SMART-CORE HOLDINGS LIMITED
芯智控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code：2166

2018
Annual Report

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. TIAN Weidong
(Chairman of the Board and Chief Executive Officer)
Mr. WONG Tsz Leung *(Chief Financial Officer)*
Mr. LIU Hongbing
Mr. XIE Yi *(resigned with effect from 1 April 2019)*
Mr. YAN Qing *(appointed with effect from 1 April 2019)*

Independent Non-executive Directors

Mr. TANG Ming Je
Mr. ZHENG Gang
Mr. WONG Hon Kit *(resigned with effect from 1 July 2018)*
Mr. WONG Hok Leung *(appointed with effect from 1 July 2018)*

BOARD COMMITTEES

Audit Committee

Mr. WONG Hon Kit *(Chairman)*
(resigned with effect from 1 July 2018)
Mr. WONG Hok Leung *(Chairman)*
(appointed with effect from 1 July 2018)
Mr. TANG Ming Je
Mr. ZHENG Gang

Remuneration Committee

Mr. ZHENG Gang *(Chairman)*
Mr. TANG Ming Je
Mr. WONG Hon Kit *(resigned with effect from 1 July 2018)*
Mr. WONG Hok Leung *(appointed with effect from 1 July 2018)*
Mr. TIAN Weidong

Nomination Committee

Mr. TIAN Weidong *(Chairman)*
Mr. TANG Ming Je
Mr. WONG Hon Kit *(resigned with effect from 1 July 2018)*
Mr. WONG Hok Leung *(appointed with effect from 1 July 2018)*

COMPANY SECRETARY

Mr. CHAN Lap Wing *(HKICPA)*
(resigned with effect from 15 March 2019)
Mr. YAU Chak Man *(ACCA, HKICPA)*
(appointed with effect from 15 March 2019)

AUTHORISED REPRESENTATIVES

Mr. TIAN Weidong
Mr. WONG Tsz Leung

REGISTERED OFFICE

Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS

Hong Kong

15/F, Tower B, Regent Centre
70 Ta Chuen Ping Street
Kwai Chung
New Territories, Hong Kong

PRC

16/F, Finance & Technology Building
No.11 Keyuan Road, Nanshan District
Shenzhen, China

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway, Hong Kong

LEGAL ADVISOR

As to Cayman Islands law

Maples and Calder
53rd Floor, The Center
99 Queen's Road Central
Hong Kong

As to Hong Kong law

DLA Piper Hong Kong
17th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law

Commerce & Finance Law Offices
27C, Shenzhen Te Qu Bao Ye Building
6008 Shennan Road
Shenzhen, PRC

SHARE REGISTRARS

Hong Kong

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

Cayman Islands

Maples Fund Services (Cayman) Limited
PO Box 1093
Boundary Hall Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

DBS Bank (Hong Kong) Limited
16/F, The Center
99 Queen's Road Central
Hong Kong

Hang Seng Bank Limited
20/F, 83 Des Voeux Road Central
Hong Kong

STOCK CODE

2166

COMPANY WEBSITE

www.smart-core.com.hk

MILESTONES

Smart-Core Technology becoming the authorized IDH solution company of NXP

In April 2018, Shenzhen Smart-Core Technology Co., Ltd. ("**Smart-Core Technology**", a wholly-owned subsidiary of the Company) formed a partnership with NXP Semiconductors N.V. ("**NXP**"), the largest automotive electronics and artificial intelligence IoT chip company worldwide and became its officially authorized IDH (Independent Design House) solution company. Smart-Core Technology has also launched solutions for smart locks based on various leading secure connection technologies of NXP.

Expansion into the Southeast Asian Market

On 31 July 2018, Smart-Core Development Company Limited ("**Smart-Core Development**", a subsidiary of the Company) and DTDS Technology Pte. Ltd. ("**DTDS**") established a joint venture company in Hong Kong with a registered capital of US$1,000,000, which is held as to 70% by Smart-Core Development. The joint venture company is principally engaged in the provision of electronic components trading related services in the Indian and Southeast Asia markets, and has established a subsidiary in India to realize the localization of its business and services. DTDS is a distributor of electronic components focused on the Indian and Southeast Asia markets with extensive channel resources in the local area.

Successful acquisition of 25% equity interests in Quiksol International HK Pte Limited

On 31 October 2018, Smart IC Cloud Holdings Limited, a wholly-owned subsidiary of Smart-Core Holdings Limited (the "**Company**") completed the acquisition of 25% of the issued shares of Quiksol International HK Pte Limited ("**Quiksol HK**") at the consideration of USD3,044,000, becoming the single largest shareholder of Quiksol HK. Quiksol HK is an industry-leading independent distributor of electronic components, and its businesses are highly complementary to the Group's authorized distribution and technology value-added services. The in-depth cooperation between the two parties will boost the growth of their respective businesses.

Honour

In 2018, the Company and its subsidiaries (collectively, the "**Group**") was awarded with the Outstanding Performance Award of Electronic Component Distributors (電子元器件分銷商卓越表現) presented by Electronics Supply and Manufacturing-China ("**ESMC**"), an internationally renowned media, for the fourth consecutive year.

The Group was elected as the Vice Chairman Unit (副理事長單位) for China Electronics Distributor Alliance (CEDA) and was honoured as 2018 Outstanding Authorized Distributor of Semiconductors in Innovation (2018服務中國創新,優秀半導體授權代理商).

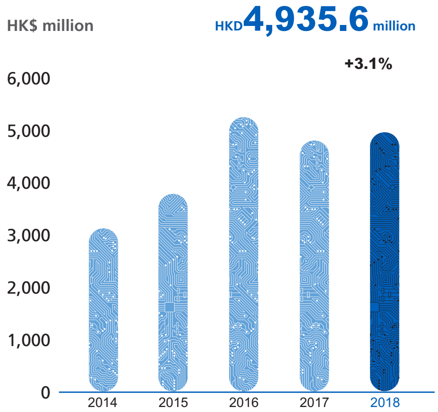
Intellectual Property

Smart-Core Technology was granted 2 invention patents and 2 utility model patents by National Intellectual Property Office and was granted 3 computer software copyright registration certificates by National Copyright Administration in 2018. As the key technology value-added center of the Group, the number of technicians of Smart-Core Technology accounted for approximately 30% of the total employees, with an aim to provide customers with a wide variety of high quality technology solutions and professional platform technology support.

FIVE-YEAR FINANCIAL SUMMARY

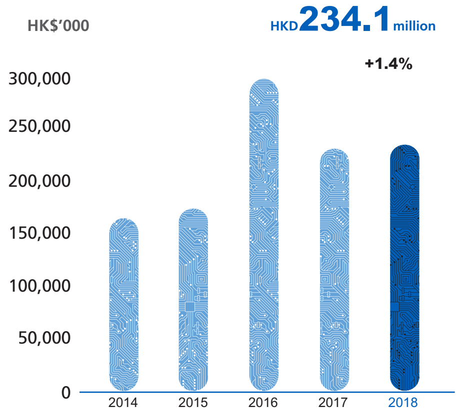
Revenue

For the year ended 31 December



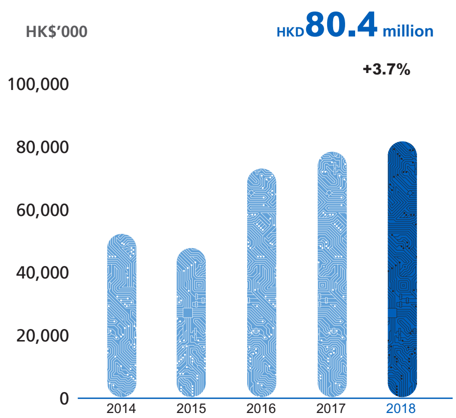
Gross Profit

For the year ended 31 December



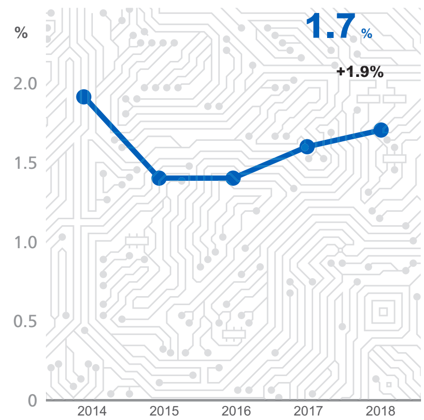
Profit for the year attributable to: Owners of the Company

For the year ended 31 December



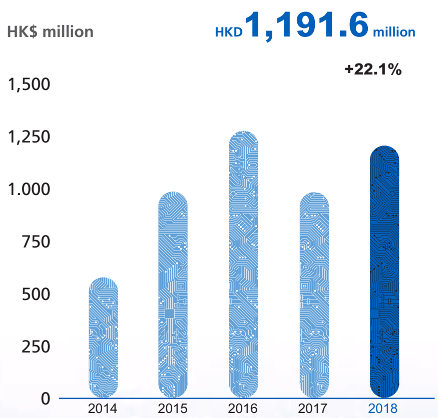
Net Profit Margin

For the year ended 31 December



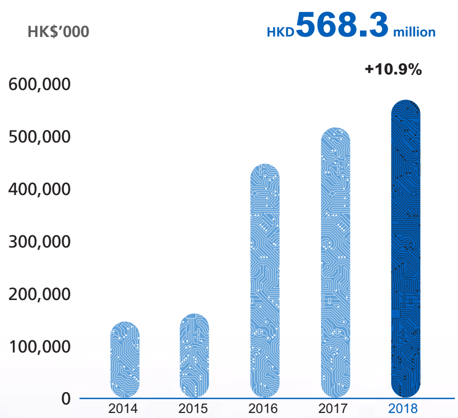
Total Assets

As at 31 December



Total equity attributable to: Owners of the Company

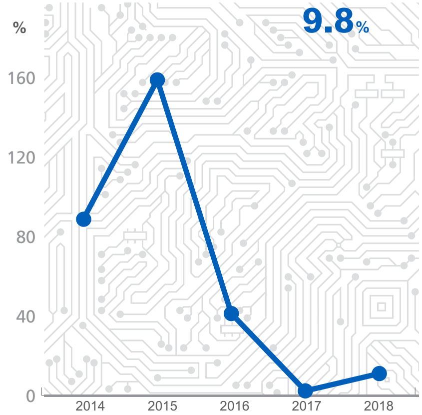
As at 31 December



FIVE-YEAR FINANCIAL SUMMARY

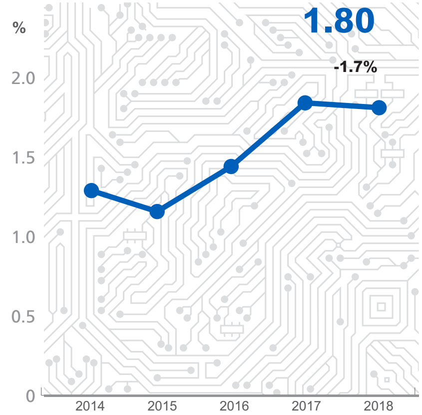
Gearing Ratio

As at 31 December



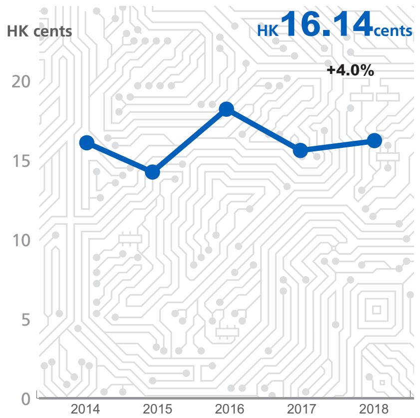
Current Ratio

As at 31 December



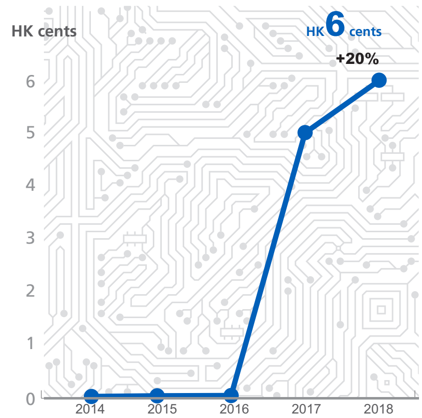
Earnings per share ("EPS")-Basic (HK cents)

For the year ended 31 December



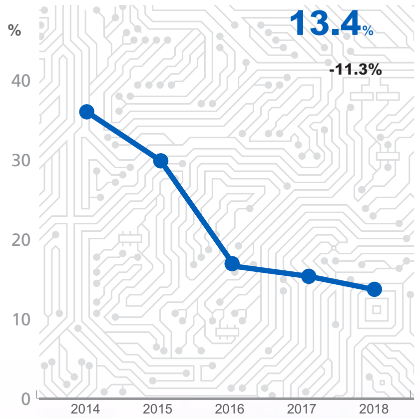
Dividend per share (HK cents)

For the year ended 31 December



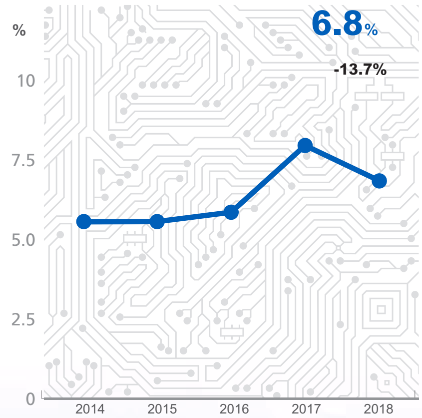
Return on equity-%

For the year ended 31 December



Return on assets-%

For the year ended 31 December



CHAIRMAN'S STATEMENT

REVIEW OF 2018

The Group is a leading distributor and technical value-added service provider of integrated circuit ("**IC**") and other electronic components based in the People's Republic of China (the "**PRC**"). We have maintained stable co-operative relationship with the major semiconductor supplier of the Group and have a diversified customer base comprising over 3,000 companies. The Group maintained its leading position in broadcast TV, memory and power supply, optoelectronic display and optical communication, and achieved scaled sales in security monitoring, communication, Internet of Things, auto electronics and touch screen display. The Group recorded a sales amount of HK$4.9 billion in 2018, representing a net profit attributable to the owners of the Company of HK$80.4 million for the year and a year-on-year increase of 3.7% over 2017.

In 2018, the Group continued to refine management of its business which was divided into three business groups, namely authorized distribution, independent distribution and technology value-added. The authorized distribution business group is the traditional core business, and the major source of income of the Company. The independent distribution is a newly established business group, which will be complementary to the existing authorized distribution business and the technology value-added business. The technology value-added business will focus on specific market segment and new businesses, translating increment into value through investment in technology development and integration of industry resources.

CHAIRMAN'S STATEMENT

In July 2018, the Group and Singapore-based DTDS jointly invested a joint venture company. Leveraging on the combination of quality product lines and technology solution resources of the Group and the competitive advantage in market channel of DTDS in India and Southeast Asia, the new company will explore incremental businesses in the local markets. In October 2018, the Group acquired Quiksol HK, a local leading independent distributor of electronic components, and became its single largest shareholder, thereby entering the independent distribution business. In 2018, the Company also spent HK$15.23 million on its first share award scheme for its internal core employees.

OUTLOOK FOR 2019

In 2019, as trade frictions, exchange rate fluctuations, volatile surrounding environment, sluggish market and other negative factors and risk remains, and the global economic development is still surrounded by a number of uncertainties, the electronic industry which is closely related with the global economic development will also face a complex and changing environment. However, driven by favorable factors such as the application and penetration of many technologies based on 5G, AI and auto driving, industry transfer across the globe, and the shift of the PRC economic development from "demographic dividend" to "engineer dividend", we believe that the PRC and even the global electronic industry will have a good development prospect in the future.

The development and integration of new technologies such as fifth-generation wireless ("**5G**"), AI and Internet of Things ("**IOT**") will certainly generate many game-changing application scenarios, which will have far-reaching impact on the development of many vertical industries and drive the further development of the electronic industry. Under this circumstance, the Group will hold fast to the positioning of "serving as an enterprise bridging cutting-edge technologies and high quality products", and seek for continuous business development through the following four business strategies.

To expand the distribution business

The electronic component distribution business is currently the core business of the Group, the authorized distribution business of the Group will leverage on the existing product line resources and market, and strive to boost sales by exploring new valuable product lines and customer groups, while the independent distribution business represents the new business direction of the Company, which is expected to be complementary with our authorized distribution business in terms of resources and market and help to drive the continuous growth of the authorized distribution business in the future, facilitating the transformation of the Group's business towards the hybrid distribution business model. In 2019, we will also proactively seek for new opportunities for investment, merger and acquisition and cooperation of the industry and take action when the time is right.

To upgrade technology value-added business

As the development strategy always upheld by the Group, technology value-added is one of the core competitiveness the Group strives to nurture. In 2019, the Group will continue to increase investment for research and development activities, and enhance efforts in terms of the intellectual property by making proper arrangement and planning in respect of patents and copyright of software. The Group will focus on improving ability of the technology value-added business group to generate cash inflow, in an effort to enhance the profitability of the Group's businesses. So far, the Group has achieved progress to different extent in many sectors such as smart commercial display, smart projection, smart locks, IOT and software services.

To expand the overseas market

Due to increasing labor cost of the manufacturing industry as result of loss of demographic dividend in China, the labor-intensive low-end electronic manufacturing industry has been transferring to India and Southeast Asian countries, therefore demands for electronic components from these emerging regions are expected to experience rapid growth in the future. In 2018, the Company joined hand with Singapore-based DTDS to form a joint venture company, with an aim to jointly explore the incremental market in India and Southeast Asia. In 2019, we will push ahead the implementation and development of the relevant matters, and proactively seek for new investment opportunities in the overseas markets.

To integrate industry resource

Due to the combined effect of several negative factors such as the shift of the electronic industry from incremental market to stock market, increasing trade friction risks, rising cost of the manufacturing industry and the cyclical downturn of the semiconductor industry, the electronic component distribution industry will face more intensified competition in the future, making it more difficult for many medium and small-sized distributors to survive under such operation environment. The distribution industry in China is likely to enter into a consolidation period, which will represent a great challenge as well as an excellent development opportunity for the industry. As a leading local distributor, and leveraging on our strengths of the platform as a listed company and the capital market advantage as well as our extensive industry experiences and expertise, we will make every effort to develop the Group into a leading transaction platform in terms of scale. In 2019, we will push ahead corporate structure reform and improve operation management, human resource management, financial management, supply chain management and information system management, with an aim to lay a solid platform foundation for the development of the Company.

Looking into the future, we brim with confidence and are well prepared to confront with all kinds of market challenges in the new year, in a bit to boost business growth and bring greater return to the shareholders. In the end, I would like to extend my heartfelt gratitude to each shareholder, business partner, member of the Board of Directors, the management of the Group and all staff for their assistance and support rendered to the development of the Company.

Tian Weidong
Chairman
Hong Kong, 25 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group maintained a steady development in our core business and achieved positive results in the development of new business areas in 2018. The increase in orders received from our customers in commercial display, security monitoring, optical communication and artificial intelligence of things ("**AIoT**") has laid a solid foundation for the Group's future development.

In the wake of the growing importance of the new businesses with increasing sales revenue, a revised classification of the product lines is used in business review. The "smart media display" and "intelligent broadcasting terminal" were combined into "broadcast television" ("**broadcast TV**"), the product lines "memory" and power-related product lines were combined into "memory power supply", and several new product lines including optoelectronic display, communication products, auto electronics, optical communication, AIoT and security monitoring were newly classified.

Broadcast TV

Benefiting from the promotion of sports events and the drop in liquid crystal display ("**LCD**") panel prices, the global shipment volume of liquid crystal display television increased in 2018. The launch of China Central Television("**CCTV**")'s 4K channel in October 2018 has brought better viewing experience and service to TV users, and will lead the consumption of color TV products in China into a quality upgrading stage and create new business opportunities to the market. As the Group adjusted its strategy in a timely manner to cope with the changes in market demand, the Group was able to maintain a stable sales of TV IC in a competitive market place. In addition, the Group increased investment in research and development on certain fast-growing markets, including smart commercial display and smart projection, with an aim to pursue new business growth drivers in this highly differentiated market.

In the set-top box market which has been shifting from simple cable TV digital set-top boxes ("**DVB**") to internet set-top boxes (internet protocol television ("**IPTV**") and over-the-top ("**OTT**")), Internet smart set-top boxes will become an important entry point for future smart homes market. At present, the set-top box market is dominated by DVB, IPTV and OTT. According to AskCi (www.askci.com), China had nearly 160 million IPTV users in 2018, with an annual growth of nearly 40 million users. Given the stiff market competition and some adverse factors such as Sino-US trade friction, the Group felt the pinch and saw a decline in the sales of set-top box chips in 2018, which led to a slight drop in the overall sales of the combined product line broadcast TV. In 2018, the total sales of the Group's broadcast TV products decreased by 4.9% as compared to 2017.

Memory Power Supply

In 2018, the combined output value of the two types of memory IC namely the global dynamic random access memory ("**DRAM**") and the non-volatile memory technology ("**NAND**") flash grew at a rapid pace. Amid the weak growth in market demand for smart phones and smart TVs as opposed to the rapid capacity expansion of the DRAM industry, DRAM prices began to peak and fall at the end of 2018. The prices of NAND flash memory continued to drop sharply in 2018 due to the supply growth driven by the production expansion of memory IC manufacturers and the application of new technologies such as 3D stacking and quad-level cell ("**QLC**"). The Group's revenue from memory power supply products increased by approximately 8% as compared to 2017.

Optoelectronic Display

The optoelectronic display product line mainly focuses on the sales of IC related to displays and screen modules. The sale of LCD display in 2018 for video games/electronic sports ("**e-sports**") stood out and recorded the largest growth in sales. Chinese manufacturers' TV panel shipments increased, ranking first in global market share, reflecting the enormous potential for the semiconductor chip market related to screen modules. In 2018, the sales of the optoelectronic display products of the Group increased by 60.1% as compared to 2017.

Communication Products

The communication products product line mainly focuses on the sales of radio frequency, storage and related electronic components of mobile phones and second-generation wireless ("**2G**")/fourth-generation wireless ("**4G**") communication modules. Global shipments of cellular IoT modules increased considerably, mainly attributable to the significant growth in demand in the Chinese market. The application of such modules in such fields as the smart city, security monitoring, smoke sensing and meter reading and other application fields is booming, pushing up the overall shipments of cellular modules. Thanks to the rapid growth in sales of small-capacity multi-chip package ("**MCP**") applied to cellular modules, the sales of our communication products recorded a significant year-on-year growth of 88.5% compared with 2017.

Optical Communication

In 2018, the demand of the traditional optical communication market kept edging up, with much of the market attention focusing on fiber to the x ("**FTTx**"), 4G/5G and data center demands. As the backhaul/intermediate/forward transmission capacity under the 5G new architecture is required to be expanded dozens of times, it brings new development opportunities to small base stations, optical fibers, optical modules, wavelength-division multiplexing ("**WDM**") devices, etc. We believe that, after the 5G network construction kicks off in full swing, the demand for optical fibers will soar, leading to an increase of demand of 25/50Gbps high-speed optical communication modules. As of now, the 100G system has become the mainstream technology in optical transmission networks. From the perspective of development, the 5G industry and next-generation data centers will focus on developing 400Gbps transmission technology. In 2018, the Group's optical communication product line made a great progress and the sales of our optical communication products recorded a significant growth of 65.4% compared with 2017.

AIoT

AIoT is the combination of artificial intelligence ("**AI**") technology with the IoT. The IoT industry is evolving from IoT to AIoT in 2018. The Group's AIoT product line mainly sells semiconductor and modules for the application in Wi-Fi, bluetooth low energy ("**BLE**") and 2.4G, while paying attention to market opportunities in cellular-based narrow band Internal of Things ("**NB-IoT**") and LoRa modules. In 2018, the sales of our AIoT products increased by 43.6% as compared to 2017.

Security Monitoring

Monitoring equipment and monitoring systems are rapidly becoming increasingly digital, networked and intelligent. With the penetration of AI technology into the field of security monitoring, "AI-based security" will promote the upgrading of hardware and software in traditional video surveillance sectors such as public security, transportation, judicial monitoring, culture, education, health, energy, finance and smart buildings, and thus drive a huge demand for high-definition and ultra-high-definition ("**UHD**") cameras. The Group's security monitoring product line focuses on developing core IC and image sensors for high-definition cameras. Our products maintain a leading edge in the industry and the sales of the security monitoring products in 2018 substantially increased by 390% compared with 2017.

Other Areas

In 2018, we partnered with NXP Semiconductors N.V. ("**NXP**"), the world's largest automotive electronics and artificial intelligence IoT chip company, and became its officially authorized IDH (Independent Design House) solution supplier. We launched solutions for mass production of smart door locks based on NXP's leading secure connection technologies, thereby entering the highly promising smart door lock market. In addition, our laser smart projection solutions have won over some important clients in the industry for cooperation on project development. In July 2018, the Group established a joint venture with DTDS Technology Pte Ltd ("**DTDS**"), a Singapore based Company, to develop the Indian and Southeast Asian markets. The Group will develop an independent distribution business based on the "SuperIC" platform to complement the existing authorized distribution business and technology value-added business. To this end, we invested in Quiksol HK which has a wolly-owned subsidiary (hereinafter collectively referred to as "**Quiksol Group**"), a leading independent distributor, in October 2018 and became its sole largest shareholder.

