榮陽實業集團有限公司

PanAsialum Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2078

Annual Report 2018

This Annual Report is printed on environmentally friendly paper

Contents

Corporate Information

Directors

Executive Directors

Dr. Huang Gang (Chairman)
Mr. Wong Kwok Wai Eddy
(Joint Chief Executive Officer)
Ms. Li Jiewen
(Joint Chief Executive Officer)

Non-executive Directors

Mr. Cosimo Borrelli
Ms. Chi Lai Man Jocelyn
Ms. Cai Xinyu Annabelle

Independent Non-executive Directors

Mr. Mar Selwyn
Mr. Leung Ka Tin
Dr. Cheung Wah Keung

Board Committees

Audit Committee

Mr. Mar Selwyn (Chairman)
Mr. Leung Ka Tin
Dr. Cheung Wah Keung

Remuneration Committee

Dr. Cheung Wah Keung (Chairman)
Dr. Huang Gang
Mr. Mar Selwyn
Mr. Leung Ka Tin

Nomination Committee

Mr. Leung Ka Tin (Chairman)
Dr. Huang Gang
Mr. Mar Selwyn
Dr. Cheung Wah Keung

Authorized Representatives

Dr. Huang Gang
Mr. Wong Kwok Wai Eddy

Company Secretary

Ms. Kwok Ka Huen

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Stock Code

2078

Principal Place of Business in Hong Kong

Unit 06, 28/F, Nanyang Plaza,
57 Hung To Road,
Kwun Tong, Kowloon,
Hong Kong

Production Bases in People's Republic of China ("PRC")

Tangerine Garden
Guangshan Road
Licheng Town
Zengcheng, Guangzhou
Guangdong Province
PRC

Long Sheng Industrial Area
No. 6 Long Sheng Road
Wolong District
Nanyang City
Henan Province
PRC

Principal Share Registrar

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

Hong Kong Branch Share Registrar

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

Principal Bankers

Agricultural Bank of China
China CITIC Bank, Nanyang Branch
Bank of Communications, Nanyang Branch
Bank of China Macau branch
Guangzhou Rural Commercial Bank, Zengcheng Branch

Independent Auditor

BDO Limited

Legal Advisers

As to Hong Kong law:

Stevenson, Wong & Co.

As to PRC law:

Dacheng Law Offices LLP (Guangzhou)

As to Cayman Islands law:

Conyers Dill & Pearman (Cayman) Limited

Website

www.palum.com

Financial Highlights

For the year ended December 31, 2018

	Year ended December 31, 2018 HK$'000	Year ended December 31, 2017 HK$'000
Operating results		
Revenue	**1,642,215**	1,778,683
Gross profit	**152,736**	232,021
Operating loss	**(144,781)**	(95,809)
Loss before income tax	**(209,436)**	(150,473)
Operating (loss)/profit before working capital charges	**(58,063)**	22,814
Loss attributable to owners of the Company	**(233,463)**	(156,332)
Cash generated from/(used in) operations	**46,817**	(74,211)
Financial position (HK$'000)		
Net debt	**(864,890)**	(852,073)
Equity attributable to owners of the Company	**744,888**	998,543
Loss per share for loss attributable to equity holders of the Company		
Basic and diluted (HK cents per share)	**(19.5)**	(13.0)
Key ratios (%)		
Gross Profit Margin	**9.3%**	13.0%
Operating Profit Margin	**-8.8%**	-5.4%
Net Profit Margin	**-14.2%**	-8.8%

Management Discussion and Analysis

Overview

Business and Financial Overview

PanAsialum Holdings Company Limited ("Company") and its subsidiaries (collectively, the "Group") is an aluminium products manufacturer based in Guangdong Province, the PRC, with a large and diverse portfolio of high quality products. We manufacture three categories of products: (i) Electronics Parts, (ii) Construction and Industrial Products and (iii) Branded OPLV Products.

The total operating revenue of the Group for the year ended December 31, 2018 ("Year") was HK$1,642 million (year ended December 31, 2017: HK$1,779 million), representing a decrease of 8% as compared with the year ended December 31, 2017. The Group's overall gross profit margin dropped from 13% for the year ended December 31, 2017 to 9%. Net loss after tax attributable to shareholders had significantly increased from HK$156 million for the year ended December 31, 2017 to HK$233 million. It was mainly due to (i) the unexpected depreciation of the Australian dollar against the Hong Kong dollar during the year, affecting the performance of the Group's export sales to the Australian market; (ii) a decrease in sales of high margin electronic parts; and (iii) the cost of the Company's recent resumption of trading in 2018.

Comparing the Year with the year ended December 31, 2017, revenue from the Construction and Industrial Products segment has increased by 13% but Electronics Parts segment has decreased by 21%.

Revenue contributions by the respective segments for the year ended December 31, 2017 and 2018 are presented below:

	Revenue for the		The percentage of total revenue for the	
	Year ended December 31, 2018 (HK$ million)	Year ended December 31, 2017 (HK$ million)	**Year ended December 31, 2018**	Year ended December 31, 2017
Business Segment				
– Electronics Parts	**717**	903	**43.7%**	50.8%
– Construction and Industrial Products	**789**	698	**48.0%**	39.2%
– Branded OPLV Products	**136**	178	**8.3%**	10.0%
Total	**1,642**	1,779	**100.0%**	100.0%
Geographical Segment				
– The PRC	**1,116**	1,337	**68.0%**	75.2%
– Australia	**301**	287	**18.3%**	16.1%
– North America	**53**	31	**3.2%**	1.7%
– Hong Kong	**75**	97	**4.6%**	5.5%
– Others	**97**	27	**5.9%**	1.5%
Total	**1,642**	1,779	**100.0%**	100.0%

Management Discussion and Analysis

Electronics Parts

The Electronics Parts segment contributed approximately HK$717 million to the total revenue of the Group, representing a decrease of 21% as compared with HK$903 million for the year ended December 31, 2017. Gross profit margin decreased to 16% for the Year as compared with 19% for year ended December 31, 2017.

Construction and Industrial Products

The revenue and gross profit margin of the Construction and Industrial Products segment were HK$789 million (year ended December 31, 2017: HK$698 million) and 3% (year ended December 31, 2017: 7%) respectively for the Year. There was a 5% increase in sales in Australia and 45% in other regions (exclude the PRC).

Branded OPLV Products

In order to prevent further loss to the Group, the management of the Company has decided to dispose this loss-making operation for better allocation of the Group's resources.

On December 7, 2018, the Group entered into a sales and purchase agreement to dispose of its entire equity interest in OPLV (Nanyang) Doors and Windows Systems Co., Ltd ("**OPNY**"). Details of the disposal of the Branded OPLV products segment are set out under the paragraph headed "Significant Investment, Material Acquisition and Disposal" of this annual report.

Cost of sales

With the decline in sales, cost of sales decreased by 4% from HK$1,547 million for the year ended December 31, 2017 to HK$1,489 million for the Year. This was in line with the decrease in sales from HK$1,779 million for the year ended December 31, 2017 to HK$1,642 million for the Year.

Gross profit

Despite the decrease of gross profit from HK$232 million for the year ended December 31, 2017 to HK$153 million for the Year, our gross profit margin has dropped from 13% for the year ended December 31, 2017 to 9% for the Year. The Group has been actively seeking ways to reduce sales of lower gross profit margin products to achieve a higher overall gross profit margin for this fiscal year. Yet, the persisting unfavorable macro factors, including the volatility in each of the market the Group operates and the uncertainty over the economic condition in China, had dampened consumer sentiment and reduced the demand of the Group's products.

