5,544)	–	(5,634)
Charge for the year (note 8)	(13)	(548)	–	(561)
Disposals	30	298	–	328
Exchange realignment	–	(407)	–	(407)
At 31 December 2017 and 1 January 2018	(73)	(6,201)	–	(6,274)
Charge for the year (note 8)	(1)	(758)	(139)	(898)
Disposals	–	317	–	317
Exchange realignment	–	332	1	333
At 31 December 2018	(74)	(6,310)	(138)	(6,522)
Net carrying amount				
At 31 December 2017	1	2,507	–	2,508
At 31 December 2018	–	3,596	832	4,428

15 GOODWILL

	HK$'000
Acquisition of a subsidiary (note 30)	5,144
Impairment during the year	(5,144)
Cost and net carrying amount at 31 December 2018	–
At 31 December 2018:	
Cost	**5,144**
Accumulated impairment	**(5,144)**
Net carrying amount	–

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the finance leasing services cash-generating unit (the "Finance Leasing Services CGU") for impairment testing.

As at the completion date of the acquisition, the goodwill arising from the acquisition of Wit Sky Group of HK$5,144,000 is initially recognised by the Group due to the consideration of HK$30,000,000 is in excess of the net amount of the identifiable assets acquired and the liabilities assumed amounted to HK$24,856,000. The acquisition of Wit Sky Group was completed during the year. The Group engaged a qualified independent valuer, Vigers Appraisal & Consulting Limited (the "Valuer"), to perform the appraisal of the purchase price allocation and valuation of the assets and liabilities of Wit Sky Group as at the completion date.

As at 31 December 2018, the Group has also engaged the Valuer to conduct an impairment assessment of the Finance Leasing Services CGU by comparing the carrying amount with the recoverable amount of the CGU based on the fair value of assets less costs of disposal. The fair value of the CGU is based on the residual value of the CGU which mainly comprised the plant and equipment, finance lease receivables, loan receivables, cash and cash equivalents and other financial assets and liabilities to determine the recoverable amount of the Finance Leasing Services CGU. Based on the result of this assessment, the goodwill was assessed to be fully impaired and the impairment loss of HK$5,144,000 was recognised in the consolidated statement of profit or loss for the year ended 31 December 2018 due to the recoverable amount was less than its carrying amount of identifiable assets and liabilities of Wit Sky Group as at 31 December 2018.

16 OTHER INTANGIBLE ASSETS

	Computer software HK$'000
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	
Cost	5,005
Accumulated amortisation	(5,005)
Net carrying amount	–

17 DEFERRED TAX ASSETS

	Provision HK$'000	**Tax losses** HK$'000	**Total** HK$'000
At 1 January 2017	312	100	412
Deferred tax (charged)/credited to the statement of profit or loss during the year (note 11)	139	(105)	34
Exchange realignment	28	5	33
At 31 December 2017 and at 1 January 2018	**479**	**–**	**479**
Deferred tax credited to the statement of profit or loss during the year (note 11)	**171**	**–**	**171**
Exchange realignment	**(31)**	**–**	**(31)**
At 31 December 2018	**619**	**–**	**619**

Unrecognised tax losses of HK$139,001,000 (2017: HK$91,158,000) is subject to the approval of the relevant tax authorities and have no expiry dates. The potential deferred tax assets in respect of these tax losses which have not been recognised amounted to HK$24,815,000 (2017: HK$15,041,000).

18 EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	2018	2017
	HK$'000	HK$'000
Equity investments designated at fair value through other comprehensive income		
Unlisted investment, at fair value		
Cornerstone Securities Limited	**23,196**	–
Available-for-sale investments		
Listed equity investments, at fair value	**–**	17,947
Unlisted investment, at cost	**–**	23,000
	–	40,947

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

During the year ended 31 December 2017, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK$14,005,000 of which HK$4,420,000 was reclassified from other comprehensive income to the statement of profit or loss for the year ended 31 December 2017.