OUTLOOK

Broadcast TV

According to IHS Markit, a research firm, global TV shipments in 2019 will increase slightly to 226 million units, more than half of which will be 4K resolution (UHD) products. In January 2019, ten departments and ministries including the National Development and Reform Commission and the Ministry of Industry and Information Technology jointly issued the Implementation Plan for Further Optimizing Supply Chains and Promoting Stable Consumption Growth to Develop a Strong Domestic Market (2019) (《進一步優化供給推動消費平穩增長促進形成強大國內市場的實施方案(2019年)》), marking the official launch of a new round of "Home Appliances to the Countryside" campaign, which will promote the nationwide upgrading of household electrical appliances and give rise to incremental demand. Therefore, the proportion of the consumption of high-quality TVs with large screens, 4K UHD and artificial intelligence is expected to increase significantly in 2019. We believe that the markets of those differentiated products including commercial display and smart projection products will maintain rapid growth, which are the focus areas of our technology value-added business. Overall, the TV market is large and relatively stable. The market is currently in the process of product and technology upgrading and is expected to deliver outstanding performance in 2019.

With the rising popularization of 4K UHD TVs, the Ministry of Industry and Information Technology proposed in January 2018 to set up China Ultra High Definition Video Industry Alliance and formulated the Action Plan for the Development of Ultra High Definition Video Industry (2018-2022) (《超高清視頻產業發展行動計劃(2018–2022)》). CCTV released the 4K UHD technology plan in May 2018 and launched an experimental 4K UHD channel in October 2018, which will bring new opportunities for the set-top box market. Accordingly, we believe that with the product and technology upgrading, the IC and other electronic components used in UHD set-top boxes will have a good market prospect in forthcoming years, and the Company will look for business opportunities in emerging markets such as India while serving the existing customer base.

Memory Power Supply

Driven by the sharp growth in the sales of semiconductors by the three production enterprises of DRAM in 2018, the sales of memory IC for the year recorded a new high. In the future, with the application of new flash memory technologies such as 96-layer stacking and QLC (Quad-Level Cell, which stores 33% more bits per cell than triple-level cell ("**TLC**")), it is expected that the price of unit memory capacity will continue to fall in 2019, and the decline in memory prices will further stimulate the rapid growth of demand for solid-state drive ("**SSD**") and other related products. As the memory market plays a key role in the entire semiconductor industry and still has a large space for development, we will vigorously explore new development opportunities in the field to expand our business.

As to the sales of power semiconductors, China currently has the largest demand for power semiconductors. The application scope of power semiconductors has been extended from traditional industrial control and 4C industries (computers, communications, consumer electronics and cars) to renewable energy, rail transit, smart grid and other new areas. As such, the global power semiconductor market is expected to continue to grow with bright market prospects.

Optoelectronic Display

The shipments of display panels in 2018 increased significantly driven by the growth of the large-size full-screen 4K UHD market. In particular, the shipments of e-sports displays saw rapid growth. In 2018, China's shipments of e-sports displays increased substantially, and the market still has a large room for growth. The Company provides industry-leading technology solutions and chip products for displays and display screens, and enjoys great market prospects in this regard.

Communication Products

A series of standard tests on NB-IoT were completed by the end of 2016. With a bandwidth of approximately 180KHz, this new NB-IoT technology can be directly deployed in the existing global system for mobile communcations ("**GSM**") networks, universal mobile telecommunication system ("**UMTS**") networks or long-term evolution ("**LTE**") networks, which can significantly reduce the deployment cost and help realize smooth upgrade of networks. It will become an important niche of the IoT market and thus drive the ongoing growth in the shipments of cellular IoT modules. China, North America and Europe currently have the largest market demands, indicating huge market value potential and great growth prospects. In the future, with the gradual commercial application of 5G technology, 5G technology can support QoS (Quality of Service) agreements of Industrial Ethernet. As such, the application scope of 5G NB-IoT can be extended to the Industrial Internet of Things to build an IoT cornerstone for intelligent manufacturing, signaling broad market prospects.

Optical Communication

In the coming year, the Group will not only maintain its market share in the existing markets, but also energetically develop new generation products, promote the development and marketing of supporting products for data centers, and search for new business opportunities from 5G commercialization. According to the latest GSA (Global mobile Suppliers Association) report released in November 2018, 192 mobile operators in 81 countries were investing in 5G networks. China's three major operators will usher in the transition of 5G from large-scale test to trial commercialization in 2019 and realize large-scale commercialization of 5G in 2020. In this context, the construction of optical communication networks is expected to boom in the coming years. The Group will introduce more valuable new product lines and seize opportunities to expand market share.

AIoT

The IoT, known as the third wave of the world's information industry after computers and the Internet, will apply to many aspects of national economy and social services and represent a trillion dollar worth opportunity. IoT is a composite system integrating sensing, communication, network, computing and control technologies. As of now, a range of relevant technologies including Bluetooth, Wi-Fi, NB-IoT and LoRa have been developed. AIoT is the abbreviation of AI+IoT. When an IoT device is empowered with AI capability, the AI algorithm will have higher requirements on the parallel computing capability and memory bandwidth of the chips of the device. The system has to perform AI computing (edge computing) with low power consumption and low cost. As the IoT application requirements are fragmented and IoT devices are varying in shape with different demands for AI computing power, AIoT chips usually need to be customized based on application scenarios to meet the diverse requirements on performance, power consumption, cost and cross-device forms. The Group considers that the IoT market will have increasingly diverse demands and broad development prospects.

MANAGEMENT DISCUSSION AND ANALYSIS

Security Monitoring

As a core component of the construction of "Safe Cities", video surveillance is an important guarantee for urban public safety. As AI penetrates deeper into the security monitoring industry and relevant products become increasingly sophisticated, the AI system needs to extract and accurately identify many features from real-time video data, which puts higher requirements on the definition and image quality of the front-end surveillance cameras. Accordingly, new technology applications such as UHD cameras with 4k resolution and H.265 video codec will become increasingly popular. In 2018, the Group's sales in the security monitoring market increased substantially compared with 2017. In the future, we will continue to expand the marketing team and marketing coverage for security monitoring products to increase our market share.

Looking forward, the Group will make great efforts to expand and enhance its existing business and continue to explore more markets and new business. We will watch closely the development of technology value-added business, improve investment return and enhance the establishment of intellectual property, so as to build up the long-term core competitiveness of the Group. We will enhance capital operation, and will continue to seek for suitable investments and targets for acquisition and merger to take action when the right opportunity arises. Looking ahead, while maintaining the stable operation of the Group, we will boost the development of our business, with an aim to create greater return and long-term value for the shareholders of the Company.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, the Group's revenue amounted to HK$4,935.6 million (2017: HK$4,785.2 million), representing an increase of HK$150.4 million (3.1%) as compared with the revenue for the year ended 31 December 2017.

The slight increase in revenue level was mainly caused by the combination effect of the significant increase in total sales of optoelectronics display product, optical communication product and security monitoring product approximately HK$293.6 million as well as the decrease in the sales of broadcast TV of approximately HK$153.4 million. Due to the fierce market competition and the unfavorable factors such as Sino-US trade friction, the Group's revenue in broadcast TV product was affected in some ways in 2018. However, the Group had been actively involved in the expansion of our product lines and extended our reach to new customers and suppliers. The management expects these fast-growing products will bring in a remarkable contribution to the Group's future economic inflow.

Gross profit

Our gross profit for the year ended 31 December 2018 increased by HK$3.3 million to HK$234.1 million as compared with the prior year (2017: HK$230.8 million). Our gross profit margin decreased by 0.1% to 4.7% for the year ended 31 December 2018 (2017: 4.8%). The slight decrease in gross profit margin was mainly due to the significant decrease in the prices of flash memory driven by the production expansion of memory chip manufacturers and the application of new technologies.

Research and development expenses

Research and development expenses mainly comprise of staff cost incurred for our research and development department. For the year ended 31 December 2018, research and development expenses amounted to HK$27.1 million, increased by 7.7% as compared with the year ended 31 December 2017 (2017: HK$25.1 million). The increase was due to the sustainable needs of the technical support from our customers especially after the launch of certain new products as well as the increase in the average salaries cost to the technicians (including the share-based payment expenses of HK$1.9 million (2017: HK$ Nil) during 2018.

Administrative, selling and distribution expenses

Administrative, selling and distribution expenses aggregated to HK$109.2 million for the year ended 31 December 2018 (2017: HK$90.6 million), which accounted for 2.2% of the revenue for the year ended 31 December 2018 as compared with 1.9% over the corresponding year in 2017. The net increase of HK$18.6 million was mainly due to (i) the launch of share award scheme in the current year and the Group recognised approximately HK$13.3 million of share-based payment expenses in the year ended 31 December 2018 (2017: HK$ Nil); and (ii)) the increase in product distribution costs which was in line with the increase in revenue.

Interest expenses on bank borrowings

The Group's interest expense on bank borrowings for the year ended 31 December 2018 amounted to HK$27.4 million, an increase of HK$2.2 million as compared with that in 2017 (2017: HK$25.2 million). Interest expenses mainly represents the borrowings cost from entering into various factoring agreements with some of the principal bankers. The increase in the amount of interest expenses was mainly due to the increase in revenue of customers under factoring agreements and the increase in interest rates during the year ended 31 December 2018.

Profit for the year

For the year ended 31 December 2018, the Group's profits amounted to HK$81.5 million, representing an increase of HK$4.1 million as compared to HK$77.4 million in 2017, an increment of 5.3%. The net profit margin for the year ended 31 December 2018 was 1.7%, compared to 1.6% for the year ended 31 December 2017. The increase in the profit for the year was mainly contributed by the reversal of impairment loss on trade and other receivables (HK$23.2 million) incurred in 2017 offsetting by the allowance of credit losses of approximately HK$5.5 million and the share-based payment expenses approximately of HK$15.2 million for the year ended 31 December 2018 (2017: HK$Nil).

Net profit attributable to the owners of the Company

The net profit attributable to the owners of the Company for the year ended 31 December 2018 amounted to HK$80.4 million, representing an increase of 3.7% as compared with the year ended 31 December 2017 (2017: HK$77.6 million).

Use of proceeds from the global offering

The shares of the Company were listed (the "**Listing**") on The Stock Exchange of Hong Kong Limited on 7 October 2016. The Company issued 125,000,000 new shares with the nominal value of US$0.00001 at HK$1.83 per share. The net proceeds from the Listing received by the Company were approximately HK$205.8 million after deducting underwriting fees and estimated expenses in connection with the Listing.

The Group has utilised approximately HK$98.4 million of the net proceeds as at 31 December 2018. The unutilised net proceeds have been placed as deposits with banks.

Use of Proceeds	Net proceeds	Utilised as at 31 December 2018	Amount remaining
	(in HK$ million)	*(in HK$ million)*	*(in HK$ million)*
1. Hiring additional staff for sales and marketing and business development and improvement of warehouse facilities	20.6	(20.6)	0.0
2. Advertising and organizing marketing activities for the promotion of our e-commerce platform Smart Core Planet and our new products	41.2	(12.0)	29.2
3. Enhancing, further developing and maintain our e-commerce platform and improving our technology infrastructure	41.2	(2.5)	38.7
4. For research and development	20.6	(20.6)	0.0
5. Funding potential acquisition of, or investment in business or companies in the e-commerce industry or electronics industry	61.7	(22.2)	39.5
6. General working capital	20.5	(20.5)	0.0
	205.8	(98.4)	107.4

Liquidity and financial resources

The Group's primary source of funding included cash generated from operating activities and the credit facilities provided by banks. For the year ended 31 December 2018, net cash inflow from the operating activities amounted to HK$71.9 million (31 December 2017: net cash inflow of HK$20.9 million).

The Group possesses sufficient cash and available banking facilities to meet its commitments and working capital requirements. As at 31 December 2018, the Group maintained bank balances and cash of HK$159.6 million (31 December 2017: HK$177.3 million).

As at 31 December 2018, the outstanding bank borrowings of the Group was HK$59.3 million (31 December 2017: HK$2.1 million). The Group's gearing ratio, based on the interest-bearing borrowings and total equity, increased from 0.4% as at 31 December 2017 to 9.8% as at 31 December 2018 as a result of the increase in bank borrowings to meet the operation needs.

As at 31 December 2018, the Group had current assets of HK$1,050.5 million (31 December 2017: HK$848.7 million) and current liabilities of HK$584.2 million (31 December 2017: HK$463.2 million). The current ratio was 1.80 times as at 31 December 2018 (31 December 2017: 1.83 times).

The Group's debtors' turnover period was 29 days for the year ended 31 December 2018 as compared to 29 days for the year ended 31 December 2017. The Group's debtors' turnover period has been maintaining at a stable level.

The creditors' turnover period was 30 days for the year ended 31 December 2018 as compared with 36 days for the year ended 31 December 2017. Creditors' turnover period improved which was due to the more timely repayment of the amounts due to our suppliers during the current period.

The inventories' turnover period was 20 days for the year ended 31 December 2018 as compared with 20 days for the year ended 31 December 2017. Inventory control was always one of the primary tasks of the Group's management team to maintain the liquidity and healthy financial position of the Group. Inventories' turnover period remained relatively stable in both years.

Foreign currency exposure

The Group's transactions are principally denominated in US dollars and Renminbi. The Group had not experienced any material difficulties or material adverse impacts on its operation despite the fluctuations in currency exchange rates and the net foreign exchange gain of approximately HK$0.1 million for the year ended 31 December 2018 (31 December 2017: net foreign exchange gain of HK$1.2 million). At the date of this report, the Group has not adopted any foreign currency hedging policy. However, the Group will consider the use of foreign exchange forward contracts to reduce the currency exposures in case the exposures become significant.

Pledge of assets

As at 31 December 2018, the previously available-for-sale investments reclassified as financial assets at fair value through profit or loss ("**FVTPL**") and debt instruments at fair value through other comprehensive income ("**FVTOCI**") amounted to HK$52.4 million, and HK$4.2 million respectively (31 December 2017: HK$55.2 million), payment for life insurance reclassified as financial assets at FVTPL amounted to HK$75.1 million (31 December 2017: included in deposits, prepayments and other receivables amounted to HK$65.4 million) and bank deposits amounted to HK$103.7 million (31 December 2017: HK$69.5 million) had been charged as security for the bank borrowings of the Group.

Capital commitment and contingent liabilities

The Group had no material capital commitment and contingent liabilities during the years ended 31 December 2018 and 2017.

Significant investment held

Save for the financial assets at FVTPL and debt instruments at FVTOCI as disclosed above, the Group did not hold any significant investments during the years ended 31 December 2018 and 2017.

Material acquisition and disposal of subsidiaries and associated companies

In July 2018, the Group entered into a joint venture agreement with DTDS in respect of, among others, the formation of a joint venture company in Hong Kong which the Group controls and holds 70% equity interest. The joint venture company will be engaged in the provision of electronic components trading related services in Southeast Asia and Indian markets. Details of the transaction are set out in the announcement of the Company dated 20 July 2018.

In October 2018, the Group completed the acquisition of a total of 25% of issued shares of Quiksol HK for the purchase price of US$3,044,000 (equivalent to approximately HK$23,741,000). An aggregate amount of US$2,149,000 (equivalent to approximately HK$16,762,000), which equals to 70% of the total purchase price was satisfied by the Group by cash at completion and an aggregate of 4,105,030 shares were issued during the year as a result of the issue of consideration shares at completion to satisfy 30% of the total purchase price. For details, please refer to the Company's announcements dated 22 October 2018 and 31 October 2018.

Employees

As at 31 December 2018, the Group had 353 employees (31 December 2017: 299 employees), with a majority based in Shenzhen, Suzhou and Hong Kong. Total employee cost for the year ended 31 December 2018, excluding the remuneration of the directors of the Group were approximately HK$87.9 million (31 December 2017: HK$63.1 million). There have been no material changes to the information disclosed in the prospectus dated 27 September 2016 in respect of the remuneration of employees, remuneration policies, share award scheme, share option scheme and staff development.

MANAGEMENT DISCUSSION AND ANALYSIS

On 19 September 2016, the Company adopted a share award scheme ("**Share Award Scheme**") and conditionally approved and adopted a share option scheme ("**Share Option Scheme**").

In relation to the Share Award Scheme, the board ("**Board**") may, from time to time, at its absolute discretion, select any of our directors, senior managers and employees of the Group to participate in the Share Award Scheme ("**Selected Participants**"), subject to the terms and conditions set out in the Share Award Scheme. In determining the Selected Participants, the Board shall take into consideration matters including, but without limitation, the present and expected contribution of the relevant Selected Participants to the Group.

In relation to the Share Option Scheme, the Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of shares as the Board may determine to an employee (whether full time or part-time) or a director of a member of the Group or associated companies of the Company.

During the year ended and as at 31 December 2018, a total of 9,580,000 share awards were granted to the employees by the Company pursuant to the Share Award Scheme.

Details of movement of shares awarded under the Share Award Scheme during the financial year ended 31 December 2018 (the "**Reporting Period**") were as follows:

	Number of shares					
Date of grant	**As at 1 January 2018**	**Granted during the year**	**Vested during the year**	**Lapsed during the year**	**As at 31 December 2018**	**Vesting period**
28/3/2018	—	4,940,000	4,940,000	—	—	28/3/2018-1/8/2018
28/3/2018	—	4,640,000	—	250,000	4,390,000	28/3/2018-2/1/2019

The biographical details of the Board of directors (the "**Directors**") and the senior management of the Company who held office during the Reporting Period and up to the date of this report are as follows:

EXECUTIVE DIRECTORS

Mr. Tian Weidong, aged 52, is the chairman of the Board, an executive Director and chief executive officer of our Company. He is the founder of our Group and has been leading our Group for over 13 years. Mr. Tian was appointed as a Director of our Company on 22 October 2015. He is also the chairman of the Company's nomination committee and a member of the Company's remuneration committee. Mr. Tian is responsible for overseeing the overall business strategy, development of projects, management and operations of our Group. Further, Mr. Tian is currently serving as a director of a number of subsidiaries of the Company, namely, Smart-Core International Company Limited, Smart-Core Cloud Limited, Smart-Core Development Company Limited, Smart-Core Link Limited, IC Cloud Limited, Smart-Core DTDS Limited, DTDS Smart-Core Pte Limited, Quiksol International HK Pte Limited, Smart-Core International Holdings Limited, Smart Link Holdings Limited, Smart-Core Cloud Holdings Limited, Smart-Core Link Holdings Limited, IC Cloud Holdings Limited, Smart-Core IC Cloud Holdings Limited, Smart IC Cloud Holdings Limited and Smart-Core Development Holdings Limited. He is also the sole director and sole shareholder of Smart IC Limited, a controlling shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**")) of the Company.

Mr. Tian has more than 20 years' experience in the semiconductor industry and its related distribution. He was the sales director of Shenzhen Dadong Electronics Co., Ltd. (which was principally engaged in sales of semiconductors) from October 1993 to June 1997 where he was in charge of the management of the sales team, formulation of sales and marketing strategies and maintenance of business partnerships with clients and suppliers. He was the sales manager of Trident Multimedia Technologies (Shanghai) Co., Ltd. (which was principally engaged in the design of IC products and the development of associated system software and application software) from December 1999 to March 2002 where he was in charge of sales and marketing.

Mr. Tian obtained a degree of Bachelor of Electronic Engineering from Xiamen University in July 1989 and a degree of Master of Business Administration from the National University of Singapore in March 2000 and a degree of Master Business Administration from the National Taiwan University in January 2019.

Mr. Wong Tsz Leung, aged 55, is an executive Director and chief financial officer of our Company. He was appointed as a Director of our Company on 22 October 2015. Mr. Wong joined our Group in March 2007 and subsequently promoted to the vice general manager. Mr. Wong is responsible for overseeing the overall strategy and responsible for the financial operations and management of our Group. Mr. Wong is currently serving as an executive Director of Smart-Core DTDS Limited and Quiksol International HK Pte Limited, both are subsidiaries of the Company. Mr. Wong is also the chairman of supervisor committee of Henan Jinma Energy Company Limited (stock code: 6885) since July 2016. He is also the sole director and sole shareholder of Insight Limited, a substantial shareholder (as defined in the Listing Rules) of the Company.

Mr. Wong has more than 20 years of experience in business management. Prior to joining our Group, Mr. Wong was the financial controller of OSSIMA Publishing Group Limited (which was engaged in travel media business) from January 1995 to September 2005. Mr. Wong obtained a degree of Master of Business Administration from University of Wales via its distance learning program in December 2011.

Mr. Liu Hongbing, aged 52, is an executive Director of our Company. He was appointed as a Director of our Company on 22 October 2015. Mr. Liu joined Smart-Core Technology in February 2007 and acted as the manager of the development department and was subsequently promoted to vice general manager. Mr. Liu is responsible for overseeing the overall strategy and responsible for the research and development matters of our Group. Further, Mr. Liu is currently serving as an executive director of Shenzhen Smart-Core Cloud Technology Co., Ltd and Smart-Core Technology. Both Shenzhen Smart-Core Cloud Technology Co., Ltd and Smart-Core Technology are subsidiaries of the Company.

Mr. Liu has more than 20 years' experience in the electronic engineering industry. Prior to joining our Group, He was the engineer of Hebei Tengfei Electronics Co., Ltd. (which was principally engaged in the design, manufacturing and sales of LCD TVs and other electronic appliances) from October 1993 to May 1999 and was the senior engineer of Shenzhen Zhong Tian Xin Electrical Technologies Co., Ltd. (which was principally engaged in the design, manufacturing and sales of electronic products including LED products, LCD TVs and audio devices) from June 1999 to January 2007. Mr. Liu obtained a degree of Bachelor of Physics from Shandong University in July 1988 and a degree of Executive Master of Business Administration from The Chinese University of Hong Kong in November 2015.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Xie Yi (resigned with effect from 1 April 2019), aged 47, is an executive Director of our Company. He was appointed as a Director of our Company on 16 March 2016. Mr. Xie joined Smart-Core Technology in May 2008 and acted as the manager of the mobile phone business division. In September 2012, Mr. Xie was appointed as the assistant to the general manager where he was responsible for assisting the general manager in respect of internal management of the sales centers. Mr. Xie has become the head of the e-commerce platform since August 2015. He is responsible for overseeing the operations of the e-commerce platform of our Group.

Mr. Xie has more than 20 years of experience in the electronic technology industry. He joined Xiaxin Electronics Co. Ltd.*（夏新電子股份有限公司）from January 2001 to December 2005 and later joined Kuanda (Xiamen) Communication Technologies Co. Ltd.*（寬大（廈門）通訊技術有限公司）from January 2007 to February 2008. Mr. Xie graduated from the Department of Physics at Xiamen University in July 1995.

Mr. Yan Qing (appointed with effect from 1 April 2019), aged 49, has more than 19 years of experience in electronics distribution industry. Mr. Yan served in the Beijing Magnet Health-care Product Co. Ltd as the sales engineer from August 1992 to August 1995. From November 1995 to July 1998, he acted as a sales manager of Nison Industrial & Commercial Pte Ltd-Singapore. From November 1999 to January 2006, he acted as a purchasing director of Converge Singapore. From January 2006 to August 2012, he worked as a director of APAC of Converge China.

Mr. Yan is the chief executive officer and director of Quiksol HK, a non-wholly owned subsidiary of our Group.

Mr. Yan obtained a degree of Bachelor of Engineering in Geophysics Engineer from Jilin University in July 1992 and a degree of Master of Business Administration from the National University of Singapore in March 2000.

INDEPENDENT NON-EXECUTIVE DTRECTORS

Mr. Zheng Gang, aged 51, is an independent non-executive Director of our Company. Mr. Zheng has been the executive director of Hua Xia Healthcare Holdings Limited, a company listed on the Stock Exchange (stock code: 8143) since August 2007. Mr. Zheng had also been appointed as the independent non-executive director of China Internet Investment Finance Holdings Limited (formerly known as Open Asia Development Limited), a company listed on the Stock Exchange (stock quote: 810) from July 2012 to May 2013. Mr. Zheng has extensive experience in management in the finance and investment industry. Mr. Zheng obtained a degree of Bachelor of Electronic Engineering from Xiamen University in July 1989 and a degree of Master of Business Administration from University of Wales in April 1994.

Mr. Tang Ming Je, aged 65, is an independent non-executive Director of our Company. Mr. Tang was a tenured associate professor of the department of business administration of University of Illinois at Urbana-Champaign from August 1991 to August 1995, a visiting associate professor of Hong Kong University of Science and Technology from January 1994 to January 1995 and a professor of department of industrial administration of Chang Gung University from December 1994 to August 1996. He held various positions in National Taiwan University, including Professor of the department of international business from August 1996 to February 2019, founding executive director of the executive master of business administration program from August 1997 to July 1999, director of the division of professional development from March 1998 to July 2004 and vice president for finance from August 2007 to May 2014. Mr. Tang obtained a degree of Bachelor of Civil Engineering from National Taiwan University in June 1975 and a degree of Doctor of Philosophy from Massachusetts Institute of Technology in September 1985. Mr. Tang has been an independent director of Fubon Financial Holding Co., Ltd., a company listed on the Taiwan Stock Exchange (stock code: 2881) since June 2014. He has also been appointed as an independent director of Mediatek Inc., a company listed on the Taiwan Stock Exchange (stock code: 2454) since June 2017.

Mr. Wong Hon Kit (resigned with effect from 1 July 2018), aged 51, is an independent non-executive Director of our Company. Mr. Wong Hon Kit has been the independent non-executive director of Wanjia Group Holdings Limited, a company listed on the Stock Exchange (stock code: 401), since April 2013. He was also an independent non-executive director of Xinhua News Holdings Limited, a company listed on the Stock Exchange (stock code: 309) from September 2017 to October 2017.

Mr. Wong Hon Kit has over 16 years of experience in the corporate finance industry. He has held various positions, including chief financial officer, director and company secretary in different companies in Hong Kong, where he has experience in handling corporate finance transactions such as mergers and acquisitions, capital fund raising and restructuring. He is the responsible officer of Greater China Paxwell Limited, a company providing corporate financial advisory services, from September 2013 to March 2015. Mr. Wong was appointed as a Director of Orient Victory Azure Capital Limited since January 2017 where he was responsible for supervising type-6 regulated activities under Securities and Futures Ordinance ("**SFO**") including corporate finance, internal control and risk management.