Distribution and selling expenses

Distribution and selling expenses decreased by 33% from HK$104 million for the year ended December 31, 2017 to HK$70 million for the Year. The decrease was in line with the decline in sales, which led to a significant decrease in staff related costs and advertising expenses.

Administrative expenses

Administrative expenses dropped by 3% from HK$255 million for the year ended December 31, 2017 to HK$247 million for the Year. The decrease was due to cost control on entertainment and staff related expenses.

Other income

Other income comprised net sales of scrapped materials which was HK$8 million for the Year.

Management Discussion and Analysis

Other gains – net

Other gains changed from HK$12 million for the year ended December 31, 2017 to HK$6 million for the Year. The change was mainly due to the depreciation of Australian Dollar ("**AUD**") against Hong Kong Dollar ("**HKD**") during the Year which the Group had suffered significant exchange losses.

Finance income

Finance income mainly comprised interest income which amounted to approximately HK$0.2 million for the Year compared to HK$1 million for the year ended December 31, 2017.

Finance costs

Finance costs amounted to approximately HK$64 million for Year compared to HK$47 million for the year ended December 31, 2017.

Income tax expense

Our income tax changed from income tax expense of HK$8 million for the year ended December 31, 2017 to HK$24 million for the Year.

Currency translation differences in other comprehensive income

Currency translation differences amounted to approximately HK$20 million for the Year, which was mainly attributable to the currency translation differences of Renminbi ("**RMB**") against HKD.

Management Discussion and Analysis

Prospects/Future Business Development

To utilize the opportunities arising from global integration and the "Belt and Road" initiative, the Group has steadily expanded its overseas sales network and continued to expand our footprint in various regions, laying a solid foundation for the Group's future business development.

Although sales of Electronics Parts for the Year declined, customers in this segment are expected to bring in a higher profit margin to the Group than other segments. The Group will continue to develop opportunities in the Electronics Parts business by widening its customer base, developing new products and further strengthening relationship with major customers. Ongoing efforts to develop new products based on market demand are progressing, and our R&D department is striving to achieve these goals.

As disclosed in the announcement of the Company dated October 1, 2013, the Company plans to relocate its current production facilities in Zengcheng, Guangdong Province to Nanyang City in Henan Province, the PRC and establish a new aluminium alloy production base there. With the new Nanyang facility, the Group can better integrate its existing production facilities and expand its production capacity to meet the growing demand for high quality products.

Phase 1 of the Group's integrated manufacturing facility for aluminium alloy products in Nanyang begun production on October 23, 2015. Details of the construction and commencement of the production of the Nanyang production facility are set out in the announcements of the Company dated April 8, 2015, October 23, 2015 and November 17, 2015.

On April 10, 2015, PanAsia Aluminium (Hong Kong) Limited ("**PAHK**"), a wholly-owned subsidiary of the Company, entered into an investment agreement with the Jimsar County Government by establishing and investing in a new wholly owned subsidiary with an estimated aggregate capital of at least RMB200 million (equivalent to approximately HK$254 million) at Xinjiang to produce high-end aluminium rods and aluminium rolled products ("**Xinjiang Project**"). On December 18, 2015, the Group entered into an agreement with Jimsar Bureau of Land and Resources 吉木薩爾縣國土資源局 ("**JBLR**") by purchasing a piece of land in that region with a consideration of approximately RMB3.6 million (equivalent to approximately HK$4.4 million), which was waived by the JBLR.

Aluminium ingots are the principal raw material for the Group's production process. The process of smelting the aluminium ingots and turning them into aluminium rods is costly. The establishment of a production base in Jimsar of Xinjiang will enable the Group to produce aluminium rods more efficiently and will provide a more stable source of supply of raw material to the Group.

Details of the investment agreement for the Xinjiang Project are set out in the announcement of the Company dated April 13, 2015.

In late February 2018, the Guangzhou Urban Renewal Bureau announced that the Zengcheng land where the Group's Zengcheng factory situated fell under the Zengcheng city's redevelopment scheme.

The fair value of Zengcheng land was HK$529,613,000 approximately RMB465,000,000, and the carrying amount of it was HK$6,667,000, approximately RMB5,854,000. The fair value of Zengcheng land was assessed by an independent and professional qualified valuer, Knight Frank Hong Kong Limited, which was determined using the direct comparison approach by referring to other industrial use lands in Zengcheng.

Subject to formal documentation converting the usage of land from industrial use to commercial and residential use, the Group's Zengcheng production plant moved out from the existing site and further discussion and negotiation with relevant government authorities or potential investors, the Group considered that it would likely be further benefitted from the potential improvement in value of the Zengcheng land.

On December 7, 2018, the Group entered into a sales and purchase agreement to dispose of its entire equity interest in OPNY. Details of the disposal of the Branded OPLV Products segment are set out under the paragraph headed "Significant Investment, Material Acquisition and Disposal" in the annual report.

Management Discussion and Analysis

Liquidity and Financial Resources

The Group principally finances its operations through a combination of shareholders' equity, internally generated cash flow and borrowings. As at December 31, 2018 the Group had HK$22.7 million cash and cash equivalents (December 31, 2017: HK$26.3 million), HK$3.6 million pledged bank deposits (December 31, 2017: HK$8.0 million), interest-bearing borrowings of HK$887.5 million denominated in Renminbi ("**RMB**") (December 31, 2017: HK$874.8 million denominated in RMB) and obligation under finance leases of HK$0.1 million denominated in HKD (December 31, 2017: HK$3.6 million denominated in RMB and HKD).

Borrowings

Particulars of borrowings of the Group as at December 31, 2018 are set out in Note 27 to the consolidated financial statements.

Charges on Asset

HK$269.5 million (December 31, 2017: HK$289.6 million) of land use rights, HK$25.1 million (December 31, 2017: HK$29.1 million) of buildings, HK$127.3 million (December 31, 2017: HK$86.1 million) of plant and machinery and HK$112.0 million (December 31, 2017: HK$199.8 million) of trade receivables of the Group were pledged as security for the Group's borrowings.

Summary of key financial ratios

	Year ended December 31, 2018	Year ended December 31, 2017
Gross Profit Margin (1)	**9.3%**	13.0%
Return on Equity (2)	**(31.3%)**	(15.7%)
Interest Coverage Ratio (3)	**(2.27)**	(2.25)

	As at December 31, 2018	As at December 31, 2017
Current Ratio (4)	**0.60**	0.70
Quick Ratio (5)	**0.41**	0.45
Gearing Ratio (6)	**119.2%**	88.0%
Debt to Equity Ratio (7)	**116.1%**	85.3%

(1) The calculation of Gross Profit Margin is based on gross profit divided by revenue and multiplied by 100%.

(2) The calculation of Return on Equity is based on profit attributable to owners of the Company divided by equity attributable to owners of the Company and multiplied by 100%.

(3) The calculation of Interest Coverage Ratio is based on profit before interest and tax expenses divided by finance costs.

(4) The calculation of Current Ratio is based on current assets divided by current liabilities.

(5) The calculation of Quick Ratio is based on current assets less inventories divided by current liabilities.