19 FINANCE LEASE RECEIVABLES

	Minimum lease payments 2018 HK$'000	Present value of minimum lease payments 2018 HK$'000
Finance lease receivables comprises:		
Within one year	**2,644**	**2,644**
In the second to fifth years, inclusive	**6,120**	**5,775**
	8,764	**8,419**
Less: Unearned finance income	**(345)**	**–**
Present value of minimum lease payments	**8,419**	**8,419**
Less: Impairment losses	**(2,644)**	**(2,644)**
	5,775	**5,775**

	2018 HK$'000
Analysis for reporting purpose:	
Current assets	**–**
Non-current assets	**5,775**
	5,775

The Group's finance lease receivables are denominated in RMB. The effective rates of the finance leases as at 31 December 2018 range from 6.41% to 15.00%.

Finance lease receivables are mainly secured by the ships and vehicles. There was no unguaranteed residual value of leased assets and no contingent rent arrangement that needed to be recognised in the period.

19 FINANCE LEASE RECEIVABLES *(Continued)*

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

	2018 HK$'000	2017 HK$'000
At beginning of year	–	–
Impairment losses	2,644	–
At end of year	2,644	–

The Group used simplified approach to provide for ECLs prescribed by HKFRS 9. To measure the ECLs of finance lease receivables, finance lease receivables have been grouped based on the shared credit risk characteristics.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors, the realisation of collateral and guarantee and study of other corporates' default and recovery data from international credit-rating agencies, and are adjusted for forward-looking information that is available without undue cost or effort. The debtors are grounded under a provision matrix based on shared credit risk characteristics by reference to past default experience and current past due exposure of the debtors.

The customers of finance lease receivables as at 31 December 2018 are categorised based on the published credit ratings and the estimated loss rate ranging from 1.71% to 100.00% is applied. Accordingly, a loss allowance of HK$2,644,000 was recognised in the statement of profit or loss during the year.

20 INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	1,640	1,368
Work in progress	1,934	1,339
Finished goods	7,236	4,885
	10,810	7,592
Less: provision for inventories	(3,668)	(2,785)
Inventories, net	7,142	4,807

21 TRADE AND BILLS RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**25,572**	10,346
Less: Impairment	**(2,465)**	–
	23,107	10,346
Bills receivables	**1,626**	2,161
Trade and bills receivables	**24,733**	12,507

Trade receivables

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivables balances. Trade receivables are non-interest-bearing.

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

	2018 HK$'000	2017 HK$'000
Within 1 month	**690**	8,766
More than 1 month but less than 3 months	**1,394**	1,391
More than 3 months	**21,023**	189
	23,107	10,346

21 TRADE AND BILLS RECEIVABLES *(Continued)*

Trade receivables *(Continued)*

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

	2018 HK$'000	2017 HK$'000
At beginning of year	–	–
Impairment losses	2,465	–
At end of year	2,465	–

Impairment under HKFRS 9 for the year ended 31 December 2018

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

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

As at 31 December 2018

		Past due		
	Current	1 to 3 months	Over 3 months	Total
Expected credit loss rate	2.35%	5.84%	10.31%	9.64%
Gross carrying amount (HK$'000)	2,152	5	23,415	25,572
Expected credit losses (HK$'000)	51	–	2,414	2,465

21 TRADE AND BILLS RECEIVABLES *(Continued)*

Trade receivables *(Continued)*

Impairment under HKAS 39 for the year ended 31 December 2017

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

	2017 HK$'000
Neither past due nor impaired	10,157
Less than 1 month past due	189
	10,346

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

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

Bills receivables

The maturity dates of the Group's bills receivables as at the end of the reporting period are as follows:

	2018 **HK$'000**	2017 HK$'000
Within 1 month	**–**	516
More than 1 month but less than 3 months	**1,093**	985
More than 3 months but less than 6 months	**533**	660
	1,626	2,161

22 PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 HK$'000	2017 HK$'000
Deposits and other receivables	5,681	30,873
Prepayments	3,267	9,678
Proceeds receivable from derecognition of investments at fair value through profit or loss	3,049	3,029
	11,997	43,580
Impairment allowance	(1,869)	–
	10,128	43,580
Less: non-current portion – long-term deposits	(280)	(366)
Current portion	9,848	43,214

An impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2018, the probability of default applied ranged from 0.04% to 1.76% and the loss given default was estimated to be 28.75%.