Mr. Wong obtained a Diploma in Accounting from Hong Kong Shue Yan University in July 1991. Mr. Wong currently is a Certified Public Accountant in Hong Kong and is the member of Hong Kong Institute of Certified Public Accountants.

Mr. Wong Hok Leung (appointed with effect from 1 July 2018), aged 66, has over 20 years of experience in banking, finance, IT and retail banking, and his last position in banking was in Singapore, as the head of distribution channels for DBS Bank.

Mr. Wong served in the Sun Hung Kai Properties Group as the group head of financial control and business development, and served as the chairman of Sun Hung Kai Logistics Holdings Limited from August 2002 to April 2008. From May 2008 to November 2009, Mr. Wong was a Director of China Metal Recycling (Holdings) Limited (stock code: 773), which was delisted from the Main Board in 2016. Mr. Wong was the chief corporate officer of IMC Industrial Pte Ltd. (formerly known as IMC Corp Pte Ltd) from January 2010 to August 2011. From August 2011 to February 2016, Mr. Wong served as the head of Asia Pacific of Scholz AG (now known as Scholz Holding GmbH) and was responsible for its business development in the People's Republic of China and Asian region. Mr. Wong was appointed as the head of capital markets and company secretary of Henan Jinma Energy Company Limited (stock code: 6885) from January 2017.

Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of The Chartered Association of Certified Accountants and obtained his accounting qualification experience in Price Waterhouse Lowe Bingham & Matthews. Mr. Wong obtained his bachelor degree in science from the University of Hong Kong in November 1975.

SENIOR MANAGEMENT

Mr. Yau Chak Man, aged 39, joined the Group in February 2019 as the financial controller. Mr. Yau was also appointed as the company secretary of the Company in March 2019, He has extensive experience in auditing and financial management. He obtained the degree of Bachelor of Science in Quantitative Finance from The Chinese University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

DIRECTORS' REPORT

The Directors hereby present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of the principal subsidiaries are trading of electronic components. The Group have strong capability to provide engineering support, and operate a distinctive e-commerce platform. Through closely co-operating with IC technology vanguards, the Group uses a comprehensive approach in consolidating industry resources and adopt an OAO (online and offline) business model to provide high quality core IC and value-added services to a broad base of customers. Our products include a wide range of IC and other electronic components used in applications such as smart media display, intelligent broadcasting terminal, mobile terminal, smart automotive electronics, memory products, optoelectronic display, optical communication, AIoT and security monitoring.

BUSINESS REVIEW

A review of the business of the Group and a discussion on the Group's future business development is set out in the Chairman's Statement on pages 7 to 9 and in the Management Discussion and Analysis on pages 10 to 18 of this annual report.

Compliance with laws and regulations

As far as the Directors are aware, the Group has complied with all the relevant laws and regulations that have a significant impact on the business and operation of the Group during the year.

The Group and its activities are subject to requirements under various laws. These include, among others, Company Law of the PRC (《中華人民共和國公司法》), Wholly Foreign-Owned Enterprise Law of the PRC (《中華人民共和國外資企業法》), Detailed Implementing Rules for the "Wholly Foreign-Owned Enterprise Law of the PRC" (《外資企業法實施細則》), Guidance Catalogue for Industrial Structure Adjustment (2011 Version) (《產業結構調整指導目錄》 (2011年本)), the State Council promulgated Several Policies on Further Encouraging the Development of the Software and Integrated Circuit Industries (Guo Fa [2011] No. 4) (《國務院關於印發進一步鼓勵軟件產業和集成電路產業發展的若干政策的通知》 (國發[2011]4號)), Announcement of the National Development and Reform Commission of the PRC [2017] No. 1 – Guiding Catalogue of Key Products and Services for strategic Emerging Industries (2016 Edition) (《中華人民共和國家發展和改革委員會公告2017年第1號—戰略性新興產業重點產品和服務指導目錄 (2016年版)》), Companies Ordinance (Chapter 622), Business Registration Ordinance (Chapter 310), Inland Revenue Ordinance (Chapter 112) and Employment Ordinance (Chapter 57) and the applicable regulations, guidelines, policies issued or promulgated under or in connection with our business activities. In addition, the Listing Rules apply to the Company.

The Company seeks to ensure compliance with these requirements through various measures such as internal controls and approval procedures, trainings and oversight of various business units with the designated resources at different levels of the Group. While these measures require considerable internal resources and result in additional operational cost, the Group highly values the importance of ensuring compliance with applicable legal and regulatory requirements.

Environmental policies and performance

Environment protection is critical to the long term development of the Group. The Group considers the importance of environmental affairs and believe business development and environment affairs are highly related. The Group has endeavoured to comply with laws and regulations regarding environment protection. These policies were supported by our staff and were implemented effectively. During the year ended 31 December 2018, we had not been subject to any fines or other penalties due to any non-compliance with health, safety or environmental regulations.

Relationship with employees

We believe our employees are the most valuable resources in achieving our success. We are committed to offering competitive remuneration package to employees and have implemented a self-appraisal program to provide incentive and motivation to the staff to attain periodic goals. The Company has adopted a share award scheme and a share option scheme to reward our senior management and employees for their hard work, contribution and loyalty.

To ensure the quality of our employees at all levels, we have an intensive and standardised in-house training programmes to train our new joiners, mainly focusing on skills like company introduction and working procedure. The goal of the training programmes is to train our employees and to identify talent, with the aim of providing upward mobility within the Group, fostering employee loyalty and incorporating customized mentoring, coaching and training.

Relationship with suppliers, customers and other stakeholders

The Company understands the importance of maintaining good relationship with its suppliers and customers to meet its goals and to gain further success. We strive to maintain long-term and stable relationship with our major suppliers, which help to ensure our reliable access to their products. Our customer service team enables us to maintain close business relationships with our customers. Our application engineering support helps us to maintain symbiotic relationship with suppliers and customers. We believe that our application engineering support promotes the use of our suppliers' products and streamlines our customers' development process at the same time. Both our suppliers and customers value our capability to provide application engineering support in end-product-development.

Our major suppliers are generally reputable IC and other electronic component companies, and had business relationship with the Group from 6 to 12 years. Our largest supplier is headquartered in Taiwan and has a diverse product portfolio of application specific ICs in various market such as TV, set-top box and LCD monitor. Our major suppliers include IC companies that supply memory and silicon turner IC as well. The credit period from the major suppliers is 30 to 60 days.

Our major customers include leading brand-name consumer electronic product manufacturing companies, original design manufacturer ("**ODMs**") and original equipment manufacturer ("**OEMs**") in the electronic product industry in the PRC region. The years of business relationship with the Group ranged from 3 to 12 years and the credit terms granted to the major customers from 30 to 120 days.

Principal risks and uncertainties

We believe that the following are some of the major risks that may have adverse effect on our business:

- We are dependent on our major suppliers ("**Major Suppliers**"). If our distributorship rights with these Major Suppliers are terminated, interrupted, or modified in any way adverse to us, our business, financial condition and results of operations could be adversely affected. We are expanding our supplier base by means such as organic growth of our business, expansion into various product segments which the Major Suppliers are not the supplier and through investment in, acquisition of and strategic cooperation with IC companies and distributors. We have been expanding and will continue to expand our supplier base by exploring co-operation opportunities with new suppliers as well as introducing new product segments that we consider to have growth potential. We have implemented guidelines for selecting and introducing new suppliers and/or new products to our offering.
- We generally do not enter into long-term agreements with our customers, and some of them may cancel, change or postpone their orders. Furthermore, more than 50% of our revenue during the year was generated from our largest five customers. The concentration of our customers exposes us to risks, and the performance of our major customers may in turn lead to fluctuation or decline in our revenue. We are investing more resources on our advertising and organizing marketing activities for the promotion of our e-commerce platform, Smart-Core Planet and our new products, with the aim of expanding our customer base. Apart from expanding our customer base through Smart-Core Planet, we keep enriching our product portfolio and expanding our supplier base. We have identified a number of strategic product segments which we consider to be fast developing. We will continue to expand our product portfolio and invest in our value added engineering support services in relation to such strategic segments.
- Our profit margins are slim and therefore our profitability could be adversely affected if our profit margins cannot be sustained.
- We are dependent on short-term financing. In the event that our bankers cancel these facilities or the interest rates at which we could obtain such facilities increases, our business operations, revenue and profitability could be adversely affected.
- As a distributor, we do not directly monitor the quality control procedures of our major suppliers. If a product that we distribute has defects or performance problems, our reputation and operation could be adversely affected.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 and the Group's financial position at that date are set out in the Group's consolidated financial statements on pages 62 to 64.

Subsequent to the end of the Reporting Period, a final dividend of HK4 cents per share (2017: HK3 cents) had been recommended by the directors of the Company and is subject to the approval by the Shareholders in the forthcoming annual general meeting. Interim dividend of HK2 cents per share (2017: HK2 cents) was declared and paid during the year.

FINANCIAL SUMMARY

A summary of the consolidated results and the assets and liabilities of the Group for the last five financial years is set out on page 5.

SEGMENT INFORMATION

Details of the segment information of the Group are set out in note 5 to the consolidated financial statements.

NON-COMPETITION UNDERTAKING

In order to ensure that direct competition does not develop between the Group and each of Mr. Tian and Smart IC Limited ("**Controlling Shareholders**")'s other activities, our Controlling Shareholders have entered into the deed of non-competition dated 19 September 2016 executed by the Controlling Shareholders in favour of the Company ("**Deed of Non-competition**"). Under the Deed of Non-competition, each of the Controlling Shareholders had undertaken to the Company (for ourselves and for the benefit of our subsidiaries) that, save for the Retained Business (as defined in the Company's prospectus dated 27 September 2016 ("**Prospectus**")), they will not, and they will use their best endeavours to procure that their respective close associates (except any members of the Group) will not, whether directly or indirectly (including through anybody corporate, partnership, joint venture or other contractual arrangement and for projects or otherwise) or as principal or agent, and whether on their own account or with each other or in conjunction with or on behalf of any person, firm or company or through any entities (except in or through any member of the Group), carry on, engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business (the "**Restricted Business**") which is in competition with the business of any member of the Group, the details of which are set out in the Prospectus.

Under the Deed of Non-competition, the Controlling Shareholders have, among others, (i) undertaken, in the situation when the Controlling Shareholders or their respective close associates identify any new business opportunity relating to the Restricted Business ("**Business Opportunity**") to refer such Business Opportunity to the Company; (ii) undertaken not to pursue such Business Opportunity unless our independent non-executive Directors declines the Business Opportunity and do not veto the pursuit of such Business Opportunity by the Controlling Shareholders; and (iii) Mr. Tian granted an option for the Company to purchase all of his shareholding interest in Smart-Core Technology Co., Ltd. (芯智股份有限公司) ("**SMC Taiwan**"), and/or the assets or other interests of SMC Taiwan and/or any new business similar to our core business which has been developed, operated or owned (whether directly or indirectly) by Mr. Tian, or any companies controlled (whether directly or indirectly) by him. For further details, please refer to the Prospectus – "Relationship with Our Controlling Shareholders".

Mr. Tian and Smart IC Limited have confirmed their compliance with the Non-Competition Undertaking during the year ended 31 December 2018. The independent non-executive Directors have also reviewed the compliance with the Deed of Non-Competition by Mr. Tian and Smart IC Limited and are satisfied that they have complied with the undertakings.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 31 consolidated financial statements. An aggregate of 4,105,030 share of the Company (the "**Share**") were issued during the year as a result of the issue of consideration shares at completion to satisfy 30% of the total purchase price, which equal to US$895,000, for the acquisition of a total of 25% of issued shares of Quiksol HK on 31 October 2018. For details, please refer to the Company's announcements dated 22 October 2018 and 31 October 2018.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and reserves of the Company on page 65 and note 38 to the consolidated financial statements of this annual report respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2018, the Company had distributable reserves amounted to HK$301.4 million (2017: HK$334.4 million).

DIRECTORS' REPORT

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

DONATIONS

During the year, the Group made charitable and other donations in the aggregate amount of approximately HK$40,000 (2017: HK$39,000).

BANK AND OTHER BORROWINGS

Particulars of the bank and other borrowings of the Group at 31 December 2018 are set out in note 28 to the consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the aggregate amount of purchase from the Group's five largest suppliers was approximately 81% of the Group's total purchases, while the purchases from the Group's largest supplier was approximately 56% of the Group's total purchases.

During the year, the aggregate amount of sales to the Group's five largest customers was approximately 59% of the Group's total revenue, while the sales to the Group's largest customer was approximately 29.2% of the Group's total revenue.

None of the Directors, their close associates, or any shareholder (which to the best knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interests in the Group's five largest supplier or customers.

DIRECTORS

The Directors during the year ended 31 December 2018 and up to the date of this Directors' report were:

Executive Directors

Mr. Tian Weidong
Mr. Wong Tsz Leung
Mr. Liu Hongbing
Mr. Xie Yi (resigned with effect from 1 April 2019)
Mr. Yan Qing (appointed with effect from 1 April 2019)

Independent non-executive Directors

Mr. Tang Ming Je
Mr. Zheng Gang
Mr. Wong Hon Kit (resigned with effect from 1 July 2018)
Mr. Wong Hok Leung (appointed with effect from 1 July 2018)

In accordance with the articles of association of the Company, one third of the Directors will retire at the forthcoming annual general meeting (the "**AGM**"), and being eligible, offer themselves for re-election at the AGM. Accordingly, Mr. Tian Weidong, Mr. Wong Tsz Leung, Mr. Wong Hok Leung, Mr. Yan Qing and Mr. Tang Ming Je will retire by rotation at the forthcoming AGM of the Company and being eligible, will offer themselves for re-election at the AGM.

INDEPENDENCE OF INDEPENDENT NONEXECUTIVE DIRECTORS

During the year ended 31 December 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing more than one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise. The Company has received written confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

Executive Directors

Mr. Yan Qing, as executive Director, executed a service agreement with the Company for a term of three years commencing from 1 April 2019, which shall be renewed as determined by the Board or the shareholders of the Company, and Mr. Xie Yi resigned as an executive Director with effect from 1 April 2019. Each of Mr. Tian Weidong, Mr. Wong Tsz Leung and Mr. Liu Hongbing has entered into a service contract with the Company pursuant to which they agreed to act as executive Directors for a term of three years with effect from 7 October 2016, which shall be renewed as determined by the Board or the Shareholders of the Company. The appointment of each of the executive Directors may be terminated by either party by giving at least three months' written notice to the other.

Independent non-executive Directors

Mr. Wong Hok Leung, an independent non-executive Director, executed a letter of appointment with the Company for a term of three years commencing from 1 July 2018, which shall be renewed as determined by the Board or the Shareholders of the Company, and Mr. Wong Hon Kit resigned as an independent non-executive Director on 1 July 2018. Each of Mr. Zheng Geng and Mr. Tang Ming Je has been appointed for a term of three years commencing from 7 October 2016, which shall be renewed as determined by the Board or the Shareholders of the Company. The appointment of each of the independent non-executive Directors may be terminated by either party giving at least three months' written notice to the other.

None of the Directors who is proposed for re-election at the forthcoming AGM has with the Group an unexpired service contact which is not determined by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the interests and short positions of our Directors or chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (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 are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange are as follows:

Name of Director	Nature of Interest	Number of Shares held	Approximate shareholding percentage[3]
Mr. Tian Weidong [1]	Interest in a controlled corporation	262,500,000 (L)	52.07%
Mr. Wong Tsz Leung [2]	Interest in a controlled corporation	90,000,000 (L)	17.85%

Notes:

(1) Smart IC Limited is wholly owned by Mr. Tian Weidong. Therefore, Mr. Tian is deemed to be interested in all the shares held by Smart IC Limited.

(2) Insight Limited is wholly owned by Mr. Wong Tsz Leung. Therefore, Mr. Wong is deemed to be interested in all the shares held by Insight Limited.

(3) Based on 504,105,030 Shares in issue as at 31 December 2018.

(L) represents long positions.

Saved as disclosed above, as at 31 December 2018, none of the Directors nor their associates had any interests or short positions in any share, underlying shares or debentures of the Company or any of its associated corporation (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.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENTS AND CONTRACTS

No transactions, arrangements or contracts of significance, to which the Company, or its holding companies, subsidiaries or fellow subsidiaries was a party and in which the Director or the Director's connected entity had a material interest, whether directly or indirectly, subsisted at the end or at any time during the year ended 31 December 2018.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed under the section headed "Non-Competition Undertaking" on page 25 of this report, during the year ended 31 December 2018, none of the Directors has an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

PERMITTED INDEMNITY

Pursuant to the articles of association of the Company, every Director, auditor or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director, auditor or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

The Company has arranged Directors and officer insurance policy to protect the Directors against potential costs and liability arising from claims brought against the Directors.

EVENTS AFTER THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Up to the date of this report, the Group has no significant subsequent event after 31 December 2018 which required disclosure.

PRINCIPAL SUBSIDIARIES

The Group's operations are conducted on a global basis through its direct or indirect subsidiaries. Details of the subsidiaries of the Company as at 31 December 2018 are set out in note 39 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018, except that the trustee of the share award scheme adopted by the Company on 19 September 2016 ("**Share Award Scheme**"), pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 9,580,000 shares of the Company at a total consideration of HK$14,756,000 during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARE

As at 31 December 2018, so far as the Directors are aware, the following persons (other than a Director or a chief executive of the Company) have interests or short positions in the shares or underlying shares of the Company, as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO:

Name of Director	Nature of Interest	Number of Shares held	Approximate shareholding percentage(3)
Mr. Tian Weidong (1)	Interest in a controlled corporation	262,500,000 (L)	52.07%
Mr. Wong Tsz Leung (2)	Interest in a controlled corporation	90,000,000 (L)	17.85%

Notes:

(1) Smart IC Limited is wholly owned by Mr. Tian Weidong. Therefore, Mr. Tian is deemed to be interested in all the shares held by Smart IC Limited.

(2) Insight Limited is wholly owned by Mr. Wong Tsz Leung. Therefore, Mr. Wong is deemed to be interested in all the shares held by Insight Limited.

(3) Based on 504,105,030 Shares in issue as at 31 December 2018.

(L) represents long position.

Saved as disclosed above, as at 31 December 2018, the Company had not been notified by any persons who had any interests or short positions in the shares or underlying shares of the Company which would fall under the provisions of Division 2 and 3 of Part XV of the SFO to be disclosed to the Company, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

There were no contracts of significance (including for the provision of services) with any member of the Group as the contracting party and in which any of the Controlling Shareholders and their respective associates possessed direct or indirect substantial interests, and which was still valid on 31 December 2018 or any time during such year and related to the business of the Group.

CONNECTED TRANSACTIONS

During the year ended 31 December 2018, the Group had the following continuing connected transactions with the following companies:

Name of the campany	Nature of transaction	**Year ended 31 December 2018**	Year ended 31 December 2017
		HKD'000	HKD'000
SMC Taiwan (Note a)	Sales of goods	**2,117**	2,862
Quiksol International Components Pte Ltd (Note b)	Sales of goods	**2,463**	—

Notes:

(a) A Company owned as to 90% by Mr. Tian Weidong, our executive Director and Controlling Shareholder.

(b) A Shareholder of the non-wholly owned subsidiary is a shareholder of the company.

Our Directors (including the independent non-executive Directors) consider the above transactions have been entered into: (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms and consideration payable was determined based on arms' length negotiations between the parties and with reference to the price offered to independent similar customers; and (3) in accordance with the respective agreements governing them on the terms that one fair and reasonable and in the interest of the Shareholders as a whole.

RELATED PARTY TRANSACTIONS

Certain related party transactions as disclosed in note 37 to the consolidated financial statements prepared under Hong Kong Financial Reporting Standards also constituted connected transactions under the Listing Rules required to be disclosed in accordance with Chapter 14A of the Listing Rule. The Company has complied with the disclosure requirements of Chapter 14A of Listing Rules in respect of the above connected transactions or continuing connected transactions.

EMPLOYEE INCENTIVE SCHEMES

On 19 September 2016, the Company adopted a Share Award Scheme and conditionally approved and adopted a Share Option Scheme. During the year ended 31 December 2018, no new shares had been subscribed by the Trustee and a total of 9,580,000 shares of the Company were acquired by the Trustee pursuant to the rules and trust deed of the Share Award Scheme and 9,580,000 shares had been granted to selected employees and 4,940,000 had been vested under the Share Award Scheme. Accordingly, since the Adoption Date and up to 31 December 2018, there were 4,640,000 shares held in trust under the Share Award Scheme. The Group recognized a total of HK$15.2 million of share-based payment expenses in the consolidated statement of `profit or loss and other comprehensive income for the year ended 31 December 2018. (2017: Nil). No share option had been granted or agreed to be granted by the Company pursuant to the Share Option Scheme as at 31 December 2018. Details of the shares awarded under the Share Award Scheme are set out below:

Date of grant	Number of shares awarded	Number of shares vested	Average fair value per share	Vesting period
28 Mar 2018	4,940,000	4,940,000	HK$1.59	28 Mar 2018 – 1 Aug 2018
28 Mar 2018	4,640,000	4,390,000	HK$1.59	28 Mar 2018 – 2 Jan 2019

Share Option Scheme

Details of the Share Option Scheme (which became effective on the Listing Date) are set out as follows:

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to incentivize and reward the ESOS Eligible Persons (as defined below) for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company.

(b) Participants of the Share Option Scheme

The Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of Shares as the Board may determine to an employee (whether full time or part-time) or a director of a member of the Group or associated companies of the Company ("**ESOS Eligible Persons**").

(c) Maximum number of Shares in respect of which options may be granted

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes (the "**Other Schemes**") of the Company must not in aggregate exceed 50,410,503 shares (representing 10% of the issued capital of the Company as at the date of this report) (the "**ESOS Mandate Limit**"). Options lapsed in accordance with the terms of the Share Option Scheme and any Other Schemes of the Company will not be counted for the purpose of calculating the ESOS Mandate Limit.

The Board may, with the approval of the Shareholders in general meeting, refresh the ESOS Mandate Limit provided that the total number of Shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme and any Other Schemes of the Company under the ESOS Mandate Limit as refreshed must not exceed 10% of the Shares in issue as at the date on which the Shareholders approve the refreshment of the Scheme Mandate Limit. Options previously granted under the Share Option Scheme and any Other Schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the terms of the relevant scheme, or exercised options) will not be counted for the purpose of calculating the ESOS Mandate Limit as "refreshed". The Board may, with the approval of the Shareholders in general meeting, grant options to any ESOS Eligible Person or ESOS Eligible Persons specifically identified by them which would cause the ESOS Mandate Limit to be exceeded. The Company shall send to the Shareholders a circular containing the information required under the Listing Rules for the purpose of seeking the approval of the Shareholders.

At any time, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the Share Option Scheme and any Other Schemes of the Company to ESOS Eligible Persons must not exceed 30% of the total number of Shares in issue from time to time.

The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of the Company or independent financial adviser appointed by the Board shall certify in writing to the Board to be fair and reasonable, in the event of any alteration in the capital structure of the Company whether by way of capitalisation of profits or reserves, rights issue, consolidation or subdivision of shares, or reduction of the share capital of the Company, provided that no such adjustment shall be made in the event of an issue of Shares as consideration in respect of a transaction.

As at the date prior to the issue of this annual report, the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme is 50,410,503 Shares, representing 10% of the total number of Shares in issue.

(d) Maximum Entitlement of Each Individual

No options shall be granted to any ESOS Eligible Person under the Share Option Scheme which, if exercised, would result in such ESOS Eligible Person becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued or to be issued to him under all options granted to him (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of offer of such options, exceeds 1% of the Shares in issue at such date.

Any further grant of options to an ESOS Eligible Person in excess of this 1% limit shall be subject to the approval of the Shareholders in general meeting with such ESOS Eligible Person and his close associates (or if such ESOS Eligible Person is a connected person, his associates) abstaining from voting. The Company must send a circular to the Shareholders disclosing the identity of the ESOS Eligible Person in question, the number and terms of the options to be granted (and options previously granted to such ESOS Eligible Person) and such other information required under the Listing Rules.

The number and terms (including the exercise price) of the options to be granted to such ESOS Eligible Person must be fixed before the Shareholders' approval and the date of the Board meeting approving such further grant shall be taken as the date of grant for the purpose of determining the exercise price of the options.

(e) Acceptance of an Offer of Options

An offer of options shall be open for acceptance for such period (not exceeding 30 days inclusive of, and from, the date of offer) as the Board may determine and notify to the ESOS Eligible Persons concerned provided that no such offer shall be open for acceptance after the expiry of the duration of the Share Option Scheme. An offer of options not accepted within this period shall lapse. An amount of HK$1.00 is payable upon acceptance of the grant of an option and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price.

(f) Exercise Price

Subject to any adjustment made in respect of alteration of share capital, the exercise price shall be such price as determined by the Board and notified to an option-holder and which shall not be less than the higher of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of offer of the option;

(ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the option; and

(iii) the nominal value of the Shares.

(g) Duration of the Share Option Scheme

The Share Option Scheme shall be valid and effective for a period of ten years commencing on the Listing Date, after which period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto which are at that time or become thereafter capable of exercise under the Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Option Scheme.

(h) Time of Vesting and Exercise of Options

Any option shall be vested on an option-holder immediately upon his acceptance of the offer of options provided that if any vesting schedule and/or conditions are specified in the offer of the option, such option shall only be vested on an option-holder according to such vesting schedule and/or upon the fulfilment of the vesting conditions (as the case may be). Any vested option which has not lapsed and which conditions have been satisfied or waived by the Board in its sole discretion may, unless the Board determines otherwise in its absolute discretion, be exercised at any time from the next business day after the offer of options has been accepted. Any option which remain unexercised shall lapse upon the expiry of the option period, which period shall be determined by the Board and shall not exceed ten years from the offer date of the option (the "**Option Period**").