(6) The calculation of Gearing Ratio is based on total borrowings and obligations under finance leases divided by total equity multiplied by 100%.

(7) The calculation of Debt to Equity Ratio is based on total borrowings and obligations under finance leases less cash and cash equivalents divided by total equity multiplied by 100%.

Management Discussion and Analysis

Capital Structure

As at December 31, 2018 and December 31, 2017, the Company's issued share capital was HK$120,000,000, divided into 1,200,000,000 shares of HK$0.1 each.

Foreign Exchange and Other Risk

The Group continued to receive AUD, United States Dollar ("**USD**") and RMB from our sales to major customers during the Year, while most of the Group's purchases of raw materials were settled in RMB. As RMB is not a freely convertible currency, any fluctuation in exchange rate of HKD against RMB may have impact on the Group's results. Currently, the Group has not entered into any agreements or purchased any instruments to hedge the Group's exchange rate risks. Any material fluctuation in the exchange rates of AUD and RMB may have an impact on the operating results of the Group.

The Group is exposed to commodity price risk because aluminium ingots are the major raw materials of the Group's products. During the Year, the Group has not entered into any instruments in order to mitigate the risk arising from fluctuations in aluminium price. Any change in aluminium price could affect the Group's financial performance.

Significant Investment, Material Acquisition and Disposal

On December 7, 2018, the Group entered into a sales and purchase agreement to dispose of its entire equity interest in OPNY to an independent third party with a cash consideration of RMB 5 million. The profit from the sale are approximately HK$33 million.

Upon completion of the disposal, the Group will cease to have any interest in the OPLV Group and its financial results will no longer be consolidated into the Company's consolidated financial statements.

Details of the above transactions are set out in the announcements of the Company dated December 28, 2017, January 19, 2018, March 29, 2018, May 14, 2018, August 24, 2018 and December 7, 2018.

Save as disclosed above, the Group did not have any significant investment, material acquisition and disposal during the year ended December 31, 2018.

Capital Commitments

Capital commitments contracted by the Group but not yet provided for in the consolidated financial statements as at December 31, 2018 amounted to approximately HK$279 million (December 31, 2017: approximately HK$311 million), which was mainly related to the acquisition of machineries in the PRC.

Contingent Liabilities

As at December 31, 2018, the Group had no contingent liabilities (December 31, 2017: Nil).

Employee Information and Remuneration Policies

As at December 31, 2018 the Group employed approximately 2,900 staff (December 31, 2017: 3,800). The Group's remuneration package is determined with reference to the experience and qualifications of the individual employee and general market conditions. The Group also ensures that all employees are provided with adequate training and continued professional opportunities according to their needs. During the Year, the Group incurred staff costs (including Directors' emoluments) of HK$306 million (year ended December 31, 2017: HK$406 million).

Management Discussion and Analysis

Qualified Opinion

A. Management Analysis on the Impact of the Qualified Opinion on the Company's financial position

(1) Prepayments to a supplier

Given that this Audit Qualification stated in the Independent Auditor's Report relates to the comparability of the related 2018 and 2017 figures in the consolidated statement of comprehensive income for the Year, the management is of the view that this Audit Qualification does not have any actual impact on the financial position of the Company and the Group as at December 31, 2018.

(2) Receivables from, and possible relationship with, certain customers

Given that this Audit Qualifications regarding the carrying amount of the trade receivables due from Australia Customer A and Australia Customer B relates to the comparability of the related 2018 and 2017 figures in the consolidated statement of comprehensive income, the management is of the view that this Audit Qualification does not have any actual impact on the financial position of the Company and the Group as at December 31, 2018.

Given that this Audit Qualification regarding the carrying amount of the trade receivables due from Customer C relates to (i) the possible effect of the consequential impact on the financial performance of the Group for the year ended December 31, 2018 arising from the related audit scope limitation in the audit of the 2017 consolidated financial statements; and (ii) comparability of 2017 figures and 2018 figures in the financial statements of the Group for the year ended December 31, 2018, the management is of the view that this Audit Qualification does not have any actual impact on the Company's and the Group's financial position as at December 31, 2018.

(3) Investment in and advances to an associated company

Given that the Group disposed of its entire equity interest in Leading Sense Limited ("Leading Sense")during the year ended December 31, 2018, Leading Sense is no longer part of the Group, a detailed review of the recovery of the advances to Leading Sense and its subsidiaries (the "Leading Sense Group") has been carried out. The Audit Qualification relates to (i) the possible effect of the consequential impact on the financial performance of the Group for the year ended December 31, 2018 arising from the related audit scope limitation in the audit of the consolidated financial statements for the year ended December 31, 2017; and (ii) comparability of 2017 figures and 2018 figures in the financial statements of the Group for the year ended December 31, 2018, the management is of the view that this Audit Qualification does not have any actual impact on the Company's and the Group's financial position as at December 31, 2018.

Management Discussion and Analysis

Subsequent to the discussion with the auditor, the Board was given to understand that the Audit Qualifications on the Group's consolidated financial statements for the year ended December 31, 2018 may have possible consequential effect on the Group's consolidated financial statements for the year ending December 31, 2019 in respect of the comparability of 2018 figures and 2019 figures. In this regard, there would possibly be a modified opinion on the comparability of 2018 figures and 2019 figures in the financial statements for the year ending December 31, 2019 due to the Audit Qualifications on the Group's consolidated financial statements for the year ended December 31, 2018.

Save for the above, the Company does not expect the Audit Qualifications to have any potential impact on the Company's and the Group's financial position.

B. The Management's and the Audit Committee's view on the Audit Qualifications

The management was given to understand the basis of the audit modification issued by the auditor were mainly due to the inherent limitation carried forward from previous years. The following summarizes the management's view on the Audit Qualifications:

(1) Prepayments to a supplier

The management considers that the derecognition of the prepayment asset during 2017 have been properly recorded and reflected in the accounting record of the Company as at December 31, 2018. The management's view is that this particular Audit Qualification relates to the opening balances as at January 1, 2017. From January, 2015 onwards, no further payments were made to Supplier A by the Group and there was no subsequent further provision or reversal of provision recognized in the Group's financial statements. In addition, pursuant to the Company's existing internal control policies, prepayment has been properly supported by approved payment requisition forms and relevant purchases contracts. Nevertheless, the management has considered the auditors' view that this audit qualification is carried forward to the consolidated financial statements for the year ended December 31, 2018 and considers that this qualification has been properly addressed.

(2) Receivables from, and possible relationship with, certain customers

As disclosed in the Company's announcement dated September 30, 2015, the Company filed a claim with the court in Australia and issued winding up petitions against Australia Customer A and Australia Customer B on July 20, 2015. All trade receivables were written off in the years ended September 30, 2014, September 30, 2015 and December 31, 2016 after taking into account the subsequent collections and balances recovered from the aforementioned legal actions. The Company has taken and completed the appropriate legal actions against Customer C for the related receivables and carried out a detailed review on the recovery during 2018. The management considers that the trade receivables due from Australia Customer A, Australia Customer B and Customer C is HK$Nil as at December 31, 2018 and the Company has exhausted all reasonable means of recovery from them prior to the writing off of their carrying amount. The management is confident that the Company's existing internal control measures and financial reporting procedures will prevent similar incidents from occurring in the future and the internal control adviser is satisfied that the measures put in place are adequate and effective. The management has considered the auditors' view as mentioned in the "Basis of Qualified Opinion" of the Independent Auditor's Report and is of the view that this qualification has been properly addressed.