In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

23 LOANS RECEIVABLES

	2018 HK$'000	2017 HK$'000
Loans receivables, unsecured	22,532	15,700
Less: Impairment	(3,500)	–
	19,032	15,700

The Group's loans receivables are stated at amortised cost and bear fixed interest rates at 5% and 10%. The credit terms of these loans receivables range from 12 months to 22 months.

23 LOANS RECEIVABLES *(Continued)*

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

	2018 HK$'000	2017 HK$'000
At beginning of year	–	–
Impairment losses	3,500	–
At end of year	3,500	–

The Group applies the HKFRS 9 general approach to measuring expected credit losses which uses a 12-month basis ECL for loans receivables. The Group determines the provision for ECL by exercising significant judgements to evaluate the collectability from individual loans receivables after taking into account their creditworthiness, whether they have financial difficulties, experience of default or delinquency in interest or principal payments, ageing analysis and forecast of future events and economic conditions which may impact the recoverability of loans receivables.

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK$'000	2017 HK$'000
Listed equity investments, at fair value	2,154	–

The above equity investments at 31 December 2018 were classified as financial assets at fair value through profit or loss as they were held for trading.

25 CASH AND CASH EQUIVALENTS

	2018 HK$'000	2017 HK$'000
Cash and bank balances	**24,339**	42,038
Time deposits	**1,262**	1,258
Cash and cash equivalents	**25,601**	43,296

As at 31 December 2018, the cash and bank balances of the Group's subsidiary in the Mainland China denominated in Renminbi ("RMB") amounted to HK$4,394,000 (2017: HK$3,948,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for others currencies through banks authorised to conduct foreign exchange business.

Cash at banks and time deposits earns interest at floating rate based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

26 TRADE PAYABLES

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

	2018 HK$'000	2017 HK$'000
Within 1 month	**298**	150
More than 3 months	**63**	–
	361	150

The trade payables are non-interest bearing and are normally settled on terms of one month.

27 OTHER PAYABLES AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Accrued staff benefits	**3,288**	1,273
Accrued professional fees	**792**	734
Receipt in advance	**–**	406
Contract liabilities (note (a))	**2**	–
Other payables (note (b))	**169**	485
	4,251	2,898

Notes:

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

	31 December 2018 HK$'000	1 January 2018 HK$'000
Short-term advances received from customers		
Sale of goods	**2**	406

Contract liabilities include short-term advances received to design and sales of integrated circuits. The decrease in contract liabilities in 2018 was mainly due to the decrease in short-term advances received from customers in relation to the design and sales of integrated circuits at the end of the year.

(b) Other payables are non-interest-bearing and have an average term of one month.

28 SHARE CAPITAL

	Number of shares '000	Ordinary shares HK$'000	Share premium HK$'000	Total share capital HK$'000
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	336,587	33,659	101,263	134,922

The total authorised number of ordinary shares is 1,000 million shares (2017: 1,000 million shares) with a par value of HK$0.1 per share (2017: HK$0.1 per share). All issued shares are fully paid.