An option shall be subject to such terms and conditions (if any) as may be determined by the Board and specified in the offer of the option, including any vesting schedule and/or conditions, any minimum period for which any option must be held before it can be exercised and/or any performance target which needs to be achieved by an option-holder before the option can be exercised. Any terms and conditions determined by the Board must not be contrary to the purpose of the Share Option Scheme and must be consistent with such guidelines (if any) as may be approved from time to time by the Shareholders.

No option may be exercised in circumstances where such exercise would, in the opinion of the Board, be in breach of a statutory or regulatory requirement.

(i) Restriction on the Time of Grant of Options

A grant of options may not be made after inside information has come to our knowledge until such inside information has been announced as required under the Listing Rules. In particular, no option may be granted during the period commencing one month immediately preceding the earlier of:

(i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and

(ii) the deadline for the Company to publish an announcement of the results for any year, or half year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement. The period during which no option may be granted will cover any period of delay in the publication of a results announcement.

For further details on the Share Award Scheme, please refer to section headed "Appendix IV – Statutory and General Information – D. Employee Incentive Schemes – 2. Share Option Scheme" of the Prospectus.

Share Award Scheme

Details of the Share Award Scheme (which became effective on 19 September 2016) are set out as follows:

(a) Purpose of the Share Award Scheme

The purpose of the Share Award Scheme is to reward our directors, senior managers and employees of the Group ("**Eligible Persons**") for their hard work, contribution and loyalty and align their interests with those of the Shareholders.

(b) Duration of the Share Award Scheme

Subject to any early termination as may be determined by the Board pursuant to the rules of the Share Award Scheme, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on 19 September 2016, after which period no further Awards (as defined below) will be granted but the provisions of the Share Award Scheme shall remain in full force and effect to the extent necessary to give effect to the vesting of any Awards granted prior to the expiration of the Share Award Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Award Scheme.

(c) Participants of the Share Award Scheme and Basis for Determining the Eligibility of the Selected Participants

The Board may, from time to time, at its absolute discretion, select any Eligible Persons to participate in the Share Award Scheme ("**Selected Participants**"), subject to the terms and conditions set out in the Share Award Scheme. In determining the Selected Participants, the Board shall take into consideration matters including, but without limitation, the present and expected contribution of the relevant Selected Participants to the Group.

(d) Maximum number of Shares that can be awarded

The Company shall not make any further grant of award under the Share Award Scheme ("**Award**") which will result in the number of Shares allotted and issued to or acquired by the Trustee (as defined in the prospectus) amounting or exceeding 10% of the total number of issued Shares from time to time.

(e) Maximum entitlement of each awardee

The maximum number of Award which may be granted to a awardee but unvested under the Share Award Scheme shall not exceed 1% of the total number of issued Shares from time to time.

(f) Appointment of Trustee

The Company will appoint trustee to assist with the administration and vesting of the Awards granted pursuant to the Share Award Scheme ("**Trustee**") and will enter into a trust deed with the Trustee that constitute a trust to service the Share Award Scheme ("**Trust**").

(g) Settlement and/or Payment of Award

Upon the satisfaction of conditions including without limitation, the vesting of the Award, the Board may at its absolute discretion to either:

(i) direct and procure the Trustee to release the Award Shares to the Grantees by transferring the number of Award Shares to the Grantees in such manner as determined by the Board in its absolute discretion from time to time; or

(ii) to the extent where it is in the reasonable opinion of the Company not practicable for the Grantee to receive the Award Shares, direct and procure the Trustee to sell the number of Award Shares on such dates and in such manner as the Board shall in its absolute discretion determine and pay the Grantee the proceeds arising from such sale based on the Actual Selling Price of the Shares in cash as set out in the vesting notice ("**Vesting Notice**") to be sent by the Company to the relevant Grantee prior to any Vesting Date, in accordance with the procedure set out in the Share Award Scheme.

For further details on the Share Award Scheme, please refer to section headed "Appendix IV – Statutory and General Information – D. Employee Incentive Schemes – 1. Share Award Scheme" of the Prospectus.

REMUNERATION POLICY

The remuneration policy of the employees of the Group is set by the Board of Directors, having regards to the positions, duties and performance of the employees, together with the comparable market practice. The emoluments of the Directors are decided by remuneration committee, having regard to the Company's operating results, individual performance and comparable market statistics.

CHANGE OF INFORMATION IN RESPECT OF DIRECTORS

Mr. Wong Hon Kit (黃漢傑) resigned as an independent non-executive Director of the Company with effect from 1 July 2018 and ceased to be the chairman of the audit committee and member of each of the remuneration committee and nomination committee of the Company.

Mr. Wong Hok Leung (王學良) appointed as an independent non-executive Director of the Company, chairman of the audit committee and a member of each of the remuneration committee and nomination committee of the Company with effect from 1 July 2018.

Mr. Xie Yi (謝藝) resigned as an executive Director of the Company with effect from 1 April 2019.

Mr. Yan Qing (燕青) appointed as an executive Director of the Company with effect from 1 April 2019.

Saved as disclosed in the section headed "Directors and Senior Management" in this annual report, there was no change to any of the information required to be disclosed in relation to any Director pursuant to rule 13.51B(1) of the Listing Rules since the date of the interim report of the Company for the period ended 30 June 2018.

PRE-EMPTIVE RIGHTS

The articles of association of the Company and the relevant law of the Cayman Islands do not entitle any Shareholder to any preemptive right or other similar rights to subscribe for the new shares on a pro-rata basis.

EQUITY-LINKED AGREEMENTS

Save for the share-based payment transactions under note 41 to the consolidated financial statements, the Company has entered into a share purchase agreement in relation to the acquisition of a total of 25% of issued shares of Quiksol HK and an aggregate of 4,105,030 Shares were issued during the year as a result of the issue of consideration shares at completion to satisfy 30% of the total purchase price, which equal to US$895,000 equivalent to approximately HK$6,981,000, for the acquisition of a total of 25% of issued shares of Quiksol HK. For details, please refer to the Company's announcements dated 22 October 2018 and 31 October 2018.

SUFFICIENCY IN PUBLIC FLOAT

Based on information that is publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, are held by the public at all times and during the year ended 31 December 2018 and up to the latest practicable date prior to the issue of this annual report.

PROFESSIONAL TAX ADVICE RECOMMENDED

If the Shareholders of the Company are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the Shares of the Company, they are advised to consult an expert.

AUDIT COMMITTEE

The audited consolidated financial statements for the year ended 31 December 2018 have been reviewed by the audit committee of the Company.

AUDITOR

The Group's consolidated financial statements have been audited by Messrs. Deloitte Touche Tohmatsu, Certified Public Accountants, who will retire and offer itself for re-appointment at the forthcoming AGM. A resolution will be submitted to the AGM to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Tian Weidong
Chairman
Hong Kong, 26 March 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SCOPE OF REPORTING

This environmental, social and governance report details the Group's environmental, social and governance policies, measures and performance to help stakeholders better understand the Group's progress and development direction on sustainable development issues. The reporting period of this report is the fiscal year 2018 (i.e. 1 January 2018 to 31 December 2018), coincides with the reporting period of the Company's 2018 annual report. The Group adopted the materiality principle in planning and preparing this report. Unless otherwise stated, this report covers the operations of the Group in Hong Kong and Shenzhen (principle location of operations in the PRC).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE GUIDELINES

The Group's environmental, social and governance guidelines are designed to create long-term value for stakeholders that grows in tandem with the Group's business growth and sustainable development while being in line with environmental interests. Accordingly, the Group adopts a sustainable development policy that covers the Group's activities in the areas of the environmental, employment, business integrity, and community. The Group strives to incorporate these principles into its practices and governance, as well as to contribute to the sustainable development of the society and environment.

BASIS OF PREPARATION

This report is prepared and presented with reference to the Environmental, Social and Governance (ESG) Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited:

1. **Materiality:** ESG issues that become sufficiently important to investors and other stakeholders should be reported.

2. **Quantitative:** KPIs, if any, need to be measurable and should be accompanied by a narrative, explaining their purposes, impacts, and giving comparative data where appropriate.

3. **Balance:** The ESG report should provide an unbiased picture of the issuer's ESG performance and avoid selections, omissions, or presentation formats that may inappropriately influence readers' decisions and judgments.

4. **Consistency:** The issuer should use consistent methodologies to allow for meaningful comparisons of ESG data over time. The issuer should disclose in the ESG report any changes to such methodologies.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

COMMUNICATION WITH STAKEHOLDERS

The Group communicates with stakeholders in an open, honest and positive manner through a variety of channels, including results announcements and annual reports, etc. In addition, the Group shares the latest information on the Group with stakeholders through teleconferences, roadshows and the Group's website, etc.

AWARDS

During the reporting period, the Group's environmental, social and governance performance was recognised by a number of institutions which granted a number of awards and honours to the Group. The Group will continue its efforts to contribute to the long term sustainable development.

Awards, honours and membership	**Issuing authority**
2018 Influential Authorised Semiconductor Distributor in Serving Industry and Internet of Things	China Electronics Distributor Alliance (CEDA)
Top Ten Best Chinese Brand Distributors in 2018	Electronics Supply and Manufacturing-China
Excellent Distributor of Electronic Components in 2018	secu.hc360.com, ec.hc360.com
2018 Excellent Authorised Semiconductor Distributor in Serving Innovation in China	China Electronics Distributor Alliance
Vice Chairman of the China Electronics Distributor Alliance	China Electronics Distributor Alliance
Member of the Hong Kong General Chamber of Commerce	Hong Kong General Chamber of Commerce (1861)

Table 1 - Awards, Honours and Membership Received by the Group During the Reporting Period

A. ENVIRONMENTAL

The Group attaches great importance to environmental protection and is committed to creating favorable conditions for the sustainable development of the next generation. By implementing a series of environmental management policies, the Group integrates environmental protection and improvement into all areas of its operations to reduce the impact of business operations on the environment. In doing so, the Group aims to achieve a green production mode with low pollution and low emissions, so as to lead the Group towards the direction of low carbon economy.

1. GREENHOUSE GAS AND EXHAUST EMISSIONS

The Group has established internal guidelines to promote its environmental policy. By developing specific environmental guidelines for office operations, the Group systematically integrates the use of resources and management of emissions into day-to-day operations. The Group is principally engaged in the distribution of integrated circuits and other electronic components and the provision of technology value-added services, which do not generate a lot of discharges to water or land. The Group's exhaust emissions come from air pollutants produced during the transportation of products, such as nitrogen oxides (NO_X), sulphur oxides (SO_X) and respirable particulate matter.

Emission	Unit	Emissions
Nitrogen Oxides (NO_X)		25.72
Sulphur oxides (SO_X)	kg	0.18
Particulate matter		2.34

Table 2 - Total Emissions During the Reporting Period

The Group's greenhouse gas emissions come from office operations, including power purchased for day-to-day operations. During the reporting period, the Group generated a total of approximately 120.22 tonnes of greenhouse gases (carbon dioxide equivalent), representing an emission density of 0.45 tonnes of carbon dioxide equivalent per employee, which are mainly derived from power and gasoline consumption.

Greenhouse gases Emission range	Emission source	Emissions (tonnes of carbon dioxide equivalent)	Density (emissions per employee)	Total emissions (in percentage)
Range 1				
Direct emissions	Gasoline and diesel consumed by vehicles of the Group	32.60	0.12	27.12
Range 2				
Indirect emissions	Power purchased	84.41	0.31	70.21
Range 3				
Other indirect emissions	Discarded waste paper	3.21	0.00	2.67
Total		120.22	0.43	100.00

Table 3 - Total Greenhouse Gas Emissions During the Reporting Period

The Group adopts various measures to reduce air pollutants and greenhouse gas emissions. Shenzhen office has vehicles for picking up employees. In order to reduce air pollutant emissions, the Group only uses vehicles that meet the National IV Standard for vehicle emissions.

In addition, in order to reduce power consumption in the office and thus reduce emissions, the Group encourages employees to turn off idle electrical appliances and equipment and turn off lighting and air conditioning when leaving the workplace. The Group prefers using low-power electrical appliances or products and avoids using unnecessary high-power equipment. For example, the Group preferably choose LED lighting to effectively reduce power consumption, thereby achieving the goal of reducing greenhouse gas emissions.

The Group is also concerned about carbon emissions caused by business travel and has introduced a number of measures in this regard, including giving preference to local suppliers, centralised management of vehicle use, and making good use of modern communication tools to interact with business partners.

(a) Waste Management

The Group adheres to the principles of waste management, and strives to properly handle and dispose of waste generated from business activities. In order to reduce environmental impact, the Group classifies and recycles waste wherever feasible.

During the reporting period, the Group did not generate a large amount of hazardous waste, and the non-hazardous waste generated was mainly paper (approximately 0.7 tonnes). For the reduction of paper consumption, the Group encourages employees to reduce paper usage and adopt double-sided printing. Since its non-hazardous waste mainly comes from waste paper, the Group has particularly stringent requirements on paper use. The Group uses FSC certified paper which is derived from responsibly managed forest resources to avoid indirectly involving in deforestation of primaeval forests.

Waste	Unit	Consumption	Density (consumption per employee)
Total non-hazardous waste	tonnes	0.67	0.003

Table 4 - Waste Generated During the Reporting Period

During the reporting period, the Group strictly complied with the relevant environmental laws and there was no case of prosecution against the Group for violation of environmental laws.

2. USE OF RESOURCES

In order to effectively use resources, reduce waste and protect the ecological environment, the Group is committed to protecting resources to achieve environmental and operational benefits. In order to fulfil this environmental commitment, the Group has implemented a series of measures to improve energy efficiency and reduce paper and water consumption. By monitoring and managing the use of resources, the Group aims to reduce operating costs and carbon footprint. Details on energy and water consumption will be discussed in the following sections.

(a) Resources

During the reporting period, the resources directly consumed by the Group for operations are as follows:

Resources	Unit	Consumption	Density (consumption per employee)
Power	kWh	156,307.20	583.24
Gasoline	litre	10,892.00	40.64
Diesel	litre	1,121.04	4.18
Water	m^3	1,146.94	4.28
Packaging materials for finished products (paper)	tonnes	20.5	0.08

Table 5 - Consumption of Resources During the Reporting Period

The Group's operations heavily involve goods storage and transportation. As such, the Group tries to reduce the resources used in the storage and transportation process in various aspects in an effort to control the use of resources in a targeted manner.

Goods Storage and Transportation

- Understand the packaging requirements of the consignee and design the most suitable packaging method;
- Recycle packaging cartons and packaging fillers; and
- Replace traditional wooden pallets with recyclable pallets.

Office Operations

- Keep the air conditioner temperature at 25 ℃ or above;
- Adjust and reduce lighting in non-working areas;
- Shenzhen office arranges dedicated personnel to regularly inspect the water supply facilities;
- Remind employees to turn off idle lighting, air conditioning and other electrical equipment;
- Give preference to energy-efficient products when replacing electrical equipment;
- Put potted plants in office area to purify the office environment;
- Advocate double-sided printing and recycling;
- Purchase materials which meet the national environmental standards;
- Give preference to materials that are easy to disassemble, degrade, nontoxic and harmless;
- Use advanced computer systems to realise office automation for basic procedures and approval processes;
- Encourage paperless office and store documents in a central server; and
- Use special purification and ventilation equipment or air fresheners to improve indoor air quality according to the air circulation level.

(b) Water Consumption

Sustainable and responsible use of water resources is a major global issue. The Group is aware that water shortage, excessive demand and overuse of water can cause serious problems. Due to the nature of its business, the Group does not use or discharge significant amounts of water.

3. ENVIRONMENT AND NATURAL RESOURCES

The Group continuously identifies, assesses and manages potential adverse impacts on the environment, and strives to maintain a balance between industry development and ecological environment for long-term sustainable development. When reviewing its business strategies and planning for future business development, the Group will definitely take environmental protection and conservation of natural resources into consideration. Since its business involves no manufacturing or production activities but the distribution and storage of goods, the Group does not have a significant impact on the environment and natural resources.

B. SOCIAL

1. EMPLOYMENT AND LABOUR PRACTICES

Employees are an important asset of the Group and have a critical impact on the quality of the Group's products and services. The Group attaches great importance to the protection and development of its employees and hopes to establish long-term relations with them.

The Group strives to build a safe, healthy, fair and non-discriminative work environment and maintain a harmonious relationship with employees, so as to bring together all employees to promote the long-term sustainable development of the Group.

(a) Equal Opportunity Policy

The Group is convinced that equal employment relations can improve employee satisfaction, which in turn helps retain and motivate outstanding talents and thus promotes the Group's business development. As such, in order to prevent prospective employees from being discriminated against in the hiring process, the Group has formulated relevant recruitment procedures to ensure that recruitment decisions are made based on the capabilities, knowledge and experience of job applicants related to the open positions irrespective of such factors as gender, age, race, family status, religious belief and disability.

(b) Compensation System

In terms of compensation system, the Group continually reforms and improves its employee compensation policies and systems and fully considers increasing employee compensation in tandem with the Group's performance, in an effort to ensure that employees are rewarded fairly based on their contributions. The Group considers a variety of factors to assess and determine pay levels, including employees' work ability, the Group's performance, and pay levels in the market.

During the reporting period, the Group did not have any cases of violation of relevant employment laws and regulations, nor did it receive any complaints related to recruitment.

2. OCCUPATIONAL HEALTH AND SAFETY

The Group values the health and well-being of every employee. The Group identifies high-risk jobs in its warehouses. Accordingly, the Group has implemented a series of occupational health and safety measures to protect the safety of employees.

- Provide warehouse operators with appropriate personal protective equipment, including safety shoes and slip-resistant gloves;
- Limit the stacking height of goods in the warehouse to less than 1.8 meters;
- Introduce electric forklifts to assist in the handling of large quantities of goods, so as to reduce potential strain caused by long-time handling of heavy loads;
- Develop practices and training sessions for the safe operation of electric forklifts, covering pre-launch inspections, precautions for carrying goods, charging safety, etc.
- Carry out regular education and training on fire fighting;
- Organise fire drills;

- Conduct regular spot checks of office equipment (e.g. monitors, keyboards and chairs) to see if they are working properly;
- Clean the air conditioning system on a quarterly basis;
- Wash the carpets twice a year and carry out pest control work;
- Install air conditioning and adequate lighting in warehouses;
- Publicize and explain the correct way of manual lifting; and
- Develop a management system with procedures for employees to easily voice opinions and file complaints;

During the reporting period, the Group found no case of violation of laws and regulations related to occupational safety and health, nor did it receive any complaints about work conditions. Also, there were no work-related deaths or injuries within the Group.

3. DEVELOPMENT AND TRAINING

The Group values the continuous development of employees and enables them to grow together with the Group in line with the Group's objectives. As such, the Group conducts performance appraisal on a quarterly and annual basis, and provide guidance to employees based on the appraisal results. The Group has developed a staff training policy with a complete set of training measures, which specifies the management responsibilities of the person in charge of training in each department, and provides corresponding training courses for employees to continuously increase their working knowledge and skills.

Shenzhen office provides external and internal training courses for employees. The external training course covers various aspects of professional management skills, such as business management, R&D project management, and human resources; and internal training courses are focused on the Group's human resources and administration system, computer system applications, and introduction of products (such as IPTV, touch screen hardware, and optical communication products). The Group also provides foreign language classes for interested employees. Hong Kong office has organised a number of interactive learning workshops on topics such as logistics and supply chain management, administrative management, and professional financial management.

In addition, the Group has arranged for employees to take courses on vocational skills and personal and physical development. Besides training courses, and has set up a book corner called "any books" to support and encourage employees to make self-improvements and study independently in areas of interest to them, so as to enhance and broaden their knowledge.

4. LABOUR STANDARDS

(a) Prohibition of Child Labour and Forced Labour

The Group abides by the labour laws and regulations, is against child labour and forced labour, and prohibits the employment of any child labour and forced labour in any operations and services.

Before hiring any job applicant, the Group will check the age-related documents to verify his/her age. The Group adheres to the principle of fair and voluntary recruitment, strictly forbids forced or fraudulent recruitment, ensures that all employees work on a voluntary basis, and prohibits forced labour in any form. In addition, the Group has set up a mechanism for reporting of child labour and forced labour to encourage employees to report any suspicious cases truthfully.

(b) Employee Benefits

The Group believes that offering employees sufficient benefits will help them become more engaged in their work. Accordingly, the Group regularly reviews the employee benefits policies:

- Hold annual Spring Festival gala and offer free travel perk every year;
- Provide funds for departments to arrange their own after-work activities (Hong Kong and Shenzhen offices);
- Organise different ball games and interest groups;
- Provide marriage leave, maternity leave, paternity leave, work-related injury leave, etc.;
- Provide medical insurance and health checkups;
- Provide food and beverage allowances; and
- Hold monthly birthday parties.

The Group has adopted a Share Incentive Plan since September 2016. Subject to the conditional approval of the Board of Directors, the Plan is to issue shares of the Group to the directors, senior management personnel and employees of the Group based on such factors as their functions, work performance and length of service. With the Plan, the Group can reward the contribution of employees and motivate them to work hard, which is conducive to the long-term development of the Group.

During the reporting period, the Group found no incidents in violation of the laws and regulations on labour standards.

5. SUPPLY CHAIN MANAGEMENT

The Group' is mainly engaged in the trading of electronic components where a good supply chain relationship is the foundation for continuous improvement of product quality. Suppliers' operation modes are also an issue of concern.

The Group emphasises promoting good communication and cooperation with business partners to jointly maintain the quality and safety of products and services. The suppliers selected by the Group are all well-known brand manufacturers or distributors in the industry. The Group has set up a comprehensive supply chain monitoring system where the Group will arrange field visits to suppliers' productions sites to evaluate their production capacity and quality, and access whether they meet the Group's requirements on multiple aspects, such as environmental protection and labour practices. In addition, the Group will sign agreements with suppliers to regulate their product quality, environmental and safety performance. In order to protect the rights and interests of customers and comply with social standards and norms, suppliers selected by the Group must be legitimate companies in compliance with business registration regulations.

In addition, the Group has developed a set of supplier rating criteria to regularly assess the performance of new and existing suppliers, and links the performance of suppliers in various aspects to future cooperation opportunities through such rating mechanism, thereby effectively motivating suppliers to make improvements. To ensure the provision of quality and efficient services to customers, each month, the Group provides suppliers with order forecasts for the next 3 to 6 months to properly manage its delivery schedule.

6. PRODUCT RESPONSIBILITY

The Group is committed to providing quality products and services to customers. To this end, the Group has established rigorous policies and procedures for the production and sales of products.

(a) After-sales Policy

The Group is engaged in the distribution of electronic products and attaches particular importance to customer service. Accordingly, the Group has established stringent product complaint procedures. When a customer files a complaint about a product, the Customer Service Department will first classify the complaint received, and then forward it to the relevant departments for verification and analysis. If the case is verified, remedial measures shall be put forward within one working day. In the end, the Customer Service Department will follow up the proposed remedial measures and the date of completion of such measures.

(b) Recall Procedures

As the goods are distributed to customers in the original packaging, the Group's quality control is generally focused on appearance inspection of product packaging. In terms of product recalls, once the manufacturer decides that the products need to be recalled, the Group will, in accordance with the distribution agreement signed with the supplier, go through the manufacturer's product return procedures and assist the manufacturer to recall the problematic products from customers.

(c) Customer Data Protection and Privacy Policy

In order to ensure the protection of customer data, all orders and data of the Group's customers are processed and saved by dedicated personnel, and other employees are not allowed to access them. In terms of safeguarding and protecting intellectual property rights, the Group will select products provided by legitimate manufacturers or suppliers to prevent pirated goods from entering into the market through its sales channels. Furthermore, all software used by the Group is licensed. The Information Management Department monitors the use of software and conducts regular inspections to ensure that there is no unauthorised software being used.

During the reporting period, the Group abided by relevant product liability laws and there was no case of prosecution against the Group for violation of laws related to product responsibility and privacy protection.

7. INTEGRITY

The Group advocates honest operation and fair competition, and expects all employees to observe the highest ethical, personal and professional standards. The Group has developed a sound risk management code and internal control code to ensure that all employees comply with the Group's rules in daily operations.

The Group has established and implements an internal integrity system to strengthen the integrity of employees in governance practices. In addition, the Group has specifically formulated a compliance management handbook and established a sound whistleblowing system to encourage all employees, managers and directors to report acts that are harmful to the Group's interests or any unlawful acts.

The Group has an independent audit committee which provides clear guidelines against misconduct such as bribery, corruption, embezzlement, insider trading and theft of company assets to ensure that employees can report matters of concern through various channels in an absolutely confidential manner. Where a case of misconduct is found out to be true after investigation, the Group will take appropriate corrective measures and disciplinary action against the person(s) involved. If the case involves criminal elements, the Group will refer the case to the competent authority. In addition, the Group engages a third-party agency to audit its internal financials each year.

The Group has established a set of fair and rigorous approval procedures for the engagement of external service providers, where the quotations submitted by interested service providers will be compared first and then be submitted to the Group's chief executive officer for final approval.

During the reporting period, the Group complied with all laws and regulations that are material to the Group and related to bribery, extortion, fraud and money laundering, and was not involved in any legal prosecution of corruption.

8. COMMUNITY ENGAGEMENT

The Group is committed to participating in community activities and undertakes the responsibility as a good corporate citizen to contribute to the communities by encouraging employees to provide charity and social services.

In October 2018, the Group organised the "Smart-Core Guangxi Charity Tour" to collect donations for purchasing supplies and books and donating them to poor schools in Guangxi.