Management Discussion and Analysis

(3) Investment in and advances to an associated company

The Company has terminated all transactions and connections with the Leading Sense Group since December, 2014. Further, the Company has sought legal advice in respect of: (i) the recoverability of certain receivables with the associated company; and (ii) the disposal of its 45% interest in Leading Sense Group and/or the winding up of Leading Sense Group. The Group has entered into an agreement to dispose of its entire 45% equity interest in Leading Sense to an independent third party at a consideration of US$1 with effective on June 26, 2018. Leading Sense is no longer part of the Group. The management is of the view that they have taken and completed the appropriate legal actions against the Leading Sense Group for the related receivables and carried out a detailed review of recovery during 2018. The management has considered the auditors' view as mentioned in the "Basis of Qualified Opinion" of the Independent Auditor's Report and is of the view that this qualification has been properly addressed.

The Audit Committee has also reviewed the Independent Auditor's Report, which highlighted, among other things, the key issues and findings during their audit and the details of the Audit Qualifications. Also, the Audit Committee reviewed and discussed with the management regarding the potential impact of the Audit Qualifications. The Audit Committee is of the view that if there were future potential impact of the Audit Qualifications, it would be positive to the extent the amounts written off previously somehow become recoverable. The Audit Committee also questioned whether the auditors concurs that the judgements made by the management were regarded as fair. The auditors confirmed that they are not aware of any material misstatement in respect of the judgements adopted for the preparation of financial statements as at December 31, 2018 except for the possible effects as mentioned in the "Basis of Qualified Opinion". After due consideration and discussion, the Audit Committee agrees with the management of the Company in relation to the management's position concerning major judgemental areas relating to the Audit Qualifications.

C. The Company's proposed plans and timetable to address the Audit Qualifications

(1) Prepayments to a supplier (Please refer further details of the related Audit Qualifications in the Independent Auditor's Report.)

The Company has taken all reasonable measures to address this Audit Qualification and the Board expects that this audit qualification will not be carried forward to the Group's financial statements for the year ending December 31, 2019.

(2) Receivables from, and possible relationship with, certain customers

Australia Customer A and Australia Customer B

The Company is confident that the existing internal control measures (e.g. declaration procedures for the Board to disclose all connected persons and their related details) will be able to prevent similar incidents from occurring in the future.

The Company has taken all reasonable measures to address this Audit Qualification and the Board expects that this audit qualification will not be carried forward to the Group's financial statements for the year ending December 31, 2019.

Management Discussion and Analysis

Australia Customer C

The Company has taken all reasonable measures to address this Audit Qualification and the Board expects that the audit qualifications will be carried forward to the Group's consolidated financial statements for the year ending December 31, 2019 in respect of the comparability of 2018 figures and 2019 figures. It is envisaged that this audit qualification will not be further carried forward to the Group's financial statements for the year ending December 31, 2020.

In respect of the Audit Qualification relating to the related party disclosures, the Company has taken and completed all reasonable measures to address this Audit Qualification and the Board is of the view that this qualification has been properly addressed and expects that the audit qualifications will be carried forward to the Group's consolidated financial statements for the year ending December 31, 2019 in respect of the comparability of 2018 figures and 2019 figures. It is envisaged that this audit qualification will not be further carried forward to the Group's financial statements for the year ending December 31, 2020.

(3) Investment in and advances to an associated company

The Company has taken all reasonable measures to address this Audit Qualification and the Board expects that the audit qualifications will be carried forward to the Group's consolidated financial statements for the year ending December 31, 2019 in respect of comparability of 2018 figures and 2019 figures. It is envisaged that this audit qualification will not be further carried forward to the Group's financial statements for the year ending December 31, 2020.

Biographical Details of Existing Directors

Set out below are the biographical details of the Company's director as at the date of this annual report:

Executive Directors

Dr. Huang Gang – Chairman

Dr. Huang Gang ("**Dr. Huang**"), aged 56, has been appointed as an executive Director on July 11, 2018. Dr. Huang has also been appointed as the chairman of the board ("**Board**") of directors ("**Directors**") of the Company ("**Chairman**"), a member of each of the remuneration committee and the nomination committee of the Company, all with effect from August 3, 2018. Dr. Huang was the joint chief executive officer of the Company from June 22, 2018 to August 3, 2018. He was the general manager of PanAsia Aluminium (China) Limited, a wholly-owned subsidiary of the Company. He is also the director of certain subsidiaries of the Group. Dr. Huang has more than 35 years of experience in petroleum exploration and development and corporate management. Prior to joining the Group, Dr. Huang was the chairman of Hebei Xinhua Petrochemicals Company Limited between January 2017 and March 2018, the general manager of Stability Maintenance Office of China National Petroleum Corporation between July 2017 and December 2017, the general manager and Party Secretary of PetroChina Huabei Oilfield Limited between January 2009 and July 2016 and the assistant general manager of Stability Maintenance Office of China Petroleum and Natural Gas Group Corporation between July 2007 and January 2009. Dr. Huang holds a Bachelor Degree in Engineering from Jianghan Petroleum University, a Master's Degree in Engineering and a Doctorate Degree in Engineering from China University of Geosciences (Beijing).

Mr. Wong Kwok Wai Eddy – Joint CEO

Mr. Wong Kwok Wai Eddy ("**Mr. Wong**"), aged 54, has been appointed as an executive Director and the chief executive officer of the Company since March 2, 2018 and August 3, 2018 respectively. He has been re-designated as the joint chief executive officer of the Company ("**Joint CEO**") on November 6, 2018. He is also the director of Greater China and International Business of the Group and the director of certain subsidiaries of the Group. Mr. Wong is primarily responsible for business development of the Group. He joined the Group in 2005. Mr. Wong has been the general sales manager of the Company since 2008 and the marketing director of PanAsia Aluminium (Hong Kong) Co., Ltd. since 2005. Mr. Wong had over 20 years of experience in marketing and promoting, sales and business development. Mr. Wong graduated from Hong Kong Tai Tung Middle School in 1984.

Li Jiewen – Joint CEO

Ms. Li Jiewen ("**Ms. Li**"), aged 54, has been appointed as an executive Director and Joint CEO of the Company with effect from November 6, 2018. Ms. Li is a senior economist and Certified Senior Enterprise Risk Manager and a member of CPA Australia. Ms. Li graduated from Shanghai Jiao Tong University with a bachelor's degree in Naval Architecture and Ocean Engineering in 1987. She received a master's degree in Management from Zhejiang University in 2001. Ms. Li joined China National Offshore Oil Corporation ("**CNOOC**") in 1987 and has been working in the oil and gas industry for over 30 years. From 1987 to 1989, Ms. Li was an Assistant Engineer in Nanhai East Oil Corporation of CNOOC. From 1989 to 2004, she worked as the Assistant Engineer, Budget and Planning Engineer, Budget Supervisor, Assistant Finance Manager of CACT (CNOOC-AGIP-Chevron-Texaco) Operators Group. From February 2004 to October 2006, she served as the Finance Manager of CNOOC China Limited Shenzhen Branch. From October 2006 to November 2010, Ms. Li was the Deputy General Manager of the Controllers Department of CNOOC Limited (Stock Code: 883). Ms. Li served as the General Manager of the Controllers Department of CNOOC Limited from November 2010 to June 2016. Ms. Li also served as the Director of Nexen Energy ULC, a subsidiary of CNOOC Limited. Ms. Li was as the General Manager (Director) of the Investor Relations Department (Office for the Board of Directors) of CNOOC Limited from October 2015 to November 2018. Ms. Li was the joint company secretary of the CNOOC Limited from November 27, 2015 to November 19, 2018.