29 OTHER RESERVES

	Exchange reserve HK$'000	Available-for-sale investment revaluation/ fair value reserve HK$'000	Total HK$'000
At 1 January 2017	(203)	(8,471)	(8,674)
Other comprehensive income/(loss) for the year:			
Changes in fair value on available-for-sale investments	–	14,005	14,005
Reserve released upon disposal of available-for-sale investments	–	(4,420)	(4,420)
Exchange differences on translation	975	–	975
Total comprehensive income/(loss) for the year	975	9,585	10,560
At 31 December 2017	**772**	**1,114**	**1,886**
Effect of adoption of HKFRS 9 (note 2.2)	**–**	**(1,114)**	**(1,114)**
At 1 January 2018 (restated)	**772**	**–**	**772**
Other comprehensive income/(loss) for the year:			
Changes in fair value of equity investments designed at fair value through other comprehensive income	**–**	**196**	**196**
Exchange differences on translation	**(2,764)**	**–**	**(2,764)**
Total comprehensive income/(loss) for the year	**(2,764)**	**196**	**(2,568)**
At 31 December 2018	**(1,992)**	**196**	**(1,796)**

30 BUSINESS COMBINATION

On 28 February 2018, the Group acquired a 100% interest in Wit Sky Limited and its subsidiaries (the "Wit Sky Group") from an independent third party. Wit Sky Group is engaged in finance leasing services in Mainland China. The acquisition was made as part of the Group's strategy to expand its finance lease services. The purchase consideration for the acquisition was in the form of cash of HK$30,000,000 was paid by the Group as included in deposits, prepayments and other receivables in 2017. Details of which were set out in the announcement of the Group dated 27 October 2017, 13 November 2017 and 28 February 2018.

The fair values of the identifiable assets and liabilities of Wit Sky Group as at the date of acquisition were as follows:

	Fair value recognised on acquisition
	HK$'000
Property, plant and equipment (note 14)	80
Cash and bank balances	1,511
Finance leases receivables	13,283
Prepayments, other receivables and other assets	3,179
Loan receivables	7,381
Other payables and accruals	(578)
Total identifiable net assets at fair value	24,856
Goodwill on acquisition (note 15)	5,144
Satisfied by cash	30,000

30 BUSINESS COMBINATION *(Continued)*

The fair values of the finance lease and other and loan receivables as at the date of acquisition amounted to HK$13,283,000 and HK$3,179,000 and HK$7,381,000, respectively. The gross contractual amounts of finance lease and other and loan receivables were HK$16,015,000 and HK$3,190,000 and HK$7,425,000, respectively, of which finance lease and other and loan receivables of HK$2,732,000, HK$11,000 and HK$44,000 are expected to be uncollectible.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	HK$'000
Cash consideration	30,000
Less: Deposit for acquisition of Wit Sky Group paid in 2017	(30,000)
Cash and bank balances acquired	1,511
Net inflow of cash and cash equivalents included in cash flows from investing activities	1,511

Since the acquisition, Wit Sky Group contributed HK$324,000 to the Group's revenue and HK$8,490,000 to the consolidated loss for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year, the revenue of the Group and the loss of the Group for the year would have been HK$60,809,000 and HK$41,374,000, respectively.

31 OPERATING LEASE COMMITMENTS

The Group leases various offices under non-cancellable operating lease agreements. The lease terms are between one to two years.

The future aggregate minimum lease payments for office premises under non-cancellable operating leases are as follows:

	2018 HK$'000	2017 HK$'000
– Not later than one year	**1,086**	1,347
– Later than one year and not later than five years	**187**	377
	1,273	1,724

32 RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group entered into the following material transactions with related parties during the year.

Key management compensation

Key management includes directors (executive and non-executive) and a senior management. The compensation paid or payable to key management for employee services is shown below:

	2018 HK$'000	2017 HK$'000
Basic salaries and allowances	**3,944**	2,694
Bonuses	**237**	184
	4,181	2,878

33 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Other than the equity investments designated at fair value through other comprehensive income/available-for-sale investments and financial assets at fair value through profit or loss, all financial assets and liabilities of the Group as at 31 December 2018 were financial assets at amortised cost (2017: loans and receivables) and financial liabilities at amortised cost, respectively.

Management has assessed that the fair values of cash and cash equivalents, finance lease receivables, loans receivables, trade and bills receivables, prepayments, other receivables and other assets, trade and other payables approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the board of directors and the Audit Committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the board of directors. The valuation process and results are discussed with the Audit Committee twice a year for interim and annual financial reporting.