During the year, the Group participated in the Baoliang Elderly Sponsorship Scheme which raised donations to promote the spirit of respecting and caring for the elderly and improve the quality of life of the elderly.

The Group will continue to regularly review its objectives for community investment, and supervise community investment, sponsorship and donation activities and the relevant approval policies. The Group will also examine each year whether its social performance is in line with its community investment policy and objectives for community activities to ensure that such policy is well implemented in all departments. In addition, the Group will continue to oversee and improve its team's capabilities in this regard.

9. OUTLOOK

The Group believes that the implementation of current measures regarding environmental and social responsibility measures is sufficient for compliance with relevant laws and listing rules, though necessary reviews and amendments are needed from time to time to meet the requirements of laws, listing rules and internal management. Look forward, the Group will continue to carry out more measures beneficial to the environment, society and governance in business operations to live up its commitment to the environment and society.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board has committed to maintain high corporate governance standards. The Board believes that good corporate governance, by adopting an effective management accountability system and high standard of business ethnics, can provide a framework that is essential to the Company's sustainable development and to safeguard the interests of the Shareholders, suppliers, customers, employees and other stakeholders.

The Company has adopted the code provision as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its own code of corporate governance. Except for code provision A.2.1 as disclosed in this report, the Company has complied with the applicable code provisions of the CG code during the year ended 31 December 2018. The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code.

The Board will review and update the corporate governance policy regularly to ensure the compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as standard for dealings in securities of the Company for the Directors. The Company has made specific query to the Directors, and all Directors confirmed that they had fully complied with the Model Code during the year ended 31 December 2018.

THE BOARD OF DIRECTORS

Board Composition

As at the date of this report, the Board comprises seven members, of whom four are executive Directors and three are independent non-executive Directors. Directors who held office during the year ended 31 December 2018 and up to the date of this report are:

Executive Directors

Mr. TIAN Weidong *(Chairman and Chief Executive Officer)*
Mr. WONG Tsz Leung *(Chief Financial Officer)*
Mr. LIU Hongbing
Mr. XIE Yi (resigned with effect from 1 April 2019)
Mr. YAN Qing (appointed with effect from 1 April 2019)

Independent non-executive Directors

Mr. TANG Ming Je
Mr. ZHENG Gang
Mr. WONG Hon Kit *(resigned with effect from 1 July 2018)*
Mr. WONG Hok Leung *(appointed with effect from 1 July 2018)*

The list of Directors and their roles and functions are posted on the websites of the Company and the Stock Exchange. The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 19 to 21 of this report. None of the Directors has any family, financial or business relations with each other.

During the year ended 31 December 2018 and up to the latest practicable date prior to the issue of this annual report, the Board has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules to have not less than three independent non-executive Directors and at least one of the independent non-executive Directors has the requisite professional qualification in accounting or relevant financial management experience. In addition, the Company has complied with Rule 3.10A of the Listing Rules which stipulates that the number of independent non-executive Directors appointed by a listed company shall not be less than one third of the Board.

The Board is responsible for the overall strategic plans and key policies of the Group; monitor the financial performance; review the effectiveness of internal control system; risk management and ensures good corporate governance practices and procedures are established and compliance with regulatory requirements. It delegates the daily operations and administration to the senior management with clear directions. The board members are fully committed to their roles and have acted in good faith to maximise the value of the Company and safeguard the interests of the stakeholders.

Board meetings

The Board meets four times regularly each year. Between scheduled regular meetings, Directors may approve various matters by way of passing written resolutions and additional meetings may be arranged if required. Notice of each regular Board meeting will be given to all members at least 14 days before the meeting. Agenda and all the relevant information is normally despatched to the Directors three days in advance of the relevant meetings.

The Company Secretary assists the Chairman in preparing the agenda for the Board meeting and ensures that all applicable rules and regulations regarding Board meetings are complied with. Each director may request the inclusion of items in the agenda. Directors considered having conflict of interests are required to declare their interests and abstain from voting for the relevant resolution.

Minutes of the meetings are recorded in detail and draft minutes are circulated to all Directors for review and comment within a reasonable time after the Board meetings are held. All the minutes of the meeting are properly kept by the Company Secretary after approval and are available to all Directors for inspection.

The attendance records of the Directors at the Board meeting held during the year ended 31 December 2018 are set out below:

Name of Directors	Board Meetings attended	General Meeting attended
Executive Directors		
Mr. Tian Weidong	9/9	1/1
Mr. Wong Tsz Leung	9/9	1/1
Mr. Liu Hongbing	9/9	1/1
Mr. Xie Yi	8/9	1/1
Independent non-executive Directors		
Mr. Tang Ming Je	9/9	1/1
Mr. Zheng Gang	9/9	1/1
Mr. Wong Hon Kit *(resigned with effect from 1 July 2018)*	3/3	1/1
Mr. Wong Hok Leung *(appointed with effect from 1 July 2018)*	6/6	0/0

Chairman and Chief Executive Officer

Pursuant to code provision A.2.1 of the CG Code set out in Appendix 14 to the Listing Rules, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual.

The Company deviates from this provision in that Mr. Tian Weidong currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

Appointment, Re-election and Removal

The procedures for appointing and re-electing Directors are set out in the articles of association of the Company (the "**Articles of Association**"). The appointment of a new director must be approved by the Board. The nomination committee of the Company (the "**Nomination Committee**") is responsible for making recommendations to the Board on the selection of individuals nominated for directorship taking into factors such as appropriate professional knowledge, industry experience, personal ethics, integrity, personal skills, gender, age, cultural and educational background.

Pursuant to article 16.18 of the Articles of Association, 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 number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

The Company has entered into service agreements with each executive Director, and appointment letters with independent non-executive Directors. The tenure of all Directors is 3 years.

Independent non-executive Director

Since the Listing Date, the Company at all times met the requirements of the Listing Rules relating to have independent non-executive Directors who represent at least one-third of the Board, and at least one of whom must have appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from all independent non-executive Directors their confirmation of independence in accordance to the independence guidelines as set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent in accordance with the terms of independence guidelines.

All of the independent non-executive Directors are appointed for a term of three years and are subjected to retirement by rotation once every three years.

Directors' training and development

All Directors should keep abreast of the responsibilities as a director of the Company and of the conduct and business activities of the Company. The Company is responsible for arranging suitable training for its Directors. The Company has arranged for Directors to attend a training session which place emphasis on the roles, functions and duties of a listed company director, as well as the latest development regarding the Listing Rules and other applicable regulatory requirements. All the Directors had also participated in appropriate continuous professional development activities by reading materials regarding regulatory updates and corporate governance matters.

Board diversity policy

The Board has a board diversity policy and the Company believes that the diversity will support the attainment of the Company's objective and enhance the value of the Company. The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural, educational background, professional experience, skills, knowledge and other qualities. Nomination committee of the Company will review the board diversity policy regularly to ensure its continued effectiveness.

Nomination policy

The Company has developed and adopted the board diversity policy to enhance the performance of the Company. When recommending candidates to join the Board, the Nomination Committee will consider the candidates according to objective conditions, and will take due consideration of the benefits of diversity among the Board members. The committee will also conduct discussions each year and agree on all the measurable objectives for board diversity, and will recommend to the Board relevant objectives for adoption.

Moreover, the Company has formulated and adopted the "Nomination Policy of Directors". The Nomination Policy of Directors covers selection criteria, nomination procedures, terms of confidentiality, supervision and reporting, and policy review. Several aspects are considered when nominating Board candidates, including but not limited to the following:

- reputation;
- achievements, talents, skills, knowledge and experience in the semi-conductor industry, business and economics area, accounting;
- views and perspectives that can be brought to the Board;
- commitment in respect of available time and relevant interest;
- independence of independent non-executive Directors; and
- diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service etc.

A summary of the nomination process for Directors is as follows:

- the chairman of the Nomination Committee shall convene a Nomination Committee meeting and invite the Board members to nominate candidates (if any) for consideration before the meeting. The Nomination Committee may also nominate candidates from other different sources (such as professional societies, professional headhunting companies, recommendations by the Shareholders or management, internal promotion, etc.);
- the Nomination Committee shall recommend candidates for consideration and approval by the Board, with reasons for consideration and recommendation provided to the Board;
- the Board recommends candidates to stand for election at a general meeting;
- the Company will issue a circular to shareholders to provide information on candidates nominated by the Board for election at a general meeting. The names, resumes (including eligibility and related experience), independence, proposed emoluments and other information of the candidates will be set out in the circular to the shareholders in accordance with the applicable laws, rules and regulations; and
- the election of Board members shall be proposed as ordinary resolutions at a general meeting, and should be passed by more than one-half of the voting rights held by shareholders (including proxies) attending the general meeting.

Dividend policy

The Board had adopted a dividend policy for the Company on 5 July 2017 (the "**Dividend Policy**"). Under the Dividend Policy, subject to compliance with applicable rules and regulations (including Cayman Islands laws) and the articles of association of the Company, provided the Group is profitable without affecting the normal operations of the Group and the Company will pay dividend to the Shareholders from the year of 2017 and onwards. Based on the Dividend Policy, the Company intends to share its profits with Shareholders in the form of annual dividend in an amount of no less than 15% of the Group's annual consolidated net profit attributable to the owners of the Company, subject to the criteria as set out below. The remaining net profits will be used for the Group's development and operations.

The Company's ability to pay dividends will depend upon, among other things, the general financial condition of the Group, the Group's current and future operations, liquidity position and capital requirement of the Group as well as dividends received from the Company's subsidiaries. The payment of the dividend by the Company is also subject to any restrictions under the Cayman Islands laws and articles of association of the Company.

The Dividend Policy will continue to be reviewed from time to time and there can be no assurance that dividends will be paid in any particular amount for any given period.

CORPORATE GOVERNANCE DUTIES

The Board is responsible for performing the corporate governance duties according to the code provision D.3.1 of the CG Code, which includes:

(a) developing and reviewing the policies and practices on corporate governance of the Group;

(b) reviewing and monitoring the training and continuous professional development of Directors and senior management;

(c) reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements;

(d) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to Directors and employees; and

(e) reviewing the Company's compliance with the Code and disclosure in the corporate governance report of the Company.

BOARD COMMITTEES

The Company has set up three committees, namely the audit committee (the "**Audit Committee**"), remuneration committee (the "**Remuneration Committee**") and Nomination Committee, for overseeing particular aspect of the Company. The terms of reference of these committees are available on the websites of the Company and the Stock Exchange.

Audit Committee

The Audit Committee comprises all the independent non-executive Directors of the Company (i.e. Mr. Wong Hok Leung, Mr. Zheng Gang and Mr. Tang Ming Je) and Mr. Wong Hok Leung, who has professional qualification in accounting and financial management expertise, is the chairman of the Audit Committee.

The major roles and functions of the Audit Committee are as follows:

(a) To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

(b) To make recommendations to the Board on the appointment, reappointment and removal of the external auditor;

(c) To oversee the internal audit system of the Company and its implementation;

(d) To review the Group's financial controls, risk management, internal control systems, financial and accounting policies and practices;

(e) To review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;

(f) To develop and review the Company's policies and practices on corporate governance, and make recommendations to the Board and report to the Board on matters; and

(g) To review the corporate governance report disclosed in our annual report.

During the year ended 31 December 2018, individual attendance of each member of Audit Committee is set out below:

Audit Committee member	Attended/Held
Mr. Wong Hon Kit *(Chairman) (resigned with effect from 1 July 2018)*	1/1
Mr. Wong Hok Leung *(Chairman) (appointed with effect from 1 July 2018)*	1/1
Mr. Zheng Gang	2/2
Mr. Tang Ming Je	2/2

Remuneration committee

The Remuneration Committee consists of one executive Director (Mr. Tian Weidong) and three independent non-executive Directors (i.e. Mr. Wong Hok Leung, Mr. Zheng Gang and Mr. Tang Ming Je) and is chaired by Mr. Zheng Gang. The major duties of the Remuneration Committee are as follows:

(a) To make recommendations to the Board on the Company's policy and structure for all Directors' and Senior Management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) To review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(c) To make recommendations to the Board on the remuneration packages of individual Directors and Senior Management;

(d) To consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and Senior Management and employment conditions elsewhere in the Group;

(e) To review and approve the compensation for the loss or termination of office or appointment executive directors and senior management;

(f) To review and approve the compensation arrangements with regard to the dismissal or removal of Directors due to their misconduct; and

(g) To ensure no Director or their contacts determine by themselves, or be involved in determining, their remuneration.

During the year ended 31 December 2018, individual attendance of each member of Remuneration Committee is set out below:

Remuneration Committee member	Attended/Held
Mr. Zheng Gang *(Chairman)*	5/5
Mr. Tian Weidong	5/5
Mr. Wong Hon Kit *(resigned with effect from 1 July 2018)*	4/4
Mr. Wong Hok Leung *(appointed with effect from 1 July 2018)*	1/1
Mr. Tang Ming Je	5/5

Nomination Committee

The Nomination Committee comprises of three members and is chaired by the executive Director, Mr. Tian Weidong. The remaining two members are all independent non-executive Directors (i.e. Mr. Wong Hok Leung and Mr. Tang Ming Je). The major duties of the Nomination Committee are as follows:

(a) To review the structure, size and composition (including the skills, knowledge and experience) required of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) To identify individuals suitably qualified to become Directors and selecting or making recommendations to the Board on the selection of individuals nominated for directorship;

(c) To make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive; and

(d) To assess the independence of independent non-executive Directors.

During the year ended 31 December 2018, individual attendance of each member of Nomination Committee is set out below:

Nomination Committee member	Attended/Held
Mr. Tian Weidong *(Chairman)*	3/3
Mr. Wong Hon Kit *(resigned with effect from 1 July 2018)*	2/2
Mr. Wong Hok Leung *(appointed with effect from 1 July 2018)*	1/1
Mr. Tang Ming Je	3/3

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended 31 December 2018 to ensure that the financial statements give a true and fair view of the Group's financial position and other financial disclosures. The Company provided all member of the Board with monthly updates on the Group's performance, financial positions and prospects to enable the Board to carry out an informed assessment of the Company's financial statements. The statement by the auditors of the Company regarding their responsibilities on the consolidated financial statements of the Company is set out on the Independence Auditor's Report on pages 57 to 61 of this annual report.

Auditor's Remuneration

The audit committee monitors the audit and non-audit services rendered to the Group by the external auditor and ensures that the engagement of external auditor in non-audit services will not impair its audit independence or objectivity.

For the year ended 31 December 2018, the fees in respect of the audit and non-audit services provided to the Group by Messrs. Deloitte Touche Tohmatsu, is set out as follows:

	Fee
	HK$'000
Audit services	1,982
Non-audit services:	
Review of interim results	350
Tax advisory	152
Others	180
	2,664

Risk management and internal control

The main features of the risk management and internal control systems are to provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Group to manage its risks across business operations.

The Group has established a risk management framework, which consists of the Board of Directors, the Audit Committee and the senior management. The Board of Directors shall be responsible for the determination of the nature and extent of risks that shall be taken in achieving the Group's strategic objectives. The Board of Directors acknowledges its overall responsibility for monitoring the Group's risk management and internal control systems and reviewing their overall effectiveness.

The Group has an internal audit function and has formulated and adopted risk management policy in providing direction in identifying, evaluating and managing significant risks. At least on an annual basis, the Senior Management identifies risks that would adversely affect the achievement of the Group's objectives, and assesses and prioritizes the identified risks according to a set of standard criteria. Risk mitigation plans and risk owners are then established for those risks considered to be significant.

The Board and the Audit Committee continue to evaluate the adequacy of resources, qualifications and experience of staff in the Group's accounting and financial reporting function. The Group has engaged an independent professional advisor to assist the Board of Directors and the Audit Committee in ongoing monitoring of the internal control systems of the Group. Deficiencies in the design and implementation of internal controls identified and recommendations are proposed for improvement. Significant internal control deficiencies are reported to the Audit Committee and the Board of Directors on a timely basis to ensure prompt remediation actions are taken.

Risk management report and internal control report are submitted to the Audit Committee and the Board of Directors at least once a year. The Board of Directors had performed annual review on the effectiveness of the Group's risk management and internal control systems, including but not limited to the Group's ability to cope with its business transformation and changing external environment; the scope and quality of management's review on risk management and internal control systems; result of internal audit work; the extent and frequency of communication with the Board of Directors in relation to result of risk and internal control review; significant failures or weaknesses identified and their related implications; and status of compliance with the Listing Rules. The Board of Directors considers the Group's risk management and internal control systems are effective and adequate.

The risk management and internal control systems 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.

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

The Group complies with requirements of SFO and the Listing Rules. The Group will disclose inside information to the public as soon as reasonably practicable unless the information falls within any of the "safe harbours" provisions under the SFO and satisfy the conditions. Before the information is fully disclosed to the public, the Group will ensures that the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

COMPANY SECRETARY

The Company Secretary supports the Board by ensuring good information flow within the Board and that board policy and procedures are followed. The Company Secretary is also responsible for advising the Board through the Chairman and/or the Chief Executive of the Company on corporate governance matters and also facilitate induction and professional development of directors. All Directors have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable laws, rules and regulations are followed. The selection, appointment and dismissal of the Company Secretary are subject to the Board approval.

Mr. Yau Chak Man was appointed as the company secretary of the Company on 15 March 2019 to replace Mr. Chan Lap Wing. The biographical details of Mr. Yau is set out in the paragraph headed "Directors and Senior Management" on page 21 of this annual report.

During the year ended 31 December 2018, Mr. Chan took no less than 15 hours of relevant professional training.

ARTICLES OF ASSOCIATION OF THE COMPANY

The amended and restated Articles of Association was adopted by the Company on 19 September 2016 and effective on the Listing Date. The Articles of Association has no change since the date of Listing to the year ended 31 December 2018.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Board believes that effective communication with shareholders is essential for enhancing investor relations. The Company also recognises the importance of transparency of information disclosure and timely communication with shareholders by different channels.

The general meetings of the company provide a direct channel for the shareholders to communicate with the Company. The Company shall in each year hold a general meeting as its annual general meeting and the annual general meeting shall be called by not less than 21 days' notice in writing. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution.

All general meetings other than annual general meetings shall be called extraordinary general meetings ("**EGM**"). Any two or more members of the Company, at the date of the deposit of written requisition holding not less than one-tenth of the paid up capital of the Company which carries the rights of voting at general meetings, shall at all times have the right to require an EGM to be called by the Board for the transaction of any business specified in such requisition.

The written requisition must be deposited at the Company's principal office in Hong Kong. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the EGM to be held within a further 21 days, the requisitionists themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the EGM, but any EGM shall not be held after the expiration of three months from the date of deposit of the requisition.

Shareholders may, at any time, direct questions or requests for information to the Directors or management through "Contact Us" section in the Company's website (www.smart-core.com.hk) or in writing and sent by post to the Company's principal place of business in Hong Kong or by email to smg@smart-core.com.hk.

The Company will publish the Company's information in an accurate and timely manner to improve the transparency of information disclosure. The latest development, announcements and press in relation to the Company are available on the Company's website (www.smart-core.com.hk) for investors.

Deloitte. 德勤

TO THE SHAREHOLDERS OF SMART-CORE HOLDINGS LIMITED
芯智控股有限公司
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Smart-Core Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as "**the Group**") set out on pages 62 to 140, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (continued)

Key audit matter

Impairment assessment of trade receivables

We identified impairment assessment of trade receivables as a key audit matter due to the significance of trade receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables at the end of the reporting period.

As disclosed in note 20 to the consolidated financial statements, the Group's net trade receivables amounting to approximately HK$339,036,000 has been net off with lifetime ECL on trade receivables amounted to approximately HK$7,660,000. As explained in note 2 to the consolidated financial statements, in the current year, the Group adopted Hong Kong Financial Reporting Standard 9 "Financial instruments" (HKFRS 9) and HK$2,276,000 impairment of trade receivables has been recognised against retained profits as at 1 January 2018 in accordance with the transitional provisions of HKFRS 9.

As disclosed in note 36 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables based on provision matrix through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors, ageing, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. In addition, trade receivables that are credit-impaired or with significant balances are assessed for ECL individually. The loss allowance amount of the credit-impaired trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses.

How our audit addressed the key audit matter

Our procedures in relation to impairment assessment of trade receivables included:

- Understanding key controls on how the management estimates the loss allowance for trade receivables;
- Testing the accuracy of the ECL adjustment made by the Group as at 1 January 2018 on initial adoption of HKFRS 9;
- Testing the integrity of information used by management to develop the provision matrix, including trade receivables ageing analysis as at 1 January 2018 and 31 December 2018, on a sample basis, by comparing individual items in the analysis with the relevant sales invoices and other supporting documents;
- Challenging management's basis and judgement in determining credit loss allowance on trade receivables as at 1 January 2018 and 31 December 2018, including their identification of significant balances and credit-impaired receivables and, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information);
- Evaluating the disclosures regarding the impairment assessment of trade receivables in notes 36 to the consolidated financial statements; and
- Testing subsequent settlements of credit-impaired trade receivables, on a sample basis, by inspecting supporting documents in relation to cash receipt from trade debtors subsequent to the end of the current reporting period.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Allowance for inventories	
We identified the estimated allowance for inventories as a key audit matter due to its significant balance. The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than cost. The management of the Group reviewed the inventory aging report at the end of the reporting period to identify inventories that are obsolete and estimated the net realisable value for those items based on latest selling price. As at 31 December 2018, the carrying amount of the Group's inventories was HK$256,169,000. Details relating to the Group's inventories and its accounting policies are set out in notes 19 and 3, respectively, to the consolidated financial statements. There is also judgement involved in assessing the level of inventory provision required in respect of slow moving inventory. Therefore, there is a risk that slow moving inventory has not been adequately provided for.	Our procedures in relation to the estimated allowance for inventories included: • Understanding the key control and evaluating the basis of how slow-moving or obsolete inventories are identified by the management and their assessment of allowance for inventories; • Identifying obsolete inventories when attending inventory counts; • Testing the accuracy of the inventory ageing and assessing whether allowance is properly provided for aged inventories; and • Checking the historical accuracy of inventory provisioning and the level of inventories write-offs during the year.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

- 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.