Biographical Details of Existing Directors

Non-Executive Directors

Mr. Cosimo Borrelli

Mr. Cosimo Borrelli ("**Mr. Borrelli**"), aged 52, has been appointed as a non-executive Director since May 27, 2016. Mr. Borrelli was the non-executive Chairman between November 9, 2017 and August 3, 2018. He is a chartered accountant with over 27 years of experience with corporate restructuring and advisory work. He is currently the managing director of Borrelli Walsh Limited, a position he held since 2006. Mr. Borrelli graduated with a bachelor degree in economics from the University of Adelaide, Australia in 1989. He is a member of the Institute of Chartered Accountants in Australia and a Fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Borrelli is an independent director of Global Invacom Group Limited, a dual-listed company on the Singapore Stock Exchange ("**SGX**") and the Alternative Investment Market of the London Stock Exchange ("**AIM**"). Mr. Borrelli was a director of ARC Capital Holdings Limited, a company listed on AIM, from February 2015 to March 2015, and Jaya Holdings Limited, a company listed on SGX, from March 2011 to June 2014, Acorn International Inc, a company listed on the New York Stock Exchange from April 16, 2015 to July 17, 2017 and PT Berlain Laju Tanker Tbk, a dual-listed company on SGX and the Indonesia Stock Exchange between March 19, 2014 and July 20, 2016.

Ms. Chi Lai Man Jocelyn

Ms. Chi Lai Man Jocelyn ("**Ms. Chi**"), aged 41, has been appointed as a non-executive Director since May 27, 2016. She has extensive experience in various restructuring, dispute resolution and financial investigation assignments in Asia. Ms. Chi joined Borrelli Walsh Limited as a manager in 2006 and is now a director. Ms. Chi graduated with a bachelor of commerce degree in accounting and finance from Monash University, Australia in 2000, and obtained a Postgraduate Diploma in Advance Accounting from the same university in 2001. She obtained a master's degree in corporate finance from the Hong Kong Polytechnic University in 2005. Ms. Chi is a member of the Certified Practising Accountants of Australia and a member of the Hong Kong Institute of Certified Public Accountants.

Ms. Cai Xinyu, Annabelle

Ms. Cai Xinyu, Annabelle ("**Ms. Cai**"), aged 31, has been appointed as a non-executive Director on July 11, 2018. She is currently director of Borrelli Walsh Limited, a company which is providing professional services to the Group of which Mr. Cosimo Borrelli, the non-executive Director, is a managing director and shareholder interested in over 25% of the shares of Borrelli Walsh Limited; and Ms. Jocelyn Chi, the non-executive Director, is a director and shareholder interested in less than 10% of the shares of Borrelli Walsh Limited. Ms. Cai graduated with a Bachelor's Degree in Accounting from the Nanyang Technological University in Singapore.

Independent Non-Executive Directors

Mr. Mar Selwyn

Mr. Mar Selwyn ("**Mr. Mar**"), aged 83, has been appointed as an independent non-executive director, chairman of the audit committee, a member of each of the nomination committee and remuneration committee of the Company, all with effect from February 8, 2017. Mr. Mar graduated from the London School of Economics, University of London. He is a fellow member of the Institute of Chartered Accountants of the United Kingdom and the Hong Kong Institute of Certified Public Accountants. He is a director of Nexia Charles Mar Fan Limited. He is also an independent non-executive director and the chairman of the audit committee of Minmetals Land Limited (Stock Code: 230), Man Yue Technology Holdings Limited (Stock Code: 894) and China Everbright International Limited (Stock Code: 257). He was formerly an independent non-executive director of China Kingstone Mining Holdings Limited until December 2015 (Stock Code: 1380). He was also an independent non-executive director and the chairman of the audit committee of Standard Bank Asia Limited. He was the President of Hong Kong Society of Accountants (now known as Hong Kong Institute of Certified Public Accountants) in 1991. Mr. Mar is an Honorary Fellow and Honorary Court Member of Lingnan University.

Biographical Details of Existing Directors

Mr. Leung Ka Tin

Mr. Leung Ka Tin ("**Mr. Leung**"), aged 65, has been appointed as an independent non-executive director, chairman of the nomination committee, a member of each of the audit committee and remuneration committee of the Company since February 24, 2017. Mr. Leung holds a Diploma in Management Studies, and has over 35 years of management experience in banking, treasury operation, project finance, telecommunication, corporate finance, logistics and human resource management. He was a member of the senior management team in financial institutions including FPB Asia Limited, Nedcor (Asia) Limited, BfG: Finance Asia Limited, and Delta Asia Financial Group as well as companies in the logistics and telecommunication sectors including EAS Da Tong Group and Trident Telecom Ventures Limited. Mr. Leung's experience covers both professional management and entrepreneurship. Mr. Leung joined SSC Mandarin Group Limited in March 2010, a corporate financial advisory firm, as a project director. From January 2012 to May 2013, Mr. Leung joined Chun On Management Limited as a consultant. Mr. Leung then became a consultant of Galaxy Master Fund SPC in September 2012.

Mr. Leung was appointed as an independent non-executive director of Wealth Glory Holdings Limited (stock code: 8269) from July 23, 2014 to August 3, 2016 and Ascent International Holdings Limited (formerly known as Chanco International Group Limited) (stock code: 264) from September 21, 2015 to December 23, 2015. Mr. Leung was also the executive director of China Kingstone Mining Holdings Limited (stock code: 1380) from July 16, 2015 to December 23, 2015.

Mr. Leung is currently an independent non-executive director of KEE Holdings Company Limited (stock code: 2011) since February 17, 2016 and Narnia (Hong Kong) Group Company Limited (stock code: 8607) since January 29, 2019.

Dr. Cheung Wah Keung

Dr. Cheung Wah Keung ("**Dr. Cheung**"), aged 58, has been appointed as an independent non-executive director, chairman of the remuneration committee, a member of each of the audit committee and nomination committee of the Company since March 22, 2018. Dr. Cheung holds a Bachelor Degree in Business Administration, a Master Degree in Global Political Economy from the Chinese University of Hong Kong and a Master Degree in Corporate Governance, a Doctor Degree in Business Administration from the Hong Kong Polytechnic University.

Dr. Cheung is currently the chairman of Shinhint Group and Tai Sing Industrial Company Limited. He has more than 30 years of experience in trading and manufacturing of consumer electronic products. He is currently an independent non-executive director of Sky Light Holdings Limited (stock code: 3882) since 12 June, 2015 and Casablanca Group Limited (stock code: 2223) since 26 May, 2017. He was also an independent non-executive director and non-executive chairman of Harmonic Strait Financial Holdings Limited (currently named as Asia Investment Finance Group Limited and stock code: 33) from June 2007 to September 2016 and September 2013 to September 2016 respectively.