The fair values of listed equity investments are based on quoted market prices. The fair value of unlisted equity investments designated at fair value through other comprehensive income, which were previously classified as available-for-sale equity investments, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model and has quantified this as a reduction in fair value of approximately HK$2,320,000 by using less favourable assumptions, and an increase in fair value of approximately HK$2,320,000 by using more favourable assumptions.

33 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2018				
Equity investments designated at fair value through other comprehensive income	**–**	**–**	**23,196**	**23,196**
Financial assets at fair value through profit or loss	**2,154**	**–**	**–**	**2,154**
	2,154	**–**	**23,196**	**25,350**
As at 31 December 2017				
Available-for-sale investments:	17,947	–	–	17,947

The Group did not have any financial liabilities measured at fair value as at 31 December 2018 and 2017.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial assets (2017: Nil).

33 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy *(Continued)*

The movements in fair value measurements within Level 3 during the year are as follows:

	2018	2017
	HK$'000	HK$'000
Equity investments at fair value through other comprehensive income/available-for-sale investments – unlisted:		
At 1 January	**–**	–
Effect of adoption of HKFRS 9	**23,000**	–
At 1 January (restated)	**23,000**	–
Total gain recognised in other comprehensive income	**196**	–
At 31 December	**23,196**	–

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk factors

The Group's principal financial instruments are used to raise finance for the Group's operations and investments. The Group has various other financial assets and liabilities such as loans and trade receivables and other payables which arise directly from its operations. The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, equity price risk, credit risk and liquidity risk. The board of directors review and agree policies for managing each of these risks and they are summarised below.

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Financial risk factors *(Continued)*

Foreign exchange risk

The Group operates in both the PRC and Hong Kong. Most of the transactions for the PRC reporting entity is denominated in RMB, whereas that for Hong Kong reporting entities are denominated in HK$ and United States dollar ("US$"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Management is responsible for managing the net position in each foreign currency. The Group currently does not have a foreign currency hedging policy. As the assets and liabilities of the PRC reporting entity is mainly denominated in RMB, its functional currency, the directors are of the opinion that their volatility of their profits against changes in exchange rates of foreign currencies would not be significant. Accordingly, no sensitivity analysis is performed.

Moreover, as the assets and liabilities of the HK reporting entities are mainly denominated in HK$, its functional currency, and US$ are reasonably stable against the HK$ under the Linked Exchange Rate System, the directors are of the opinion that the Group does not have significant foreign exchange risk. Accordingly, no sensitivity analysis is performed.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest bearing financial assets. Interest-bearing financial assets are the interests on loans receivables and deposits with banks. Interests on deposits with banks based on deposit rates offered by bank while interests on loans receivables are based on fixed rates. The impact on post-tax loss of 10 basis-point shift would be a maximum decrease/increase of HK$34,000 for the year ended 31 December 2018 (2017: HK$63,000), mainly as a result of its interests-bearing bank deposits.

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from financial assets at fair value through profit or loss as at 31 December 2018 (2017: certain available-for-sales investments and investments at fair value through profit or loss). The Group's listed investments are listed on the Stock Exchange and the NASDAQ market and are valued at quoted market prices at the end of the reporting period.

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Financial risk factors *(Continued)*

Equity price risk *(Continued)*

The following table demonstrates the sensitivity to every 10% (2017: 10%) change in the fair values of the listed equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

	Carrying amount of equity investment HK$'000	Increase/ decrease in loss before tax HK$'000	Increase/ decrease in equity HK$'000
2018			
Investment listed in:			
United States of America – financial assets at fair value through profit or loss	1,359	136	–
Hong Kong – financial assets at fair value through profit or loss	795	80	–
	2,154	**216**	**–**
2017			
Investment listed in:			
United States of America – Available-for-sale	17,947	–	1,795

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to the financial lease and loans and trade receivables. In order to minimise the credit risk, the Group has established policies and systems for monitoring and control of credit risk. The management has delegated different divisions responsible for determination of credit limits, credit approvals and other monitoring processes to ensure that follow up action is taken to recover overdue debts. In addition, management reviews the recoverable amounts of loans and trade receivables individually or collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management considers that the Group's credit risk is significantly reduced.