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Au Chun Hing.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	Year ended 31 December 2018 HK$'000	2017 HK$'000 (Restated)
Revenue	5	**4,935,634**	4,785,166
Cost of sales		**(4,701,564)**	(4,554,371)
Gross profit		**234,070**	230,795
Other income	6	**14,896**	20,904
Other expenses, gains or losses, net	7	**(1,043)**	1,154
Reversal of (impairment loss) on trade and other receivables, net		**17,752**	(23,204)
Research and development expenses		**(27,059)**	(25,135)
Administrative expenses		**(54,514)**	(49,916)
Selling and distribution expenses		**(54,669)**	(40,650)
Interest expenses on bank borrowings		**(27,444)**	(25,227)
Profit before tax	8	**101,989**	88,721
Income tax expenses	10	**(20,443)**	(11,302)
Profit for the year		**81,546**	77,419
Other comprehensive (expenses) income			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		**(1,659)**	1,339
Fair value (loss) gain on:			
Available-for-sale investments		**—**	305
Debt instruments at fair value through other comprehensive income		**(113)**	—
Total comprehensive income for the year		**79,774**	79,063
Profit (loss) for the year attributable to:			
Owners of the Company		**80,415**	77,582
Non-controlling interests		**1,131**	(163)
		81,546	77,419
Total comprehensive income (expenses) for the year attributable to:			
Owners of the Company		**78,654**	79,234
Non-controlling interests		**1,120**	(171)
		79,774	79,063
Earnings per share (HK cents):	12		
Basic		**16.14**	15.52
Diluted		**15.97**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000 (Restated)	As at 1 January 2017 HK$'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	13	**4,614**	4,078	3,352
Goodwill	14	**7,230**	—	—
Intangible asset	15	**5,790**	—	—
Available-for-sale investments	18	**—**	55,152	60,618
Deposits, prepayments and other receivables	21	**109**	67,981	22,378
Financial assets at fair value through profit or loss	17	**123,297**	—	—
		141,040	127,211	86,348
CURRENT ASSETS				
Inventories	19	**256,169**	250,142	248,880
Trade and bills receivables	20	**471,044**	319,026	440,700
Deposits, prepayments and other receivables	21	**51,666**	30,218	21,198
Tax recoverable		**—**	2,547	—
Debt instruments at fair value through other comprehensive income	16	**4,232**	—	—
Financial assets at fair value through profit or loss	17	**4,197**	—	—
Pledged bank deposits	22	**103,664**	69,491	253,410
Bank balances and cash	22	**159,568**	177,299	217,077
		1,050,540	848,723	1,181,265
CURRENT LIABILITIES				
Trade and bills payables	24	**398,174**	369,320	535,616
Other payables and accrued charges	25	**96,291**	91,765	106,389
Contract liabilities	26	**13,808**	—	—
Amount due to a non-controlling shareholder of a subsidiary	27	**2,005**	—	—
Tax liabilities		**14,686**	—	6,345
Bank and other borrowings	28	**59,255**	2,129	175,911
		584,219	463,214	824,261
NET CURRENT ASSETS		**466,321**	385,509	357,004
TOTAL ASSETS LESS CURRENT LIABILITIES		**607,361**	512,720	443,352
NON-CURRENT LIABILITY				
Deferred tax liability	29	**955**	—	—
NET ASSETS		**606,406**	512,720	443,352

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTE	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000 (Restated)	As at 1 January 2017 HK$'000 (Restated)
CAPITAL AND RESERVES				
Share capital	31	**39**	39	39
Reserves		**568,253**	512,556	443,313
Equity attributable to owners of the Company		**568,292**	512,595	443,352
Non-controlling interests		**38,114**	125	—
		606,406	512,720	443,352

The consolidated financial statements on pages 62 to 140 were approved and authorised for issue by the Board of Directors on 25 March 2019 and are signed on its behalf by:

Tian Weidong
DIRECTOR

Wong Tsz Leung
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company											
	Share capital	Share premium	Other reserve	Statutory reserves	Exchange reserve	Investment revaluation reserve	Treasury share reserve	Share-based payment reserve	Retained profits	Sub-total	Non-controlling interests	Total equity
	HK$'000	HK$'000	HK$'000 (note a)	HK$'000 (note b)	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2017	39	350,099	14,051	571	(346)	(2,659)	–	–	81,597	443,352	–	443,352
Profit for the year	–	–	–	–	–	–	–	–	77,582	77,582	(163)	77,419
Exchange difference arising on translation of foreign operations	–	–	–	–	1,347	–	–	–	–	1,347	(8)	1,339
Fair value gain on available-for-sale investments	–	–	–	–	–	305	–	–	–	305	–	305
Profit and total comprehensive income recognised for the year	–	–	–	–	1,347	305	–	–	77,582	79,234	(171)	79,063
Transfer to statutory reserves	–	–	–	655	–	–	–	–	(655)	–	–	–
Capital injection by non-controlling interests to a subsidiary	–	–	–	–	–	–	–	–	–	–	296	296
Dividend recognised as distribution (note 11)	–	(9,991)	–	–	–	–	–	–	–	(9,991)	–	(9,991)
At 31 December 2017	39	340,108	14,051	1,226	1,001	(2,354)	–	–	158,524	512,595	125	512,720
Adjustments (see note 2)	–	–	–	–	–	2,382	–	–	(7,964)	(5,582)	–	(5,582)
At 1 January 2018 (restated)	**39**	**340,108**	**14,051**	**1,226**	**1,001**	**28**	–	–	**150,560**	**507,013**	**125**	**507,138**
Profit for the year	–	–	–	–	–	–	–	–	**80,415**	**80,415**	**1,131**	**81,546**
Exchange difference arising on translation of foreign operations	–	–	–	–	**(1,648)**	–	–	–	–	**(1,648)**	**(11)**	**(1,659)**
Fair value loss on debt instruments at fair value through other comprehensive income	–	–	–	–	–	**(113)**	–	–	–	**(113)**	–	**(113)**
Profit and total comprehensive income recognised for the year	–	–	–	–	**(1,648)**	**(113)**	–	–	**80,415**	**78,654**	**1,120**	**79,774**
Transfer to statutory reserves	–	–	–	**1,221**	–	–	–	–	**(1,221)**	–	–	–
Recognition of equity-settled share-based payment	–	–	–	–	–	–	–	**15,232**	–	**15,232**	–	**15,232**
Purchase of shares under the share award scheme	–	–	–	–	–	–	**(14,586)**	–	–	**(14,586)**	–	**(14,586)**
Shares vested under the share award scheme	–	–	–	–	–	–	**7,706**	**(7,855)**	**149**	–	–	–
Forfeitures of shares awards	–	–	–	–	–	–	–	**(397)**	**397**	–	–	–
Dividend recognised as distribution (note 11)	–	**(25,000)**	–	–	–	–	–	–	–	**(25,000)**	–	**(25,000)**
Capital injection by non-controlling interests to a subsidiary	–	–	–	–	–	–	–	–	–	–	**2,340**	**2,340**
Acquisition of subsidiaries (note 32)	–	**6,979**	–	–	–	–	–	–	–	**6,979**	**34,529**	**41,508**
At 31 December 2018	**39**	**322,087**	**14,051**	**2,447**	**(647)**	**(85)**	**(6,880)**	**6,980**	**230,300**	**568,292**	**38,114**	**606,406**

Notes:

(a) Other reserve represents (i) the combined share capital of Smart-Core International Company Limited and Smart-Core Cloud Limited acquired by the Company at the time of the group reorganisation in 2015; (ii) the difference between the amounts by which the non-controlling interest was adjusted and the consideration paid to acquire the additional interests in subsidiaries.

(b) Pursuant to the relevant laws in the People's Republic of China, the Group's subsidiaries established in the PRC is required to transfer 10% of its profit after tax as per statutory financial statements to the reserve funds (including the general reserve fund and enterprise development fund where appropriate). The general reserve fund is discretionary when the fund balance reaches 50% of the registered capital of the subsidiary and can be used to make up for previous years' losses or, expand the existing operations or can be converted into additional capital of the subsidiary. The enterprise development fund can only be used for development and is not available for distribution to shareholder.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
		(Restated)
OPERATING ACTIVITIES		
Profit before tax	**101,989**	88,721
Adjustments for:		
Depreciation of property, plant and equipment	**1,962**	1,280
Share-based payment expenses	**15,232**	—
Interest expense on bank borrowings	**27,444**	25,227
Amortisation of intangible asset	**200**	—
(Reversal of) impairment loss of trade and other receivables, net	**(17,752)**	23,204
Allowance for inventories	**1,536**	3,775
Interest income from loans to third parties	**(2,934)**	—
Interest income from debt instruments at fair value through other comprehensive income	**(418)**	—
Fair value loss on financial assets at fair value through profit or loss	**1,154**	—
Bank interest income	**(1,210)**	(389)
Property, plant and equipment written off	**70**	461
Written off of trade and other payables	**(434)**	(7,527)
Loss on disposal of available-for-sale investments	**—**	11
Dividend and interest income from available-for-sale investments	**—**	(2,168)
Interest income from life insurance policies	**—**	(2,043)
Operating cash flows before movements in working capital	**126,839**	130,552
Decrease (increase) in inventories	**2,791**	(6,076)
(Increase) decrease in trade and bills receivables	**(76,120)**	96,886
Decrease (increase) in deposits, prepayments and other receivables	**9,936**	(13,873)
Increase (decrease) in trade and bills payables	**7,281**	(166,248)
Increase (decrease) in other payables and accrued charges	**5,446**	(160)
Increase in contract liabilities	**1,718**	—
Cash from operations	**77,891**	41,081
Income tax paid	**(6,021)**	(20,194)
NET CASH FROM OPERATING ACTIVITIES	**71,870**	20,887

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	NOTE	Year ended 31 December 2018 HK$'000	2017 HK$'000 (Restated)
INVESTING ACTIVITIES			
Loan to third parties		**(117,191)**	—
Placement of pledged bank deposits		**(97,238)**	(188,143)
Purchase of financial assets at fair value through profit or loss		**(16,133)**	—
Purchase of debt instruments at fair value through other comprehensive income		**(5,874)**	—
Net cash outflow for acquisition of subsidiaries	32	**(5,689)**	—
Purchase of property, plant and equipment		**(1,805)**	(2,334)
Loan repayment from third parties		**94,380**	—
Withdrawal of pledged bank deposits		**63,065**	372,062
Proceeds from disposal of debt instruments at fair value through other comprehensive income		**6,064**	—
Interest income received from loans to third parties		**2,934**	—
Interest received from debt instruments at fair value through other comprehensive income		**418**	—
Interest received		**1,628**	389
Payment for life insurance policies		**—**	(42,024)
Proceeds from disposal of available-for-sale investments		**—**	5,760
Dividends and interest income of available-for-sale investments		**—**	2,168
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(75,441)**	147,878
FINANCING ACTIVITIES			
New bank borrowings raised		**322,369**	313,513
Repayment of bank borrowings		**(272,039)**	(487,295)
Interest paid		**(27,444)**	(25,227)
Dividend paid		**(25,000)**	(9,991)
Purchase of shares under share award scheme		**(14,586)**	—
Repayment to a non-controlling shareholder of a subsidiary		**(112)**	—
Capital contribution by non-controlling shareholder of a subsidiary		**2,340**	296
NET CASH USED IN FINANCING ACTIVITIES		**(14,472)**	(208,704)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(18,043)**	(39,939)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**177,299**	217,077
Effect of foreign exchange rate changes		**312**	161
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Represented by bank balances and cash		**159,568**	177,299

1. GENERAL

Smart-Core Holdings Limited (the "**Company**") was incorporated in the Cayman Islands as an exempted company and registered with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as combined and revised) of the Cayman Islands. The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited ("**Stock Exchange**") since 7 October 2016. Its parent is Smart IC Limited, a private company incorporated in the British Virgin Islands and its ultimate controlling party is Mr. Tian Weidong ("**Mr. Tian**"). The addresses of registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company is an investment holding company. The Company's subsidiaries are principally engaged in the trading of electronics components.

The functional currency of the Company is United States Dollars ("**US$**") and accordingly, the consolidated financial statements of the Group was presented in US$ in prior years. Starting from 1 January 2018, the Group has changed its presentation currency for the preparation of its consolidated financial statements from US$ to Hong Kong Dollars ("**HK$**"). The directors of the Company considered that the change of presentation currency to HK$ enables the shareholders and potential investors of the Company to have a more accurate picture of the Group by aligning the Group's financial performance with its share price.

The effects of the change in the presentation currency have been accounted for retrospectively with comparative figures restated. The comparative amounts in the consolidated financial statements are presented as if HK$ had always been the presentation currency of the consolidated financial statements. The Group has also presented the consolidated statement of financial position as at 1 January 2017 without related notes.

For the purpose of presenting the consolidated financial statements of the Group in HK$, the assets and liabilities for the consolidated statement of financial position are translated into HK$ at the closing rate at the respective reporting dates. Income and expenses for the consolidated statement of profit or loss and other comprehensive income are translated at the average exchange rates for the month of the transactions, unless exchange rates fluctuated significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Share capital, share premium and other reserves are translated at the exchange rate at the date when the respective amounts were determined. The non-controlling interests presented in the consolidated statement of financial position are translated into HK$ at the closing rate at the respective reporting dates.

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

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

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to Hong Kong Accounting Standards ("**HKAS**") 28	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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

HKFRS 15 *Revenue from Contracts with Customers*

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

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

The Group recognises revenue from trading of electronics components.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

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

HKFRS 15 *Revenue from Contracts with Customers* (continued)

Summary of effects arising from initial application of HKFRS 15

As at 1 January 2018, advance payments from customers included in other payables and accrued charges of HK$6,881,000 were reclassified as contract liabilities and disclosed as "contract liabilities" on the consolidated statement of financial position.

As at 31 December 2018, contract liabilities of HK$13,808,000, representing advance payments from customers, would have been included in other payables without application of HKFRS 15.

The increase in contract liabilities of HK$1,718,000 for the year ended 31 December 2018 disclosed on the consolidated cash flow statement would have been included in increase in other payables and accrued charges without application of HKFRS15.

Except as described above, the application of HKFRS 15 has had no material impact on the amounts reported set out in these consolidated financial statements.

HKFRS 9 *Financial Instruments*

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

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

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

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

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

HKFRS 9 *Financial Instruments* (continued)

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Notes	Carrying amounts previously reported at 31 December 2017	Reclassification	Remeasurement	**Carrying amounts under HKFRS 9 at 1 January 2018**
		HK$'000 (Restated)	HK$'000	HK$'000	**HK$'000**
Non-current assets					
Available-for-sale investments	(a)	55,152	(55,152)	—	—
Debt instruments at fair value through other comprehensive income	(a)	—	4,535	—	**4,535**
Financial assets at fair value through profit or loss	(b)	—	116,239	(3,306)	**112,933**
Deposits, prepayments and other receivables	(b)	67,981	(65,371)	—	**2,610**
Current assets					
Trade and bills receivables	(c), (d)	319,026	—	(2,276)	**316,750**
Deposits, prepayments and other receivables	(b)	30,218	(251)	—	**29,967**
Capital and reserves					
Retained profits	(a), (b), (d)	(158,524)	2,382	5,582	**(150,560)**
Investment revaluation reserve	(a)	2,354	(2,382)	—	**(28)**

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

HKFRS 9 *Financial Instruments* (continued)

Summary of effects arising from initial application of HKFRS 9 (continued)

(a) Available-for-sale ("AFS") investments

*From AFS investments to debt instruments at fair value through other comprehensive income ("**FVTOCI**")*

Listed debt securities with a fair value of HK$4,535,000 were reclassified from AFS investments to debt instruments at FVTOCI, as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding. Related fair value gains of HK$28,000 continued to accumulate in the investments revaluation reserves as at 1 January 2018.

*From AFS investments to financial assets at fair value through profit or loss ("**FVTPL**")*

Unit trust funds mainly invest in bonds and other debt securities with a fair value of HK$50,617,000 were reclassified from AFS investments to financial assets at FVTPL. This is because even though the Group's business model is to hold financial assets in order to collect contractual cash flows, the cash flows of these investments do not meet the HKFRS 9 criteria as solely payments of principal and interest on the principal amount outstanding. Related fair value losses of HK$2,382,000 were transferred from the investments revaluation reserves to retained profits as at 1 January 2018.

(b) Financial assets at FVTPL

At the date of initial application of HKFRS 9, the Group's payment for life insurance policies of HK$65,622,000 were reclassified from deposits, prepayments and other receivables to financial assets at FVTPL as these investments cannot meet the HKFRS 9 criteria as solely payments of principal and interest on the principal amount outstanding. The fair value losses of HK$3,306,000 of these insurance policies previously carried at amortised cost were adjusted to financial assets at FVTPL and retained profits as at 1 January 2018.

(c) Trade receivables under factoring arrangements

As part of the Group's cash flow management, the Group entered into non-recourse factoring agreements with banks on certain customers' receivables before they are due for payment and derecognised receivables on the basis that the Group has transferred substantially risks and rewards to the relevant counterparties. As such, the relevant customer's receivable fails the business model assessment with objective to collect the contractual cash flows but to sell the financial assets.

Accordingly, trade receivables under factoring agreements amounting to HK$103,824,000 previously classified as loans and receivables at amortised cost were measured at FVTPL upon the application of HKFRS 9.

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

HKFRS 9 *Financial Instruments* (continued)

Summary of effects arising from initial application of HKFRS 9 (continued)

(d) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade and bills receivables. Except for those which had been determined as credit-impaired under HKAS 39, trade receivables with outstanding significant balances have been assessed individually with the remaining being grouped based on shared credit risk characteristics.

ECL for other financial assets at amortised cost, including pledged bank deposits, bank balances and cash and other receivables are assessed on 12-month ECL ("**12m ECL**") basis as there had been no significant increase in credit risk since initial recognition.

All of the Group's debt instruments at FVTOCI are listed bonds that are graded in the top credit rating among rating agencies. Therefore, these investments are considered to be low credit risk investments and the loss allowance is assessed on 12m ECL basis.

As at 1 January 2018, additional credit loss allowance of HK$2,276,000 has been recognised against retained profits. The additional loss allowance is charged against the respective asset. All loss allowances, including trade and bills receivables as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Trade and bills receivables
	HK$'000
At 31 December 2017 (Restated)	
– HKAS 39	319,026
Amounts remeasured through opening retained profits	(2,276)
At 1 January 2018	316,750

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

Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretation

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017	HKFRS 15	HKFRS 9	**1 January 2018**
	HK$'000 (Restated)	HK$'000	HK$'000	**HK$'000**
Non-current assets				
Available-for-sale investments	55,152	—	(55,152)	—
Debt instruments at fair value through other comprehensive income	—	—	4,535	**4,535**
Financial assets at fair value through profit or loss	—	—	112,933	**112,933**
Deposits, prepayments and other receivables	67,981	—	(65,371)	**2,610**
Current assets				
Trade and bills receivables	319,026	—	(2,276)	**316,750**
Deposits, prepayments and other receivables	30,218	—	(251)	**29,967**
Current liabilities				
Other payables and accrued charges	(91,765)	6,881	—	**(84,884)**
Contract liabilities	—	(6,881)	—	**(6,881)**
Capital and reserves				
Retained profits	(158,524)	—	7,964	**(150,560)**
Investment revaluation reserve	2,354	—	(2,382)	**(28)**

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

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

New and amendments to HKFRSs in issue but not yet effective

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

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

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after 1 January 2021.
3 Effective for business combinations and asset acquisition for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
4 Effective for annual periods beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after a date to be determined.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 *Leases*

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

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

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

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

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

HKFRS 16 *Leases* (continued)

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$4,791,000 as disclosed in note 33. These arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases.

In addition, the Group currently considers refundable rental deposits paid of HK$1,946,000 under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets; accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below except for certain financial instruments that are measured at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains controls until the date when the Group ceases to control the subsidiary. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred 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. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9/HKAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

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

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

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

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

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

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

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

The Group provides technical services to customers. Such services are recognised as a performance obligation satisfied over time as the customer simultaneously receives and consumes the services as the Group continues to provide the services to the customer.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Revenue recognition (prior to 1 January 2018)

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

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

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

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Service income is recognised when the relevant services are rendered.

Leasing

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

The Group as lessee

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rate prevailing at the end of each reporting period. Income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

The change in presentation currency of the Company was applied retrospectively, as if the new presentation currency had always been applied.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Retirement benefits costs

Payments to the defined contribution retirement benefit plan and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs which are not capitalised to qualifying assets are recognised in profit or loss in the period in which they are incurred.

Share-based payments

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payment reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve.

Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

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

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

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

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gain and loss arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Internally generated intangible assets - Research and development expenditure

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

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Impairment on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment on tangible and intangible assets other than goodwill (continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less estimated cost necessary to make the sale.

Financial instruments

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

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

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

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

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

(i) Amortised cost and interest income

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

(ii) Debt instruments classified at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of investments revaluation reserves. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in OCI are reclassified to profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other expenses, gains or losses, net" line item.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and bills receivables, other receivables, pledged bank deposits, debt instruments at FVTOCI, financial assets at FVTPL and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for trade and bills receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

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

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

(i) Significant increase in credit risk (continued)

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

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full without taking into account any collaterals held by the Group.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 365 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

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

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

(v) Measurement and recognition of ECL

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

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

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

- Nature of financial instruments (i.e. the Group's trade and bills receivables are each assessed as a separate group. Loans to third parties are assessed for ECL on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and bills receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in investment revaluation reserve without reducing the carrying amount of these debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

Financial assets are classified into the following specified categories: financial assets at FVTPL, held-to-maturity investments, AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading (or contingent consideration that may be received by an acquirer as part of a business combination) may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in other gains or losses, net. Fair value is determined in the manner described in note 36b.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

(ii) AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Debt securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in OCI and accumulated under the heading of investment revaluation reserve.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables and other receivables, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

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

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

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in OCI are reclassified to profit or loss in the period.

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

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in OCI and accumulated under the heading of investment revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

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

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

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in investment revaluation reserve is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, amount due to a non-controlling shareholder of a subsidiary, and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Control over Quiksol International HK Pte Limited and its subsidiary

As described in note 32, the Group acquired altogether 25% ownership interest in Quiksol International HK Pte Limited ("**Quiksol HK**"), which has a wholly-owned subsidiary (hereinafter collectively referred to as "**Quiksol Group**"), from the then four shareholders of Quiksol HK ("**Four Shareholders**"), who hold in total the remaining 75% equity interest upon the completion of this acquisition.

A shareholders' agreement was entered into among the Group, Quiksol HK and the Four Shareholders upon the acquisition, which, among others, granted the Group the right to appoint a majority representatives on the board of directors of Quiksol HK and veto rights to certain decisions and actions by the board and shareholders relating to the relevant activities of Quiksol HK. The Articles of Association of Quiksol HK ("**A&A**") was also amended at the same time to reflect the rights given to the Group pursuant to the shareholders' agreement.

The directors of the Company assessed whether or not the Group has control over Quiksol Group as a result of the rights given by the shareholders' agreement and A&A based on whether the Group has the power to direct the relevant activities of Quiksol Group unilaterally. In making their judgement, the directors of the Company took into consideration: (i) the fact that the relevant activities of Quiksol Group are directed by the board of Quiksol HK as a result of the rights of the Group given under the shareholders' agreement as well as the amendments to the A&A upon the acquisition; and (ii) the power of the Group to appoint a majority of the directors of the board of Quiksol HK.

After this assessment, the directors of the Company concluded that although the Group has only 25% ownership interest and voting rights in Quiksol HK, the Group has rights that give them the unilateral ability to direct the relevant activities of Quiksol HK and therefore the Group has obtained control over Quiksol Group.

Key sources of estimation uncertainty

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Provision of ECL for trade and bills receivables

The Group uses provision matrix to calculate ECL for the trade and bills receivables. The provision rates are based on internal credit ratings upon groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit-impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 36b and 20, respectively.

Fair value measurement of financial instruments

Debt instruments at FVTOCI and financial assets at FVTPL, amounting to HK$4,232,000 and HK$127,494,000, respectively as at 31 December 2018, are measured at fair values with fair values being determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See notes 16 and 17 for further disclosures, respectively.

Net realisable value of inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated cost necessary to make the sale. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of changes in market condition. The Group will reassess the estimation at the end of each reporting period.

At 31 December 2018, the carrying amounts of inventories of the Group were approximately HK$256,169,000 (2017: HK$250,142,000), which includes allowance of HK$7,363,000 (2017: HK$6,146,000). Details are set out in note 19.

Fair value of identifiable assets and liabilities acquired through business combinations

The Group applies the purchase method to account for business combinations, which requires the Group to record assets acquired and liabilities assumed at their fair values on the date of acquisition. Significant judgment is used to estimate the fair values of the assets and liabilities acquired, including estimating future cash flows from the acquired business, determining appropriate discount rates, asset lives and other assumptions. The acquisition of Quiksol Group for the current year is accounted for as business combination and details of the fair value of the assets acquired and liabilities recognised (determined on a provisional basis) at the date of acquisition are set out in note 32.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Income tax provision and corresponding penalty

During the year ended 31 December 2015, the directors of the Company have identified certain errors in the statutory financial statements of a group entity incorporated in Hong Kong ("**HK**") for the year ended 31 December 2012 and prior periods, and the year ended 31 December 2014, and consequently those statutory financial statements were restated and reissued. The Group then voluntarily submitted the revised tax computations of the relevant group entity to the Inland Revenue Department of Hong Kong ("**IRD**") for the years of assessment 2012/2013 and 2014/2015 based on the revised assessable profits calculated based on the reissued statutory financial statements. The additional tax provision for the year ended 31 December 2012 and prior periods, and the year ended 31 December 2014 amounted to HK$6,006,000 and HK$6,505,000 respectively, was recognised in the consolidated financial statements in the respective years.

As the Group may have understated its assessable profits and/or made an incorrect tax returns or statement to the IRD for the relevant years of assessment, it may be liable for penalty, the amount of which according to the penalty policy of the IRD would be at a maximum of (i) a fine of HK$10,000 to HK$50,000 for each offense; (ii) trebling the amount of tax undercharged or would have been undercharged; and (iii) imprisonment for 6 months to 3 years. However, the penalty may be less than the maximum level if the Group can prove to the satisfaction of the Commissioner of the IRD that there is reasonable excuse for committing the offense and the Company does not have any willful intention to omit/understate the profit in question.

The directors of the Company have also considered reasonably possible penalty that may be imposed by the IRD on the Group at each of the reporting date, if any, arising from omission or understatement of assessment profits for the years of assessment 2012/2013 and 2014/2015 by the relevant group entity. After seeking professional advice, the directors of the Company understand that the reasonably possible penalty, if any, is likely to be at the level of 30% of the amount of tax undercharged and HK$10,000 for each offense, that is, HK$1,802,000 and HK$1,950,000 for the years ended 31 December 2012 and 31 December 2014, respectively, and relevant provisions on potential penalty were made and included in administrative expenses in the profit or loss for the relevant years. The directors of the Company believe that adequate provision has been made against the potential penalty. However, the ultimate penalty may be different from the amounts provided, such difference will be charged to profit or loss in the period during which such a determination is made.

5. REVENUE AND OPERATING SEGMENTS

	2018	2017
	HK$'000	HK$'000 (Restated)
Sale of electronic components	4,935,634	4,785,166

Revenue is recognised at a point of time when control of the goods has transferred, being when the goods have been delivered to port of discharged or the customer's specific location as stipulated in the sales agreement. Following delivery, the customer bears the risks of obsolescence and loss in relation to the goods.

Advance payments may be received based on terms of sales contract and any transaction price received by the Group is recognised as a contract liability until the goods have been delivered to the customer. The normal credit term is 0 to 120 days upon delivery.

Customers can only return or request refund if the goods delivered do not meet required quality standards. As at 31 December 2018, all outstanding sales contracts are expected to be fulfilled within 12 months after the end of the reporting period.

For the purpose of resource allocation and assessment of segment performance, the executive directors of the Company, collectively being the chief operating decision maker, focuses and reviews on the overall results (i.e. revenue and gross profit) and financial position of the Group as a whole which are prepared based on the same accounting policies set out in note 3. Accordingly, the Group has only one single operating segment and no further analysis of the single segment is presented.

Geographical information

The Group principally operates in HK and the People's Republic of China ("**The PRC**").

The following table provides an analysis of the Group's sales by geographical market based on the jurisdictions where the relevant group entities were set up, which are also their place of operations during the year, irrespective of the origin of goods/services and the location of customers.

Revenue from external customers based on location of operations of the relevant group entities

	2018	2017
	HK$'000	HK$'000 (Restated)
HK	4,823,244	4,709,694
The PRC	112,390	75,472
	4,935,634	4,785,166

5. REVENUE AND OPERATING SEGMENTS (continued)

Geographical information (continued)

Information about the Group's non-current assets is presented based on the geographical location of the assets as follows:

Non-current assets

	2018	2017
	HK$'000	HK$'000 (Restated)
HK	14,405	1,731
The PRC	3,229	2,347
	17,634	4,078

Note: Non-current assets excluded those relating to financial instruments.

Information about major customers

Revenue from customers in respect of sales of goods of the year contributing over 10% of the total revenue of the Group is as follows:

	2018	2017
	HK$'000	HK$'000 (Restated)
Customer 1	1,440,825	1,282,102
Customer 2	944,020	853,983

There are no other revenue from transaction with a single external customer amounted to 10% or more of the total revenue of the Group during the years ended 31 December 2018 and 2017.