Dr. Cheung was awarded as "Young Industrialist of Hong Kong" in 2005 and "Certificates of Merit in Directorship" by the Hong Kong Institutes of Directors in 2006. He has taken up a variety of roles, including the president of the Hong Kong Young Industrialists Council from 2015 to 2016, the chairman of each of Departmental Advisory Committee of Marketing Department of the City University of Hong Kong and the Advisory Board for Master of Corporate Governance of the Hong Kong Polytechnic University. Furthermore, he is a committee member of Council of the Hang Seng University of Hong Kong.

Directors' Report

This report is presented by the board of directors comprising Dr. Huang Gang, Mr. Wong Kwok Wai Eddy, Ms. Li Jiewen, Mr. Cosimo Borrelli, Ms. Chi Lai Man Jocelyn, Ms. Cai Xinyu, Annabelle, Mr. Mar Selwyn, Mr. Leung Ka Tin and Dr. Cheung Wah Keung ("**Board**") based on the information available to them for the year ended December 31, 2018 ("**Year**").

General Information

The Group is principally engaged in the manufacturing and trading of aluminium products. The principal activity of the Company is investment holding. Detail of the principal activities of the Company's principal subsidiaries are set out in Note 16 to the consolidated financial statements. The Company's shares were listed on the Main Board of the Exchange on February 5, 2013 ("**Listing Date**"). Trading in the Company's shares had been suspended since December 17, 2014 and resumed on October 16, 2018.

Business Review and Performance

The business review for the Company during the Year is set out in the section of Management Discussion and Analysis of this report on pages 4 to 13.

Environmental Performance

The Company is committed to building its own brand by way of sustainable development. The Company is very concerned about the environmental impact of emissions generated from operations and is committed to the implementation of environmental protection measures. With the implementation of the "Emission and Control Procedure for Waste Water, Exhaust Gas and Noise Pollution" by Nanyang Plant, impacts on the environment are reduced as waste water, exhaust gas and noise generated during the process of operation are put under control.

Apart from it, the Company also developed the "Control Procedures for the Disposal of Hazardous Wastes" for the control of environmental pollution resulted from disposed wastes", "Control System for Energy Saving and Emission Reduction" according to relevant laws and regulations of the PRC in respect of energy saving, and "Control Procedures for Non-compliance of Environmental Safety", which differentiates different types of environmental safety incidents, and clearly defines the management process. The Company strives to explore the business models of sustainable development, integrate environmental management and social care into its business decisions.

For details, please refer to the Environmental, Social and Governance Report 2018 which will be published at the end of July 2019.

Compliance with laws and regulations

The Company recognizes the importance of compliance with regulatory requirements and the risk of non-compliance with relevant requirements could lead to adverse impact on business operation and financial position of the Company.

The Company's operations are mainly carried out by the Company's subsidiaries in Hong Kong and the PRC while the Company itself was incorporated in Cayman Islands and listed on the Exchange in Hong Kong. Our establishment and operations accordingly shall comply with relevant laws and regulations in Hong Kong, Cayman Islands and the PRC. The Board as a whole is responsible to ensure the Company is in compliance with relevant laws and regulations that have a significant impact on the Company.

During the course of the business operations, the Company shall comply with different laws and regulations, including, but not limited to, i) laws regarding employee recruitment and benefits, such as the "Labor Law of the PRC", the "Labor Contract Law of the PRC", and the "Rulings of Implementing the Labor Contract Law of the PRC"; and ii) the PRC national and local laws and regulations with respect to environmental protection, including the Environmental Protection Law of the PRC. For the Year, the Company was in strict compliance with these said laws and regulations.

Directors' Report

Key relationships with stakeholders

1. Employees

Human resources are the most valuable asset of the Company. Developing and retaining talents are vital to our success. The Company is committed to providing our employees with a safe, pleasant and healthy working environment. The Company rewards and recognizes employees by competitive remuneration package and implements a key performance index performance evaluation program with appropriate incentives, and promote career development by providing opportunities for career advancement to employees. In addition, each department of the Company is responsible for determining its training needs for employees and workers in its department and any suggested applicable training courses either arranged internally or by external service providers shall be submitted to the senior management of the Company for approval. Knowledge, skills and capacities of employees are vital to continuous improvement, business growth and success of the Company. The Company strives to ensure that all employees can fulfill as well as enhance the relevant job qualifications in terms of education, training, technical and work experience.

2. Suppliers

We have developed long term relationships with various vendors and we ensure that they share our value and commitment to quality, ethics and environment. We carefully select our suppliers and require them to satisfy certain assessment criteria including track record, experience, financial strength, reputation, ability to produce high-quality products, quality control effectiveness and environmental issues.

3. Distributors and customers

We sell our products to distributors and customers. We require our distributors and customers to comply with the relevant laws and regulations, credit policy, as well as our sales and marketing policies, including but not limited to selling price, promotional activities and use of our ordering system. We also monitor the financial condition as well as repayment capability and timeliness of our distributors and customers, and sales performance of them.

Principal risks and uncertainties

The Company is exposed to various risks and uncertainties which was also disclosed in Note 3 to the Consolidated Financial Statements of this Report. The effects of such risks may vary over time. The following paragraphs set forth material risks classified by the Company and the relevant alleviating measures for each material risk for the management of such risks.

Business Risk

Most of the Group's revenue was generated from customers in the PRC and Australia. Should there be any material adverse change in the political, economic, legal or social conditions in the PRC and Australia and the Group is unable to divert sales to other markets outside of the PRC and Australia, the turnover, profitability and prospects may be adversely affected. In order to alleviate such risk, the Group will put efforts to expand overseas market and increase the proportion of overseas sales. During the Year, we have export sales to United Kingdom and North America, etc. The Group will also continue to review competitive edges of the Group in the industry and market trend.

The Company's production activities of aluminium profiles rely on, among other things, sufficient and uninterrupted supply of aluminium ingots, being our principal raw materials. The Company procures such principal raw materials from several major suppliers and has only entered into long-term purchase contracts with our some of the major suppliers of aluminium ingots which provide the Group flexibility (but not commitment) in purchasing aluminium ingots at competitive prices at various times from domestic as well as foreign suppliers. In order to alleviate such business risk, the Company will conduct review and assessment on the Company's suppliers periodically to ensure stable supply source of raw materials.

Directors' Report

Financial risks

Delinquent payments of customers who were granted credit terms by the Company will increase the Company's exposure to financial risks and have impacts on the financial performance and operating cash flows of the Company. In order to alleviate such risk, the Company has conducted regular review of accounts receivable due from all customers to control the outstanding amounts and ageing. The Company will also continue to manage and maintain strict control internally and devote additional efforts in collecting overdue trade receivables on a timely basis.

Cyber security risk

During the Year, the Company obtained the foundation for implementing phase-by-phase cyber risk vulnerability controls management and evaluation objectives with reference to CoBit by ISACA. The cyber security plan includes, but not limited to, enhancing the following: 1) training and staff development; 2) secure wireless networks; 3) keep software updated; 4) access control management; 5) boundary defense; and (6) backup and recovery of data.