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Financial risk factors *(Continued)*

Credit risk *(Continued)*

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of those instruments.

At the end of the reporting period, the Group had concentrations of credit risk as 99% (2017: 98%) of the Group's trade receivables were due from the Group's top five largest customers. The Group mitigates it concentration risk from it major customers by doing businesses with a number of customers for the same or similar products and the Group actively monitors the credit quality of its customers and adjusts the credit limits granted to the customers should their credit quality deteriorate or when there are signs of slow payment of outstanding receivables. Further quantitative data in respect of the Group's exposure to credit risk arising from these receivables are disclosed in note 21 to the consolidated financial statements.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Finance lease receivable*	–	–	–	5,775	5,775
Trade and bills receivables*	–	–	–	24,733	24,733
Financial assets included in prepayments, other receivables and other assets					
– Normal**	6,861	–	–	–	6,861
– Doubtful**	–	–	–	–	–
Cash and cash equivalents					
– Not yet past due	25,601	–	–	–	25,601
Loan receivable					
– Not yet past due	19,032	–	–	–	19,032
	51,494	–	–	30,508	82,002

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Financial risk factors *(Continued)*

Credit risk *(Continued)*

Maximum exposure and year-end staging as at 31 December 2018 (Continued)

* For trade and finance lease receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 19 and 21 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Liquidity risk

Internally generated cash flows are the general sources of funds to finance the operations of the Group. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations. The Group aims to maintain sufficient bank deposits to meet its short term cash requirements. The Group's liquidity risk management includes diversifying the funding sources.

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	On demand or within one year	
	2018	2017
	HK$'000	HK$'000
Trade payables	**361**	150
Other payables and accruals	**4,249**	2,492
	4,610	2,642

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Capital management

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

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total liabilities expressed as a percentage of the total equity and liabilities. As at 31 December 2018, the gearing ratio was approximately 3.76% (2017: approximately 1.9%). Management considers a ratio of not more than 30% as optimal.

Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

2018

	Financial assets at amortised cost HK$'000	Financial assets at fair value through profit or loss HK$'000	Equity investments designated at fair value through other comprehensive income HK$'000	Total HK$'000
Equity investments designated at fair value through other comprehensive income	–	–	23,196	23,196
Financial lease receivables	5,775	–	–	5,775
Trade and bills receivables	24,733	–	–	24,733
Prepayments, other receivables and other assets	6,861	–	–	6,861
Loans receivables	19,032	–	–	19,032
Financial assets at fair value through profit or loss	–	2,154	–	2,154
Cash and cash equivalents	25,601	–	–	25,601
	82,002	2,154	23,196	107,352

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Financial instruments by category *(Continued)*

Financial assets *(Continued)*

2017

	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Trade and bills receivables	12,507	–	12,507
Prepayments, other receivables and other assets	33,902	–	33,902
Loans receivables	15,700	–	15,700
Available-for-sale investments	–	40,947	40,947
Cash and cash equivalents	43,296	–	43,296
	105,405	40,947	146,352

Financial liabilities

	Financial liabilities at amortised cost HK$'000
2018	
Trade payables	**361**
Other payables and accruals	**4,249**
	4,610
2017	
Trade payables	150
Other payables and accruals	2,492
	2,642

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
(Continued)

Offsetting financial assets and financial liabilities

No financial assets or liabilities are subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2018 (2017: same).