6. OTHER INCOME

	2018	2017
	HK$'000	HK$'000 (Restated)
Dividend and interest income from available-for-sale investments	—	2,168
Interest income from debt instruments at FVTOCI	418	—
Bank interest income	1,210	389
Technical support services income	7,452	6,848
Interest income from life insurance policies	—	2,043
Interest income from loans to third parties	2,934	—
Written off of other payables	434	7,527
Others	2,448	1,929
	14,896	20,904

7. OTHER EXPENSES, GAINS OR LOSSES, NET

	2018	2017
	HK$'000	HK$'000 (Restated)
Net foreign exchange gain	111	1,165
Loss on disposal of available-for-sale investments	—	(11)
Fair value loss on financial assets at FVTPL	(1,154)	—
	(1,043)	1,154

8. PROFIT BEFORE TAX

	2018	2017
	HK$'000	HK$'000 (Restated)
Profit before tax has been arrived at after charging:		
Directors' emoluments (note 9)	4,838	4,797
Staff costs		
Salaries and other allowances	43,528	38,688
Discretionary bonus	20,352	16,676
Retirement benefit scheme contributions	8,859	7,777
Share-based payments	15,232	—
Total staff costs	92,809	67,938
Allowance for inventories recognised (included in cost of sales)	1,536	3,775
Amortisation of intangible asset	200	—
Auditor's remuneration	1,982	1,794
Cost of inventories recognised as an expense	4,700,028	4,550,596
Depreciation of property, plant and equipment	1,962	1,280
Minimum lease payments under operating leases in respect of properties	7,867	9,056
Property, plant and equipment written off	70	461

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

Directors and chief executive

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and the Hong Kong Companies Ordinance, is as follows:

	Fees	Salaries and other allowance	Discretionary bonus	Retirement benefit scheme contributions	Total
	HK$'000	HK$'000	HK$'000 (note a)	HK$'000	HK$'000
Year ended 31 December 2018					
Executive directors:					
Mr. Tian (note b)	—	1,080	300	18	1,398
Mr. Wong Tsz Leung	—	706	300	18	1,024
Mr. Liu Hongbing	—	780	300	18	1,098
Mr. Xie Yi	—	360	100	18	478
Independent non-executive directors:					
Mr. Zheng Gang	280	—	—	—	280
Mr. Tang Ming Je	280	—	—	—	280
Mr. Wong Hon Kit (note c)	140	—	—	—	140
Mr. Wong Hok Leung (note c)	140	—	—	—	140
	840	2,926	1,000	72	4,838

	Fees	Salaries and other allowance	Discretionary bonus	Retirement benefit scheme contributions	Total
	HK$'000	HK$'000	HK$'000 (note a)	HK$'000	HK$'000
Year ended 31 December 2017 (Restated)					
Executive directors:					
Mr. Tian (note b)	—	1,047	300	18	1,365
Mr. Wong Tsz Leung	—	719	300	18	1,037
Mr. Liu Hongbing	—	759	300	18	1,077
Mr. Xie Yi	—	360	100	18	478
Independent non-executive directors:					
Mr. Zheng Gang	280	—	—	—	280
Mr. Tang Ming Je	280	—	—	—	280
Mr. Wong Hon Kit (note c)	280	—	—	—	280
	840	2,885	1,000	72	4,797

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

Directors and chief executive (continued)

Notes:

(a) The discretionary bonus is determined by reference to the duties and responsibilities of the relevant individual within the Group and the Group's performance.

(b) Mr. Tian is also the chief executive of the Company and his emoluments disclosed above included those services rendered by him as the chief executive.

(c) Mr. Wong Hon Kit resigned and Mr. Wong Hok Leung was appointed as independent non-executive director on 1 July 2018.

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

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

Employees

The five highest paid individuals of the Group during the year included three (2017: three) directors, details of their emoluments are set out above. The emoluments of the remaining two (2017: two) individuals are as follows:

	2018	2017
	HK$'000	HK$'000 (Restated)
Salaries and other allowances	946	644
Discretionary bonus	130	404
Retirement benefit scheme contributions	29	66
Share-based payments	716	—
	1,821	1,114

The number of the highest paid employees who are not directors of the Company whose emoluments were fell within the following bands:

	2018	2017
	HK$'000	HK$'000 (Restated)
Nil to HK$1,000,000	2	2

Certain non-director and non-chief executive highest paid employees were granted share awards, in respect of their services to the Group under the share award scheme of the Company. Details of the share award scheme are set out in note 41.

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees) as an inducement to joint or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emoluments for both years.

10. INCOME TAX EXPENSES

	2018	2017
	HK$'000	HK$'000 (Restated)
Current tax:		
Hong Kong Profits Tax	**18,298**	9,911
PRC Enterprise Income Tax ("**PRC EIT**")	**2,178**	1,391
	20,476	11,302
Deferred tax (note 29)	**(33)**	—
	20,443	11,302

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, starting from the current year, Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million. For the remaining subsidiaries of the Group in HK they are subject to 16.5% of the estimated assessable profits under Hong Kong Profits Tax.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of The EIT Law, the tax rate of entities established in the PRC is 25% (2017: 25%) during the year. As 深圳市芯智科技有限公司 ("**SMC Technology SZ**") has been accredited as a "High and New Technology Enterprise" by the relevant authorities in Shenzhen for a term of three years which will be expired in 2020, it is entitled to a reduced tax rate of 15% (2017: 15%) for PRC EIT during the year. Accordingly, the PRC EIT is calculated at 15% (2017: 15%) on the assessable profit of SMC Technology SZ.

Withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2018 onwards. At 31 December 2018, the aggregate amount of distributable earnings for the Group's PRC subsidiaries in respect of which the Group has not provided for dividend withholding tax amounted to HK$21,258,000 (2017: HK$10,979,000). No liability has been recognised in respect of these amounts because the Group is in a position in control of the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

10. INCOME TAX EXPENSES (continued)

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018	2017
	HK$'000	HK$'000 (Restated)
Profit before tax	101,989	88,721
Tax charge at Hong Kong Profits Tax Rate of 16.5% (note)	16,828	14,639
Tax effect of expenses not deductible for tax purpose	3,911	406
Tax effect of income not taxable for tax purpose	(504)	(2,309)
Tax effect of tax losses not recognised	888	593
Utilisation of tax losses previously not recognised	(474)	(1,919)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(126)	(78)
Income tax at concessionary rate	(165)	—
Others	85	(30)
Tax charge for the year	20,443	11,302

Note: Hong Kong Profits Tax Rate is used as it is the domestic tax in the jurisdiction where the operation of the Group is substantially based.

11. DIVIDENDS

	2018	2017
	HK$'000	HK$'000 (Restated)
Dividends for ordinary shareholders of the Company recognised as distributions during the year		
2018 - Interim - HK2 cents (2017: 2017 interim dividend HK2 cents) per share	10,000	9,991
2017 - Final - HK3 cents (2017: 2016 final dividend HK$Nil) per share	15,000	—
	25,000	9,991

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of HK4 cents (2017: final dividend in respect of the year ended 31 December 2017 of HK3 cents) per ordinary share, in an aggregate amount of approximately HK$20,164,000 (2017: HK$15,000,000), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company for the year is based on the following data:

	2018	2017
	HK$'000	HK$'000 (Restated)
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	80,415	77,582

	2018	2017
Number of ordinary shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	498,352,854	500,000,000
Effect of dilutive potential ordinary shares:		
Unvested shares under share award scheme	5,212,740	—
Weighted average number of ordinary shares for the diluted earnings per share	503,565,594	500,000,000

No diluted earnings per share is presented for the year ended 31 December 2017 as there were no potential ordinary shares in issue.

For the year ended 31 December 2018, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share has taken into account the ordinary shares purchased by Computershare Hong Kong Trustees Limited from the market pursuant to the share award scheme of the Company for those unvested awarded shares.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture and fixtures	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000
COST				
At 1 January 2017 (Restated)	888	6,199	5,971	13,058
Exchange alignment	—	221	118	339
Additions	1,161	1,173	—	2,334
Written off	(888)	(1,065)	(1,059)	(3,012)
At 31 December 2017 (Restated)	**1,161**	**6,528**	**5,030**	**12,719**
Acquisition of a subsidiary (note 32)	—	**147**	**723**	**870**
Exchange alignment	—	**(232)**	**(70)**	**(302)**
Additions	**12**	**1,062**	**731**	**1,805**
Written off	**(89)**	—	—	**(89)**
At 31 December 2018	**1,084**	**7,505**	**6,414**	**15,003**
DEPRECIATION				
At 1 January 2017 (Restated)	381	4,146	5,179	9,706
Exchange alignment	—	108	98	206
Provided for the year	170	799	311	1,280
Written off	(505)	(991)	(1,055)	(2,551)
At 31 December 2017 (Restated)	**46**	**4,062**	**4,533**	**8,641**
Exchange alignment	—	**(127)**	**(68)**	**(195)**
Provided for the year	**643**	**890**	**429**	**1,962**
Written off	**(19)**	—	—	**(19)**
At 31 December 2018	**670**	**4,825**	**4,894**	**10,389**
CARRYING VALUES				
At 31 December 2018	**414**	**2,680**	**1,520**	**4,614**
At 31 December 2017 (Restated)	1,115	2,466	497	4,078

The property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	Over the lease term
Furniture and fixtures	3 - 5 years
Motor vehicles	5 years

14. GOODWILL

	HK$'000
COST	
At 1 January 2017 and 2018	—
Arising in acquisition of Quiksol Group (note 32)	7,230
At 31 December 2018	7,230

For the purpose of impairment testing, goodwill has been allocated to an individual cash-generating unit, comprising Quiksol Group. The recoverable amount of Quiksol Group has been determined based on value in use calculation which uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 15.54%. Cash flows beyond the 5-year period are extrapolated using a steady 2% growth rate. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin and such estimation is based on Quiksol Group's past performance and management's expectations for the market development. Management believes that any reasonably possible changes in certain of these assumptions would not cause the carrying amount of Quiksol Group to exceed its recoverable amount.

As at 31 December 2018, the directors of the Company determined that there is no impairment of goodwill.

15. INTANGIBLE ASSET

	Customer relationship
	HK$'000
COST	
At 1 January 2017 and 2018	—
Acquired on acquisition of Quiksol Group (note 32)	5,990
At 31 December 2018	5,990
AMORTISATION	
At 1 January 2017 and 2018	—
Charge for the year	200
At 31 December 2018	200
CARRYING VALUE	
At 31 December 2018	5,790
At 31 December 2017	—

Intangible asset represents customer-related intangible asset recognised in a business combination and is amortised on a straight-line basis, over the following rate per annum:

Customer relationship	20%

16. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018
	HK$'000
Investments in listed bonds in Hong Kong with fixed interest of 5.13% per annum and mature on 20 May 2019	4,232

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018
	HK$'000
Financial assets mandatorily measured at FVTPL:	
Life insurance policies (note i)	75,075
Unlisted unit trust funds (note ii)	48,222
Wealth management plans (note iii)	4,197
	127,494
Analysed as:	
Non-current	123,297
Current	4,197
	127,494

Notes:

(i) As at 31 December 2018, the Group has a total of six (2017: four) life insurance policies with two insurance companies to insure certain directors of the Company. Under these policies, the Group is the beneficiary and policy holder and the total insured sum is US$29,000,000 (equivalent to HK$226,200,000) (2017: US$25,000,000, equivalent to HK$195,000,000) in aggregate. The Group is required to pay a single premium totaling US$9,533,000 (equivalent to HK$74,357,000) (2017: US$8,028,000, equivalent to HK$62,618,000) at inception. The Group can, at any time, withdraw cash based on the account value of the policy ("**Account Value**") at the date of withdrawal, which is determined by the gross premium paid plus accumulated guaranteed interest earned and minus any charges made in accordance with the terms and conditions of the policy. If withdrawal is made between the 1st to 15th policy years for the first, third, fourth, fifth and sixth policies and 1st to 18th policy year for the second policy, there is a specified amount of surrender charge deducted from the Account Value. The insurance company will pay the Group a guaranteed interest for the first year and a variable return per annum afterwards (with minimum guaranteed interest rate ranged from 2% to 3% per annum) during the effective period of the policies.

(ii) Unlisted unit trust funds invest primarily in Asian bonds, United States treasury bonds, United States mortgage-backed securities and other debt securities.

(iii) The Group invested into short-term wealth management plans managed by financial institutions in the PRC. The principal is unguaranteed by the relevant financial institutions with an expected return rate 4.8% per annum as at 31 December 2018.

At the date of initial application of HKFRS 9 on 1 January 2018, the Group reclassified the unlisted unit trust funds and life insurance policies previously grouped under AFS investments and deposits, prepayments and other receivables, respectively, to financial assets at FVTPL. Details are set out in notes 18 and 21.

18. AVAILABLE-FOR-SALE INVESTMENTS

	2017
	HK$'000
	(Restated)
Listed investments:	
– Debt securities listed in Hong Kong (note i, iii)	4,535
Unlisted investments (note ii, iv):	50,617
	55,152

Notes:

(i) At 31 December 2017, the debt securities were listed in Hong Kong with fixed interest of 5.13% per annum and maturity date on 20 May 2019.

(ii) Unlisted unit trust funds represented unit trust investments which invest primarily in Asian bonds, United States treasury bonds, United States mortgage-backed securities and other debt securities.

(iii) At the date of initial application of HKFRS 9 on 1 January 2018, the Group reclassified the available-for-sale investments previously carried at fair value to debt instruments at FVTOCI. Details are set out in note 16.

(iv) At the date of initial application of HKFRS 9 on 1 January 2018, the Group reclassified the available-for-sale investments previously carried at fair value to financial assets at FVTPL. Details are set out in note 17.

19. INVENTORIES

	2018	2017
	HK$'000	HK$'000 (Restated)
Electronic components held for resale	263,532	256,288
Less: Allowance for inventories	(7,363)	(6,146)
	256,169	250,142

The movements in the allowance of inventories are as follows:

	2018	2017
	HK$'000	HK$'000 (Restated)
At beginning of year	6,146	2,519
Allowance recognised in profit or loss	1,536	3,775
Written off	(319)	(148)
At end of year	7,363	6,146

Cost of inventories recognised as an expense includes the above allowance recognised in profit or loss in respect of write-downs of inventories to net realisable value.

20. TRADE AND BILLS RECEIVABLES

	2018	2017
	HK$'000	HK$'000 (Restated)
Trade receivables	346,696	338,247
Less: Allowance for credit losses	(7,660)	(23,243)
	339,036	315,004
Trade receivables under factoring agreements (note)	132,008	—
Bills receivables	—	4,022
	471,044	319,026

Note: The Group entered into non-recourse factoring agreements with banks to factor certain customers' trade receivables. At the date of initial application of HKFRS 9 on 1 January 2018, the Group reclassified the relevant customers' trade receivables previously carried at amortised cost to receivables measured at FVTPL as it is held within a business model whose objective is to collect contractual cash flow nor both collect contractual cash flows or selling the financial assets.

As at 31 December 2018, trade receivables of HK$340,239,000 (2017: HK$391,427,000) were decognised as the directors of the Company are of the opinion that the substantial risks and rewards associated with the trade receivables have been transferred and therefore qualified for derecognition.

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK$346,696,000 and HK$338,247,000 respectively.

The Group allows credit period of 0 to 120 days (2017: 0 to 120 days) to its customers. The following is an aged analysis of trade and bills receivables (net of allowance for credit losses) at the end of the reporting period presented based on the invoice dates which approximated the respective revenue recognition dates:

	2018	2017
	HK$'000	HK$'000 (Restated)
0 - 30 days	261,354	176,658
31 - 60 days	79,371	57,974
61 - 90 days	40,902	40,455
91 - 120 days	26,523	3,406
121 - 180 days	12,337	115
Over 180 days	50,557	40,418
	471,044	319,026

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$92,253,000 which are past due as at the reporting date. Out of the past due balances, HK$40,294,000 has been past due 90 days or above, for which the Group's do not consider the balances in default as there has not been a significant change in the credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral or other credit enhancements over these balances nor does it has a legal right of offset against any amounts owed by the Group to the counterparty.

20. TRADE AND BILLS RECEIVABLES (continued)

As at 31 December 2017, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$47,619,000 which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group's do not consider the balances in default as there has not been a significant change in the credit quality and amounts are still considered recoverable based on historical experience.

	2017
	HK$'000
	(Restated)
Aging of trade receivables which are past due but not impaired:	
1 - 30 days	6,265
31 - 60 days	936
Over 60 days	40,418
	47,619

The Group has provided fully for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable, unless the Group has reasonable and supportable information that demonstrates otherwise.

Movement in the allowance for doubtful debts

	2017
	HK$'000
	(Restated)
At beginning of year	101
Impairment losses recognised in profit or loss	23,243
Reversal of impairment losses	(39)
Amount written off as uncollectible	(62)
At end of year	23,243

Details of impairment assessment of trade and bills receivables for the year ended 31 December 2018 are set out in note 36b.

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2018	2017
	HK$'000	HK$'000 (Restated)
Deposits	20,419	19,536
Payments for life insurance policies (note a)	—	65,622
Prepayments	3,239	1,508
Other receivables (note b)	25,610	5,264
Value-added tax recoverable	2,507	6,269
	51,775	98,199
Analysed as:		
Non-current	109	67,981
Current	51,666	30,218
	51,775	98,199

Notes:

(a) At the date of initial application of HKFRS 9 on 1 January 2018, the Group reclassified the life insurance policies previously carried at amortised cost to financial assets at FVTPL. Details are set out in notes 2 and 17.

(b) Other receivables included (i) a loan granted to a third party non-customer on 25 December 2018 amounting to HK$21,450,000. The loan is guaranteed by a related company of the borrower, carries interest at 10% per annum and repayable by 24 May 2019; and (ii) a loan granted to a customer on 1 February 2018 amounting to HK$1,361,000. The loan is unsecured, carries interest at 6% per annum and fully settled in January 2019. Details of the impairment assessment are set out in note 36b.

22. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The pledged bank deposits/bank balances carry interest at market rates as follows:

	2018	2017
Range of interest rate per annum:		
Pledged bank deposits	0.01% - 2.11%	0.01% - 2.1%
Bank balances	0.001% - 0.05%	0.001% - 0.05%

The carrying amounts of the Group's pledged bank deposits and bank balances and cash denominated in currencies other than functional currencies of the relevant group entities at each of the reporting date are as follows:

	2018	2017
	HK$'000	HK$'000 (Restated)
HK$	4,771	10,115
Renminbi ("**RMB**")	6,392	8,851

23. PLEDGE OF ASSETS

At 31 December 2018, bills payables and bank borrowings are secured by (i) debt instruments at FVTOCI (note 16); (ii) financial assets at FVTPL (note 17); (iii) pledged bank deposits (note 22); and (iv) personal guarantees from a non-controlling shareholder.

At 31 December 2017, bills payable and bank borrowings are secured by (i) available-for-sale investments (note 18); (ii) life insurance policies (note 21); and (iii) pledged bank deposits (note 22).

24. TRADE AND BILLS PAYABLES

	2018	2017
	HK$'000	HK$'000 (Restated)
Trade payables	**395,363**	365,879
Bills payables	**2,811**	3,441
	398,174	369,320

The credit period for trade payables ranging from 0 to 60 days (2017: 0 to 60 days).

Ageing analysis of the Group's trade and bills payables based on invoice date at the end of the reporting period is as follows:

	2018	2017
	HK$'000	HK$'000 (Restated)
0 - 30 days	**294,334**	284,396
31 - 60 days	**103,361**	84,904
61 - 90 days	**461**	1
Over 90 days	**18**	19
	398,174	369,320

25. OTHER PAYABLES AND ACCRUED CHARGES

	2018	2017
	HK$'000	HK$'000 (Restated)
Accrued purchase	**66,112**	53,729
Accrued expenses	**21,044**	18,485
Advance payments from customers	—	6,881
Other payables	**9,135**	12,670
	96,291	91,765

26. CONTRACT LIABILITIES

The Group receives certain amount of the contract value from customers when they place their purchase order. This give rise to contract liabilities at the start of a contract until the Group transferred the control of goods to the customers.

During the year ended 31 December 2018, revenue amounting to HK$13,808,000 was recognised in the current year which relates to carried-forward contract liabilities.

27. AMOUNT DUE TO A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

The amount is unsecured, non-interest bearing and repayable on demand.

28. BANK AND OTHER BORROWINGS

The variable-rates bank and fixed rate other borrowings are repayable as follows:

	2018	2017
	HK$'000	HK$'000 (Restated)
Secured bank borrowings	1,206	2,129
Secured import and export loans	55,709	—
	56,915	2,129
Other borrowing (note)	2,340	—
	59,255	2,129
Carrying amounts of repayable (according to scheduled repayable term):		
– within one year	59,255	1,589
– in the second year	—	540
	59,255	2,129
Carrying amounts that contain a repayable on demand clause (shown under current liabilities)	56,915	2,129

The banking facilities contain various covenants which include the maintenance of certain financial ratios and restrictions on the maximum amounts due from a director and related companies and related parties transactions. The directors of the Company have reviewed the covenants compliance and represented that they were not aware of any breach during both years.

Note: As at 31 December 2018, the Group had obtained a loan from an indvidual which is unsecured, interest bearing at a fixed rate of 9% per annum and repayable by 9 August 2019.

28. BANK AND OTHER BORROWINGS (continued)

The effective interest rates (which are also equal to contracted interest rates) of the Group's bank and other borrowings are as follows:

	2018	2017
Interest rates per annum		
Bank borrowings - variable rates	**3.05% - 5.04%**	2.27% - 5.25%
Other borrowing - fixed rate	**9.00%**	N/A

29. DEFERRED TAX LIABILITY

The following is the deferred tax balance for financial reporting purposes:

	2018
	HK$'000
Deferred tax liability	**955**

The following is the major deferred tax liability recognised by the Group and movements thereon during the current year:

	Intangible asset identified from business combination
	HK$'000
At 31 December 2017	—
Acquisition of a subsidiary (note 32)	988
Credit to profit or loss	(33)
At 31 December 2018	955

At the end of the reporting period, the Group has unused tax losses of approximately HK$24,166,000 (2017: HK$21,657,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Unrecognised tax losses of approximately HK$4,537,000 (2017: HK$3,760,000) will expire from 2019 to 2023 (2017: 2018 to 2022), and the remaining tax losses may be carried forward indefinitely.

30. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Amount due to a non-controlling shareholder of a subsidiary	**Dividend payable**	**Bank and other borrowings**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2017 (Restated)	—	—	175,911	175,911
Financing cash flows	—	(9,991)	(199,009)	(209,000)
Non-cash changes:				
Dividend declared	—	9,991	—	9,991
Interest expenses	—	—	25,227	25,227
As at 31 December 2017 (Restated)	—	—	2,129	2,129
Financing cash flows	(112)	(25,000)	22,886	(2,226)
Non-cash changes:				
Acquisition of subsidiaries	2,117	—	6,796	8,913
Dividend declared	—	25,000	—	25,000
Interest expenses	—	—	27,444	27,444
As at 31 December 2018	2,005	—	59,255	61,260

31. SHARE CAPITAL

	Number of shares	Amount
		US$'000
Ordinary shares of US$0.00001 each		
Authorised:		
At 1 January 2017, 31 December 2017 and 2018	5,000,000,000	50
Issued and fully paid		
At 1 January 2017 and 31 December 2017	500,000,000	5
Issue of new shares (note 32)	4,105,030	—
At 31 December 2018	504,105,030	5
		HK$'000
Shown in the financial statements as		39

Note: On 31 October 2018, the Company issued 4,105,030 ordinary shares as part of the consideration for the acquisition of Quiksol Group and resulted in the recognition of share premium of approximately HK$6,979,000. Details of the acquisition of the subsidiaries are set out in note 32.

32. ACQUISITION OF SUBSIDIARIES

(i) On 22 October 2018, the Group entered into an equity transfer agreement with independent third parties to acquire in total 25% equity interests in Quiksol Group at a consideration of US$3,044,000 (equivalent to approximately HK$23,741,000), which is satisfied by cash consideration of US$2,149,000 (equivalent to approximately HK$16,762,000) and 4,105,030 new shares of the Company. The acquisition was completed on 31 October 2018. As a result of the shareholders' agreement with the other shareholders of Quiksol HK, the Group is given the power to control the majority of votes on the board of directors of Quiksol HK that direct its relevant activities and veto rights to certain decisions and actions by the board and shareholders of Quiksol HK. As such, the Group has obtained control over Quiksol Group upon the acquisition and accounted it as a subsidiary with the goodwill arising as a result of the acquisition amounting to HK$7,230,000. Quiksol Group is engaged in the trading of electronic components and was acquired by the Group to continue the expansion of the Group's electronic components trading operations.

Acquisition-related cost amounted to HK$895,000 and was recognised as administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

32. ACQUISITION OF SUBSIDIARIES (continued)

(i) (continued)

The acquisition has been accounted for using the acquisition method of accounting.

	HK$'000
Fair value of assets and liabilities recognised at the date of acquisition (determined on a provisional basis)	
Property, plant and equipment	870
Inventories	8,826
Bank balances and cash	11,073
Trade receivables	59,425
Deposits, prepayments and other receivables	5,035
Trade payables	(21,534)
Contract liabilities	(4,128)
Other payables and accrued changes	(1,838)
Amount due to a shareholder of Quiksol Group	(2,117)
Tax liabilities	(2,778)
Bank and other borrowings	(6,796)
Intangible asset	5,990
Deferred tax liability	(988)
Total fair value of identifiable net assets acquired	51,040
Cash consideration	16,762
Shares consideration (note i)	6,979
Consideration transferred	23,741
Plus: Non-controlling interest	34,529
Less: Net assets acquired	(51,040)
Goodwill arising on acquisition (note ii)	7,230

Notes:

(i) As part of the consideration for the acquisition, 4,105,030 ordinary shares of the Company with par value of US$0.00001 each were issued. The fair value of the ordinary shares of the Company, determined using the published price available at the date of the acquisition, amounted to HK$6,979,000.