The Company has internal control on data-fraud. The Company always values the importance of the internal control systems, and has been taking into account certain critical aspects of organizational governance, business ethics, fraud and financial reporting established by Internal Audit in their audit planning and objectives when assessing the effectiveness of internal controls. Such systems are designed to manage rather than eliminate the risk of fraud or failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Environmental and social risks

The environmental and social risks encountered by the Group include, amongst others, those arising from whether safety and environmental protection standards are met by the production of our products, management of human resources, sales, supply chains and information system, insufficient innovation, inspection and verification of technologies and products. In view of the above risks, the Group has focused on the control and monitoring of dust, high temperature and chemical hazard, discharged sewage according to the total amount and concentration allowed under the pollutant discharge license, formulated the status-quo assessment on energy conservation and emission reduction as well as medium and long term planning, timely updated the staff handbook and implemented applicable labor laws and regulations, introduced advanced technologies and talents, solved the innovation problems through technological exchange and cooperation. Meanwhile, the Group strives to inspect regularly and maintain the facilities of the information system and provide staff training.

Legal risks

The legal risks encountered by the Group include, amongst others, those arising from the physical or existing default operations, legal disputes, default behaviors, intellectual property and human rights protection. In view of the above risks, the Group has implemented the measures such as the contracts review and approval procedure with the routine support of our general legal advisor and regular third-party audit to monitor compliance so as to mitigate the impact of such risks on the Group.

Dividend Policy

The amount of dividend actually distributed to the Shareholders will depend upon the earnings and financial condition, operating requirements, capital requirements and any other conditions that the Directors may deem relevant and will be subject to approval of the Shareholders.

The payment of dividends by the Company is also subject to the requirements of the Cayman Islands law and the Articles of Association.

Results and Distribution

No interim dividend was declared for the six months ended June 30, 2018 (six months ended June 30, 2017: Nil) and the Board does not recommend payment of a final dividend in respect of the Year (year ended December 31, 2017: Nil).

Directors' Report

There is no arrangement pursuant to which a shareholder of the Company ("**Shareholder**") has waived or agreed to waive any dividends.

The results of the Group for the Year are set out in the consolidated statement of comprehensive income on pages 46 to 47.

Financial Statements

The statements of the results, assets and liabilities of the Group for the last five financial years/period are set out on page 136 of this report. This summary does not form part of the audited consolidated financial statements to the Group.

Reserves

Movements in the reserves of the Group during the Year are set out on page 50.

Distributable Reserves

Under the Companies Law of the Cayman Islands, the share premium of the Company is available for distribution of dividends to the Shareholders subject to the provisions of the Company's articles of association ("**Articles of Association**"). With the sanction of an ordinary resolution, dividends may be declared and paid out of share premium account of any other fund or account which can be authorized for this purpose. As at December 31, 2018, the Company had nil balance of distributable reserves (December 31, 2017: approximately HK$51 million).

Share Capital

Changes in share capital of the Company for the Year and as at that date are set out in Note 22 to the consolidated financial statements.

Pre-emptive Rights

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

Share Option Scheme

On January 18, 2013, the Company adopted a share option scheme ("**Share Option Scheme**") whereby the Board can grant options for the subscription of our shares to the employees, managerial staff and senior employees and those other persons that the Board considers that they will contribute or have contributed to the Group (the "**Participants**") as described in the Share Option Scheme in order to serve as compliment and to reciprocate their contribution to the Group. The maximum number of shares that can be issued according to the Share Option Scheme is 120,000,000 shares which is equivalent to 10% of the issued capital of the Company after completion of the global offering ("**Global Offering**", as defined in the prospectus dated January 23, 2013 ("**Prospectus**"). The number of options that may be granted pursuant to the terms of the Share Option Scheme shall not exceed 10% of the issued shares immediately after the completion of the Global Offering. Unless otherwise approved by the Shareholders in general meeting, the number of shares that may be granted to any one Participant under the options shall not exceed 1% within any 12-month period (other than those granted to the substantial shareholders (as defined in the Listing Rules), or the total number of shares that may be granted under the options to the independent non-executive Directors or any of their respective connected persons shall not exceed 0.1% of the shares in issue of the Company from time to time. There is no minimum period that the options must be held before they become exercisable, and the options granted shall be exercised within the period decided by the Board, however no options shall be exercised 10 years after they have been granted. The exercise price of the option shall be the higher of (a) the closing price of the shares on the daily quotation sheet of the Exchange on the date of grant; (b) the average closing price of the shares on the daily quotation sheet of the Exchange for the five business days immediately preceding the date of grant; and (c) nominal value of the share.

Directors' Report

Each grantee shall pay a consideration of HK$1.00 at the time the option is granted. The Share Option Scheme shall take effect from the date it is adopted and shall remain effective within a period of 10 years from that date.

Since the Share Option Scheme was adopted, no options have been granted.

Share Award Scheme

The share award scheme ("**Share Award Scheme**") of the Company has been adopted on March 3, 2014 ("**Adoption Date**").

Who May Join

Employee(s) are selected by the Board pursuant to the scheme rules for participation in the Share Award Scheme ("**Selected Employee(s)**").

The Purpose and Objective of the Share Award Scheme

The purposes of the Share Award Scheme are to recognize the contributions by Selected Employees and to give incentives thereto in order to retain them for the continual operation and development of the Group as part of talent retention program of the Group, and to attract suitable personnel for further development of the Group.

Operation of the Share Award Scheme

Bank of Communications Trustee Limited has been appointed as the trustee of the Share Award Scheme ("**Trustee**"). Pursuant to the scheme rules and the trust deed entered into with the Trustee, the Trustee shall purchase from the market or subscribe for the relevant number of Shares awarded out of the Company's resources and shall transfer the relevant Shares to that Selected Employee at no cost in accordance with the scheme rules.

The Share Award Scheme came into effect on March 3, 2014, and shall terminate on the earlier of (i) the tenth (10) anniversary date of the Adoption Date; or (ii) such date of early termination as determined by the Board.

During the Year, no Shares were purchased by the Trustee on the market for the purpose of the Share Award Scheme.

No Shares were granted to Employees during the Year, details of which are set out in Note 23 to the consolidated financial statement.

Major Suppliers and Customers

During the Year, aggregate sales attributable to the Group's five largest customers comprised approximately 43% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 29% of the Group's total sales. The aggregate purchases during the Year attributable to the Group's five largest suppliers were approximately 43% of the Group's cost of sales and the purchases attributable to the Group's largest supplier were approximately 26% of the Group's cost of sales.

Based on the confirmations received from certain Directors who were in their positions during the Year and to the best knowledge of the Company, none of the Directors, nor any of their associates or any Shareholders (which, to the knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the five largest customers and suppliers of the Group.

Directors' Report

Property, Plant and Equipment

During the Year, the Group held property, plant and equipment of approximately HK$959 million. Details of the movements are set out in Note 14 to the consolidated financial statements.

In late February 2018, the Guangzhou Urban Renewal Bureau announced that the Zengcheng land where the Group's Zengcheng factory situated fell under the Zengcheng city's redevelopment scheme.

The fair value of Zengcheng land was HK$529,613,000 approximately RMB465,000,000, and the carrying amount of it was HK$6,667,000, approximately RMB5,854,000. The fair value of Zengcheng land was assessed by an independent and professional qualified valuer, Knight Frank Hong Kong Limited, which was determined using the direct comparison approach by referring to other industrial use lands in Zengcheng.

Subject to formal documentation converting the usage of land from industrial use to commercial and residential use, the Group's Zengcheng production plant moved out from the existing site and further discussion and negotiation with relevant government authorities or potential investors, the Group considered that it would likely be further benefitted from the potential improvement in value of the Zengcheng land.

Purchase, Sale or Redemption of the Company's Shares

The Company and any of its subsidiaries have not redeemed any of its listed securities during the Year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the Year.