Major customers and suppliers

The five largest customers of the Group accounted for approximately 86% (2017: 81%) of the Group's total revenue while the largest customer of the Group accounted for approximately 39% (2017: 22%) of the Group's total revenue. In addition, for the year ended 31 December 2018, the five largest suppliers of the Group accounted for approximately 54% (2017: 96%) of the Group's total purchases while the largest supplier of the Group accounted for approximately 15% (2017: 33%) of the Group's total purchases.

The Group mitigates its concentration risk from its major customers by doing businesses with a number of customers for the same or similar products. The Group also maintains relationships with a number of accredited suppliers so as to reduce its reliance of any of them.

35 EVENTS AFTER THE REPORTING PERIOD

The following significant events took place subsequent to 31 December 2018:

(i) Acquisition of the majority equity interest in Shenzhen Qiping Technology Company Limited

The equity transfer agreement dated 21 November 2018 amongst Yunrui Technology (Shenzhen) Company Limited* (蘊睿科技（深圳）有限公司) (an indirect wholly-owned subsidiary of the Group, the "Purchaser"), Shenzhen Kuyin Culture Communication Company Limited* (深圳酷音文化傳播有限公司) (the "Vendor A") and Ms. Li Qiuchen* (李秋晨) (the "Vendor B") (collectively as the "Vendors") and Shenzhen Qiping Technology Company Limited* (深圳奇屏科技有限公司) (the "Target Company") in relation to, among others, the acquisition of 70% equity interest in the Target Company (the "Acquisition Qiping").

In January 2019, the Acquisition Qiping has been completed, the Target Company became an indirect non wholly-owned subsidiary of the Group. After the Completion of the Target Company, the Acquisition Qiping has be held as to 70%, 6% and 24% by the Purchaser, Vendor A and existing shareholder, respectively.

(ii) Disposal of ChipMOS Taiwan ADS

On 7 March 2019, the Group disposal all of its remaining shares of 10,284 ChipMOS Taiwan ADS at the prevailing market price of US$16.881 per ChipMOS Taiwan ADS, subject to the restrictions approved by shareholders in the special general meeting held on 12 March 2018.

36 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

As at 31 December 2018

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	**150**	51
Investments in subsidiaries	**89,017**	62,539
Available-for-sale investments	**–**	17,947
Long-term deposits	**111**	189
Total non-current assets	**89,278**	80,726
CURRENT ASSETS		
Loans receivables	**12,200**	15,700
Financial assets at fair value through profit or loss	**1,359**	–
Prepayments, other receivables and other assets	**4,253**	33,806
Cash and cash equivalents	**10,359**	35,989
Total current assets	**28,171**	85,495
CURRENT LIABILITIES		
Other payables and accruals	**3,082**	1,033
Amounts due to subsidiaries	**–**	10,325
Total current liabilities	**3,082**	11,358
NET CURRENT ASSETS	**25,089**	74,137
NET ASSETS	**114,367**	154,863
CAPITAL AND RESERVES		
Share capital	**134,922**	134,922
Other reserves (note)	**158,366**	159,480
Accumulated losses (note)	**(178,921)**	(139,539)
Total equity	**114,367**	154,863

WEI Xiao
Director

LEUNG Pok Man
Director

36 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

Note: Reserve movement of the Company

		Other reserves			
	Accumulated losses HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Available-for-sale investments/ fair value reserve HK$'000	Total HK$'000
At 1 January 2017	(134,142)	137,800	20,566	(8,471)	149,895
Loss for the year	(5,397)	–	–	–	–
Changes in fair value on available-for-sale investments	–	–	–	9,585	9,585
At 31 December 2017	(139,539)	137,800	20,566	1,114	159,480
Effect of adoption of HKFRS 9	1,114	–	–	(1,114)	(1,114)
At 1 January 2018 (restated)	**(138,425)**	**137,800**	**20,566**	**–**	**158,366**
Loss for the year	**(40,496)**	**–**	**–**	**–**	**–**
At 31 December 2018	**(178,921)**	**137,800**	**20,566**	**–**	**158,366**

37 APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 22 March 2019.