(ii) Goodwill arose in the acquisition of Quiksol Group because of the expected synergies on integration of services and marketing of the Group and Quiksol Group, revenue growth, future market development and the assembled workforce of Quiksol Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of goodwill arising on these acquisitions is expected to be deductible for tax purposes.

32. ACQUISITION OF SUBSIDIARIES (continued)

(ii) The fair value and classification of assets have been determined on a provisional basis awaiting further information and finalisation of the valuation. The fair value is being valued by Asset Appraisal Limited, an independent qualified professional valuer, not connected to the Group.

The fair value of trade and other receivables at the date of acquisition amounted to HK$64,460,000 while their gross contractual amounts amounted to HK$65,673,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to HK$1,213,000.

Net cash outflow on acquisition of Quiksol Group

	HK$'000
Cash consideration paid	16,762
Less: Bank balances and cash acquired	(11,073)
Net cash outflow	5,689

During the year ended 31 December 2018, Quiksol Group contributed HK$73,273,000 and HK$1,977,000 to the Group's revenue and results, respectively. Had the acquisition been completed on 1 January 2018, total group revenue for the year would have been HK$5,279,832,000, and profit for the year would have been HK$88,370,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future results.

In determining the pro forma revenue and profit of the Group had Quiksol Group been acquired at the beginning of the current year, the directors of the Company calculated depreciation and amortisation of property, plant and equipment and intangible asset based on the recognised amounts of property, plant and equipment and intangible asset at the date of acquisition.

33. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	2018	2017
	HK$'000	HK$'000 (Restated)
Within one year	4,537	7,678
In the second to fifth year inclusive	254	5,297
	4,791	12,975

Operating lease payment represents rentals payable by the Group for its office and warehouse properties. The leases are generally negotiated for a lease term of two years (2017: two years) at fixed rentals.

34. RETIREMENT BENEFIT PLANS

Hong Kong

The Group operates a scheme under Mandatory Provident Fund Schemes ("**MPF Scheme**") for its qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes at the lower of a specified amount or 5% of the relevant payroll costs monthly to the MPF Scheme, which contribution is matched by employees. The total contribution to MPF Scheme and charged to profit or loss amounted to HK$336,000 (2017: HK$296,000) for the year ended 31 December 2018.

The PRC

The employees of the Group's subsidiaries in the PRC are members of the state-sponsored retirement benefit scheme organised by the relevant local government authority in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the payroll costs of their employees, to the retirement benefit scheme and have no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The total amount provided by the Group to the scheme in the PRC and charged to profit or loss are HK$8,595,000 (2017: HK$7,553,000) for the year ended 31 December 2018.

35. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders and maintaining an adequate capital structure. The Group's overall strategy remained unchanged from prior year.

The capital structure of the Group consists of debts, which include bank and other borrowings, amount due to a non-controlling shareholder of a subsidiary, net of bank balances and cash and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group regularly reviews the capital structure on a continuous basis taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through the payment of dividends and new shares issues as well as the issue of new debts and redemption of existing debts.

36. FINANCIAL INSTRUMENTS

36a. Categories of financial instruments

	2018	2017
	HK$'000	HK$'000 (Restated)
Financial assets		
Loans and receivables (including bank balances and cash)	629,824	639,648
Debt instruments at FVTOCI	4,232	—
Financial assets at FVTPL		
—trade receivables under factoring arrangement	132,008	—
—other investments	127,494	—
Available-for-sale investments	—	55,152
Financial liabilities		
Amortised cost	464,814	386,470

36b. Financial risk management objectives and policies

The Group's major financial instruments include debt instruments at FVTOCI, financial assets at FVTPL, available-for-sale investments, trade and bills receivables, deposits and other receivables, pledged bank deposits, bank balances and cash, trade and bills payables, other payables, amount due to a non-controlling shareholder of a subsidiary and bank and other borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

36. FINANCIAL INSTRUMENTS (continued)

36b. Financial risk management objectives and policies (continued)

Market risk

Currency risk

The group entities have foreign currency denominated monetary assets and monetary liabilities which expose the Group to foreign currency risk. The directors of the Company believe the Group does not have significant foreign exchange exposures and will consider the use of foreign exchange forward contracts to reduce the currency exposures in case the foreign exchange exposures become significant.

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

	Assets		Liabilities	
	2018	2017	**2018**	2017
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000
HK$	**4,771**	10,115	**—**	—
RMB	**6,392**	8,851	**—**	—

At 31 December 2018, the group entities, of which their functional currency are RMB, had US$ denominated amount due from immediate holding companies and amount due to a fellow subsidiary amounting to HK$25,417,000 (2017: HK$14,656,000) and HK$509,000 (2017: Nil), respectively.

Sensitivity analysis

For the exposure to the fluctuation in US$ against HK$, as HK$ is pegged to US$, the directors of the Company are of opinion that such exposure is insignificant and no sensitivity analysis is presented.

The following table details the Group's sensitivity to a 5% increase and decrease in US$ against RMB. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items including the bank balances and variable-rate pledged bank deposits and intra-group balances and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A negative number below indicates a decrease in post-tax profit where US$ weakens 5% against RMB. For a 5% strengthening of US$ against the relevant currency, there would be an equal and opposite impact on the profit.

	2018	2017
	HK$'000	HK$'000 (Restated)
Profit for the year	**1,307**	1,009

The directors of the Company considered the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

36. FINANCIAL INSTRUMENTS (continued)

36b. Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to its fixed-rate unlisted unit trust funds and investments in listed bonds.

The Group is exposed to cash flow interest rate risk in relation to life insurance policies, wealth management plans, bank balances, variable-rates pledged bank deposits and bank borrowings.

The Group's exposure to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate is mainly concentrated on the fluctuation of London Interbank Offered Rate and Hong Kong Interbank Offered Rate arising from the Group's bank borrowings. The Group currently does not have interest rate risk hedging policy. However, the directors of the Company closely monitor the exposure to future cash flow interest rate risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise.

The sensitivity analyses below have been determined based on the exposure to interest rates for financial assets at FVTPL, variable-rates pledged bank deposits, bank balances and bank borrowings for the year ended 31 December 2018. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents directors' assessment of the reasonably possible change in interest rates.

	2018	2017
	HK$'000	HK$'000 (Restated)
Increase in profit for the year	1,100	1,162

If interest rates had been 50 basis point higher/lower and all other variables were held constant, the Group's other comprehensive income for the year ended 31 December 2018 would decrease/increase by HK$21,000 (2017: HK$23,000) mainly as a result of the changes in the fair value of debt securities included in debt instruments at FVTOCI.

The directors of the Company considered the sensitivity analysis is unrepresentative of the interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the year ended 31 December 2018.

Other price risk

The Group is exposed to price risk through its investments in listed bonds. The directors of the Company manage this exposure by maintaining a portfolio of investments with different risks. The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

36. FINANCIAL INSTRUMENTS (continued)

36b. Financial risk management objectives and policies (continued)

Market risk (continued)

Other price risk (continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to price risks at the reporting date.

If the prices of the respective investments in listed bonds had been 5% (2017: 5%) higher/lower, other comprehensive income for the year ended 31 December 2018 would increase/decrease by HK$212,000 (2017: HK$217,000) as a result of the changes in fair value of debt instruments at FVTOCI.

In the opinion of directors of the Company, the sensitivity analysis is not representative of the Group's price risk as it only reflects the impact of price changes to investments in listed bonds held at the end of the year but not the exposure during the year.

Credit risk and impairment assessment

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

The Group is exposed to concentration of credit risk at 31 December 2018 on trade receivables from the Group's top five major customers amounting to HK$173,667,000 (2017: HK$195,573,000) and accounted for 37% (2017: 62%) of the Group's total trade receivables. The major customers of the Group are mainly leading brand-name consumer electronic product manufacturing companies in the PRC and electronic product trading companies in HK.

Trade receivables arising from contracts with customers

In order to minimise the credit risk of trade and bills receivables, the management of the Group delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade receivables balances individually or based on provision matrix to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances and credit-impaired, the Group determines the ECL on these items by using a provision matrix grouped by internal credit rating. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Trade and bills receivables with significant outstanding balances and with an aggregate gross carrying amount of HK$280,853,000 as at 31 December 2018 are assessed individually. The exposure to credit risk for these balances are assessed within lifetime ECL (not credit-impaired) with an average loss rate of 0.92% and impairment allowance of HK$2,596,000 was provided by the Group as at 31 December 2018.

36. FINANCIAL INSTRUMENTS (continued)

36b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Trade receivables arising from contracts with customers (continued)

As at 31 December 2018, trade debtor with a gross carrying amount of HK$3,900,000 was defaulted and considered as credit impaired and full impairment was made.

The remaining trade and bills receivables with gross carrying amount of HK$61,943,000 are assessed based on the internal credit rating of the Group for its customers in relations to its operation. The following table provides information about the exposure to credit risk for trade and bills receivables which assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired).

Provision matrix – internal credit rating

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relations to it operation. The following table provides information about the exposure to credit risk for trade and bills receivables which assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired). Debtors with significant outstanding balances or credit-impaired with gross carrying amounts of HK$3,900,000 as at 31 December 2018 were assessed individually.

Gross carrying amount

Internal credit rating	Average loss rate	Total
	%	HK$'000
Low risk (Note a)	0.96	22,925
Medium risk (Note b)	2.42	39,018
		61,943

Notes:

(a) Loss risk types customers represent the counterparty has a low risk default and does not have any past-due amounts.

(b) Medium risk types customers represent debtors frequently repays after due dates but usually settle after due date.

36. FINANCIAL INSTRUMENTS (continued)

36b. Financial risk management objectives and policies (continued)

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

	Lifetime ECL (non-credit impaired)	Lifetime ECL (credit-impaired)	Total
	HK$'000	HK$'000	HK$'000
As at 31 December 2017 under HKAS 39	—	23,243	23,243
Adjustment upon application of HKFRS 9	2,276	—	2,276
As at 1 January 2018 – As restated	2,276	23,243	25,519
Changes due to financial instruments recognised as at 1 January:			
– Impairment losses recognised	1,484	3,900	5,384
– Impairment losses reversed (note)	—	(23,243)	(23,243)
As at 31 December 2018	3,760	3,900	7,660

Note: Impairment losses recorded during the year as a result of settlement from its debtors.

Pledged bank deposits/bank balances/bills receivables

The credit risks on bank balances, pledged bank deposits and bills receivables are limited because the counterparties are reputable banks and financial institutions with high credit ratings assigned by international credit-rating agencies in the PRC and Hong Kong.

The Group assessed 12m ECL for bank balances, pledged bank deposits and bills receivables by reference to information relating to average loss rate of respective credit rating grades published by external credit rating agencies.

Based on the average loss rates, the ECL on bank balances, pledged bank deposits and bills receivables is considered insignificant.

Other receivables

For the purpose of impairment assessment of other receivables, the loss allowance is measured at an amount equals to 12m ECL. In determining the ECL of other receivables, after taking into account of the abovesaid factors and the forward looking information that is available without undue cost or effort. The Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on outstanding balances individually. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

	12m ECL
	HK$'000
Impairment loss recognised and balances as at 31 December 2018	107

36. FINANCIAL INSTRUMENTS (continued)

36b. Financial risk management objectives and policies (continued)

Debt instruments at FVTOCI/Financial assets at FVTPL

The Group's debt instruments at FVTOCI and financial assets at FVTPL mainly comprise listed bonds, unit trust investments, wealth management plans and life insurance policies that are graded in high credit ratings assigned by international credit-rating agencies and therefore are considered to be low credit risk investments. The Group assessed 12m ECL for its debt instruments at FVTPL and financial assets at FVTPL in which the amount of ECL is considered insignificant.

Liquidity risk

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

	Weighted average effective interest rate	Repayable on demand or less than 3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2018					
Trade and bills payables	—	398,174	—	398,174	398,174
Other payables and accrued charges	—	5,380	—	5,380	5,380
Bank borrowings - variable rates	4.5	56,915	—	56,915	56,915
Other borrowing - fixed rate	9.0	—	2,340	2,340	2,340
Amount due to a non-controlling shareholder of a subsidiary	—	2,005	—	2,005	2,005
		462,474	2,340	464,814	464,814

	Weighted average effective interest rate	Repayable on demand or less than 3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2017 (Restated)					
Trade and bills payables	—	369,320	—	369,320	369,320
Other payables and accrued charges	—	15,021	—	15,021	15,021
Bank borrowings - variable rates	2.8	2,129	—	2,129	2,129
		386,470	—	386,470	386,470

36. FINANCIAL INSTRUMENTS (continued)

36b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Bank borrowings with a repayment on demand clause is included in the "repayable on demand or less than 3 months" time band in the above maturity analysis. At 31 December 2018, the aggregate carrying amount of these bank borrowings amounted to approximately HK$56,915,000 (2017: HK$2,129,000). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the bank will exercise their discretionary right to demand immediate repayment. The directors of the Company believe that such bank borrowings of the Group will be repaid after the end of reporting period in accordance with the scheduled repayment dates set out in the bank borrowing agreements.

	Weighted average effective interest rate	Less than 3 months	3 months to 1 year	1 to 2 years	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Bank borrowings						
At 31 December 2018	**4.5**	**56,635**	**920**	**—**	**57,555**	**56,915**
At 31 December 2017 (Restated)	2.8	406	1,225	554	2,185	2,129

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximates their fair values at the end of the reporting period.

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

36. FINANCIAL INSTRUMENTS (continued)

36b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Fair value measurement of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

		Fair value at			
	Financial assets	31 December 2018	31 December 2017	Fair value hierarchy	Valuation technique(s) and key input(s)
1)	Debt instruments at FVTOCI (note 16)	Listed debt securities in Hong Kong HK$4,232,000	—	Level 1	Quoted bid price in active market
2)	Financial assets at FVTPL (note 17)	Unit trust funds HK$52,419,000	—	Level 2	Based on the net asset values of the funds, determined with reference to the observable (quoted) prices of underlying investment portfolio and adjustments of related expenses
		Life insurance policies HK$75,075,000	—	Level 3	Based on credit rating, ages of life-insured persons and the discount rate (note)
3)	Trade receivables under factoring arrangement (note 20)	HK$132,008,000	—	Level 2	Based on discounted cash flow that capture the present value of future expected cash flows derived from the underlying assets
4)	Listed available-for-sale investments (note 18)	—	Listed debt securities in Hong Kong HK$4,535,000	Level 1	Quoted bid price in active market
5)	Unlisted available-for-sale investments (note 18)	—	Unit trust funds HK$50,617,000	Level 2	Based on the net asset values of the funds, determined with reference to the observable (quoted) prices of underlying investment portfolio and adjustments of related expenses

Note: The unobservable significant input is discount rate and if the discount rate increases, the fair value decreases and vice versa.

There were no transfers between Level 1, 2 and 3 for the year.

36. FINANCIAL INSTRUMENTS (continued)

36b. Financial risk management objectives and policies (continued)

Reconciliation of Level 3 fair value measurements of financial assets

	Life insurance policies
	HK$'000
At 1 January 2018	—
Transfer to Level 3 from initial application of HKFRS 9	62,316
Payments made during the year	11,746
Total gains in profit or loss	1,013
At 31 December 2018	75,075

37. RELATED PARTY DISCLOSURES

(i) Transactions

The Group had the following transactions with related parties during the year:

Name of related party	Nature of transaction	2018	2017
		HK$'000	HK$'000 (Restated)
芯智股份有限公司 (Note a)	Sales of goods	2,117	2,862
Quiksol International Components Pte Ltd (Note b)	Sales of goods	2,463	—

Notes:

(a) Mr. Tian is a controlling shareholder of the related company.

(b) Shareholders of the non-wholly owned subsidiary is controlling shareholders of the related company.

(ii) Compensation of key management personnel

The remuneration of directors of the Company and other members of key management was as follows:

	2018	2017
	HK$'000	HK$'000 (Restated)
Short-term benefits	5,002	4,941
Post-employment benefits	100	125
Share-based payment	716	—
	5,818	5,066

The remuneration of key management personnel is determined by the management of the Company having regard to the performance of individuals and market trends.

38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is set out below:

	2018	2017
	HK$'000	HK$'000 (Restated)
NON-CURRENT ASSETS		
Investments in subsidiaries	**183,760**	160,020
Amount due from a subsidiary (note)	**93,458**	155,997
	277,218	316,017
CURRENT ASSETS		
Prepayments	**—**	69
Amount due from a subsidiary (note)	**25,205**	21,434
Bank balances	**4**	1
	25,209	21,504
CURRENT LIABILITIES		
Other payables and accrued charges	**966**	1,257
Amount due to a subsidiary	**—**	1,975
	966	3,232
NET CURRENT ASSETS	**24,243**	18,272
TOTAL ASSETS LESS CURRENT LIABILITIES AND NET ASSETS	**301,461**	334,289
CAPITAL AND RESERVES		
Share capital (note 31)	**39**	39
Reserves	**301,422**	334,250
	301,461	334,289

Note:

ECL for amounts due from a subsidiary and bank balances are assessed on 12m ECL basis as there had been no significant increase in credit risk since initial recognition and impairment allowance is considered to be insignificant.

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

Details of movement in reserves of the Company are as below:

	Share premium	Treasury share reserve	Share-based payment reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2017 (Restated)	350,099	—	—	(6,825)	343,274
Profit and total comprehensive income for the year	—	—	—	967	967
Dividend recognised as distribution	(9,991)	—	—	—	(9,991)
At 31 December 2017 (Restated)	340,108	—	—	(5,858)	334,250
Loss and total comprehensive expenses for the year	—	—	—	(15,453)	(15,453)
Recognition of equity-settled share-based payment	—	—	15,232	—	15,232
Purchase of shares under equity-settled share-based payment	—	(14,586)	—	—	(14,586)
Shares vested under the share award scheme	—	7,706	(7,855)	149	—
Forfeitures of share awards	—	—	(397)	397	—
Dividend recognised as distribution	(25,000)	—	—	—	(25,000)
Acquisition of subsidiaries (note 32)	6,979	—	—	—	6,979
At 31 December 2018	322,087	(6,880)	6,980	(20,765)	301,422

39. PARTICULAR OF PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid share capital/ registered capital	Equity interest and voting power attributable to the Group				Principal activities
			Directly		Indirectly		
			2018	2017	**2018**	2017	
Smart-Core International Company Limited	Hong Kong	Ordinary shares HK$10,000,000	—	100%	**100%**	—	Trading of electronic components
Smart-Core Cloud Limited	Hong Kong	Ordinary shares HK$1,000,000	—	100%	**100%**	—	Trading of electronic components
SMC Technology SZ (note a)	The PRC	Registered capital RMB8,500,000	—	—	**100%**	100%	Trading of electronic components
深圳市芯智雲信息技術有限公司 (note a)	The PRC	Registered capital RMB8,500,000	—	—	**100%**	100%	Trading of electronic components
芯聯（廈門）科技有限公司 (note b)	The PRC	Registered capital RMB1,000,000	—	—	**75%**	75%	Provision of technical value-added services
Quiksol HK	Hong Kong	Ordinary shares HK$7,800,000	—	—	**25%**	—	Trading of electronic components
蘇州酷科電子有限公司 (note a, c)	The PRC	Registered capital RMB1,000,000	—	—	**25%**	—	Trading of electronic components

Notes:

(a) The companies are registered in the form of wholly owned foreign enterprises.

(b) The company is a sino-foreign entity joint ventures with limited liability.

(c) Capital was not yet contributed to the entity as at 31 December 2018.

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

None of the subsidiaries had issued any debt securities at the end of the reporting period.

40. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non-wholly owned subsidiaries of the Group that has material non-controlling interests:

Name of subsidiary	Place of incorporation/ principal place of business	Proportion of ownership interests and held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	**2018**	2017	**2018**	2017
				HK$'000	HK$'000	**HK$'000**	HK$'000
Quiksol Group	HK/HK and the PRC	**75%**	N/A	**1,483**	—	**36,000**	—
Individually immaterial subsidiaries with non- controlling interests				**(352)**	(163)	**2,114**	125
				1,131	(163)	**38,114**	125

Summarised financial information in respect of Quiksol Group, which was acquired on 31 October 2018, is set out below. The summarised financial information below represents amounts before intragroup eliminations:

	2018
	HK$'000
Current assets	**84,845**
Non-current assets	**870**
Current liabilities	**37,715**
Equity attributable to owners of the Company	**12,000**
Non-controlling interests	**36,000**

40. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS (continued)

	From 31 October 2018 (date of acquisition) to 31 December 2018
	HKS'000
Revenue	73,273
Expenses	(71,296)
Profit for the period	1,977
Profit attributable to owners of the Company	494
Profit attributable to non-controlling interests	1,483
Profit for the period	1,977
Other comprehensive expenses attributable to owners of the Company	(4)
Other comprehensive expenses attributable to non-controlling interests	(12)
Other comprehensive expenses for the period	(16)
Total comprehensive income attributable to owners of the Company	490
Total comprehensive income attributable to non-controlling interests	1,471
Total comprehensive income for the period	1,961
Net cash used in operating activities	(6,470)
Net cash used in financing activities	(373)
Effect of foreign exchange rate changes	(13)
Net cash outflow	(6,856)

41. SHARE-BASED PAYMENT TRANSACTIONS

(a) Share Award Scheme

The Company's share award scheme (the "**Share Award Scheme**") was adopted pursuant to the written resolutions of all shareholders of the Company on 19 September 2016 ("**Date of Adoption**") for the primary purpose of rewarding the directors, senior managers and employees ("**Eligible Persons**") of the Group for their hard work, contribution and loyalty and align their interest with those of shareholders of the Company.

An award granted by the board of directors ("**the Board**") of the Company to the Eligible Persons is a right of the relevant participant to receive the shares of the Company. Each award may be subject to such other conditions as may be imposed by the Board at its absolute discretion, including without limitation, a vesting period. Share award must be taken up within 7 days of the grant upon payment of HK$1 per award. The total number of shares in respect of which shares may be granted under the Share Award Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time. The number of shares award which may be granted to any individual but unvested under the Share Award Scheme shall not exceed 1% of the total number of shares of the Company in issue at any point in time.

Subject to any early termination as may be determined by the Board pursuant to the rules of the Share Award Scheme, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on the Date of Adoption, after which period no further awards will be granted but the provisions of the Share Award Scheme shall remain in full force and effect to the extent necessary to give effect to the vesting of any awards granted prior to the expiration of the Share Award Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Award Scheme. On 28 March 2018, the Directors resolved to grant 9,580,000 of its shares ("**the Share Grants**") to employees of the Company pursuant to the Company's Share Award Scheme. Since the Date of Adoption of the Share Award Scheme and up to 31 December 2018, an aggregate of 9,580,000 Share Grants were granted pursuant to the Share Award Scheme subject to certain vesting criteria and conditions. 4,940,000 of the Share Grants were vested on 1 August 2018 and the remaining Share Grants will vest on 2 January 2019. The vesting of the Share Grants is subject to the employees remaining at all times after the grant date and on the vesting date a participant of the Company or any of its subsidiaries.

41. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(a) Share Award Scheme (continued)

For the purpose of the Share Grants, the Company purchased its own ordinary shares for an aggregate of 9,580,000 shares on the Stock Exchange in July 2018 through Computershare Hong Kong Trustees Limited acting as its trustee.

Movements of the awarded shares granted under the Share Award Scheme and related fair value are as follows:

	Number of awarded shares granted
Granted on 28 March 2018	9,580
Vested on 1 August 2018	(4,940)
Lapsed	(250)
Unvested at 31 December 2018	4,390

The fair value of the Share Grants is estimated based on the share price of the Company on date of grant of HK$1.59 and amounted to HK$15,232,000 that has been fully recognised as share-based payment expenses during the year ended 31 December 2018.

(b) Share Option Scheme

The Company's share option scheme (the "**Share Option Scheme**") was adopted pursuant to a written resolutions of all shareholders of the Company passed on 19 September 2016 for the primary purpose of providing incentives and awards to an employee (whether full time or part-time) or a director of a member of the Group or associated companies of the Company for their contribution to the Group and to align their interests with that of the Company ("**ESOS Eligible Person(s)**") so as to encourage them to work towards enhancing the value of the Company.

The Board may, at its absolute discretion, offer to grant an option (the "**Option(s)**") to subscribe for such number of shares in the Company at a price determined by the Board, but shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares of the Company on the date of grant of the option.

41. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) Share Option Scheme (continued)

The Share Option Scheme shall be valid and effective for a period of ten years commencing on 7 October 2016. Options granted must be taken up not later than 30 days after the date of grant. A consideration of HK$1 is payable on acceptance of the offer of grant of an option. The total number of shares in respect of which shares may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company as at 7 October 2016, without prior approval from the shareholders of the Company. No options shall be granted to any participant under the Share Option Scheme in excess of 1% of the total number of shares of the Company in issue at such date, without prior approval from the shareholders of the Company. At any time, the maximum number of shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the Share Option Scheme and any other schemes of the Company to ESOS Eligible Persons must not exceed 30% of the total number of shares of the Company from time to time.

The exercisable period of an option, which shall not exceed 10 years from 7 October 2016, is determined by the Board at their discretion.

No options have been granted since the adoption of Share Option Scheme to 31 December 2018.

42. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation as the directors of the Company consider that the new presentation is more relevant and appropriate to the consolidated financial statements. The changes included the reclassification of certain income and expenditure items presented in the consolidated statement of profit or loss and other comprehensive income.

SMART-CORE HOLDINGS LIMITED
芯智控股有限公司