Equity-linked agreements

Other than the share option scheme of the Company as set out under the subheading "**Share Option Scheme**", no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company or subsisting during the Year.

Directors

The directors of the Company in office during the Year:

Executive Directors

Dr. Huang Gang (the Chairman)
(appointed as executive Director on July 11, 2018 and the Chairman on August 3, 2018)
Mr. Wong Kwok Wai, Eddy (the Joint CEO)
(appointed as executive Director on March 2, 2018 and the CEO on August 3, 2018;
re-designated as the Joint CEO on November 6, 2018)
Ms. Li Jiewen (the Joint CEO) (appointed on November 6, 2018)
Ms. Shao Liyu (formerly known as Ms. Shao Lidan) (ceased on August 3, 2018)
Mr. Zhu Hongtao (ceased on January 24, 2018)
Mr. Chan Kai Lun Allan (ceased on May 11, 2018)

Non-Executive Directors

Mr. Cosimo Borrelli (ceased to be the non-executive Chairman on August 3, 2018)
Ms. Chi Lai Man Jocelyn
Ms. Cai Xinyu, Annabelle (appointed on July 11, 2018)

Independent Non-executive Directors

Mr. Mar Selwyn
Mr. Leung Ka Tin
Dr. Cheung Wah Keung (appointed on March 22, 2018)
Mr. Chan Kai Nang (ceased on January 24, 2018)

Directors' Report

Board Committees

Audit Committee

Mr. Mar Selwyn (Chairman)
Mr. Leung Ka Tin
Dr. Cheung Wah Keung (appointed on March 22, 2018)
Mr. Chan Kai Nang (ceased on January 24, 2018)

Remuneration Committee

Dr. Cheung Wah Keung (Chairman) (appointed on March 22, 2018)
Dr. Huang Gang (appointed on August 3, 2018)
Mr. Mar Selwyn
Mr. Leung Ka Tin
Mr. Chan Kai Nang (Chairman) (ceased on January 24, 2018)
Ms. Shao Liyu (formerly known as Ms. Shao Lidan) (ceased on August 3, 2018)

Nomination Committee

Mr. Leung Ka Tin (Chairman)
Dr. Huang Gang (appointed on August 3, 2018)
Mr. Mar Selwyn
Dr. Cheung Wah Keung (appointed on March 22, 2018)
Mr. Chan Kai Nang (ceased on January 24, 2018)
Ms. Shao Liyu (formerly known as Ms. Shao Lidan) (ceased on August 3, 2018)

Directors' Service Contracts

Pursuant to Article 83(3) of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his or her appointment and be subject to re-election at such meeting and any Director appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

In accordance with Article 84 of the Articles of Association, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation and being eligible, offer themselves for re-election at each annual general meeting, provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

Dr. Huang Gang and Mr. Wong Kwok Wai Eddy have each entered into a service contract with the Company for a term of 3 years with effect from August 3, 2018. Ms. Li Jiewen has entered into a service contract with the Company for a term of 3 years with effect from November 6, 2018.

Mr. Cosimo Borrelli and Ms. Chi Lai Man Jocelyn have each entered into a letter of appointment with the Company for an initial term of 3 years with effect from May 27, 2016. Ms. Cai Xinyu, Annabelle has entered into a letter of appointment with the Company for an initial term of 3 years with effect from July 11, 2018.

Mr. Mar Selwyn, Mr. Leung Ka Tin and Dr. Cheung Wah Keung, the independent non-executive Directors, have each entered into a letter of appointment with the Company for a specific term of commencing from February 8, 2019 to March 31, 2021, from February 24, 2019 to March 31, 2021 and from March 22, 2019 to March 31, 2021 respectively.

Each emolument of Mr. Mar Selwyn, Mr. Leung Ka Tin and Dr. Cheung Wah Keung as a Director will be adjusted from HK$50,000 per month to HK$30,000 per month, all with effect from June 1, 2019, which were determined by the Board reference to their experience, duties and their responsibilities in the Company.

Directors' Report

During the Year, none of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Permitted Indemnity Provision

Pursuant to the Company's Articles of Association, subject to the relevant statutes, every Director shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he/she may sustain or incur in or about the execution of his/her office or which may attach thereto.

Directors' Interests in Transactions, Arrangements and Contracts of Significance

To the best knowledge of the Company and with the information available to the Company, there was no transaction, arrangement and contract of significance in relation to the Group's business to which the Company or any of its subsidiaries, holding companies or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, and subsisted at the end of the Year or at any time during the Year save as disclosed under the paragraph headed "Significant Investment, Material Acquisition and Disposal" in the section headed "Management Discussion and Analysis" in the Annual Report.

Directors' Rights to Purchase Shares or Debentures

Save as disclosed under the headings "Share Option Scheme" and "Share Award Scheme", at no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Management Contracts

During the Year, Borrelli Walsh Limited ("**Borrelli Walsh**") provided interim professional services for a fee of HK$1,078,000 and to prepare the Company's 2018 budget for a fee of HK$1,200,000 ("**Borrelli Services**").

Mr. Cosimo Borreli, Ms. Chi Lai Man Jocelyn and Ms. Cai Xinyu, Annabelle, the non-executive Directors, are interested in "Borrelli Services" to the extent that Mr. Cosimo Borrelli is a managing director and shareholder interested in over 25% of the shares of Borrelli Walsh; Ms. Chi Lai Man Jocelyn is a director and shareholder interested in less than 10% of the shares of Borrelli Walsh and Ms. Cai Xinyu, Annabelle is a director of Borrelli Walsh. All of them have abstained from voting in respect of the relevant Board resolutions to approve the services.

To the best knowledge of the Company and with the information available to the Company, saved as disclosed above, no contracts, other than a contract of service with any Director or any person engaged in the full-time employment of the Company, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

Directors' Report

Interests and Short Positions of the Directors and Chief Executives of the Company in the Shares, Underlying Shares and Debentures

As at December 31, 2018, the interests or short positions of the Directors or chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required, pursuant to Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules ("**Model Code**"), are as follows:

Long Position in the Share

Name of Director	Nature of Interest	Number of Securities	Approximate percentage of Shareholding
Ms. Shao Liyu *(Note)* *(resigned on August 3, 2018)*	Interest under in discretionary trust	900,000,000	75%

Note:

The Pan Family Trust was a discretionary trust, the beneficiaries of which were family members of Mr. Marcus Pan including Ms. Shao Liyu. An application has been made to the Court of Cayman Island to, inter alia, remove Ms. Shao Liyu as one of the potential beneficiaries of The Pan Family Trust.

Substantial Shareholders' Interests and Short Positions

As at December 31, 2018, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interest and/or short position in the shares or the underlying shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long Position in the Share

Name	Capacity	Number of Shares	Approximate Percentage of Shareholding
Easy Star *(Note)*	Beneficial Owner	900,000,000	75%
Marina Star Limited *(Note)*	Interest in controlled corporation	900,000,000	75%
HSBC International Trustee Limited *(Note)*	Trustee	900,000,000	75%

Note:

Easy Star was the registered holder of the 900,000,000 shares. Easy Star was wholly-owned by Marina Star Limited. The entire issued share capital of Marina Star Limited was owned by HSBC International Trustee Limited as trustee for The Pan Family Trust. The Pan Family Trust was a discretionary trust established by Mr. Marcus Pan as settlor and the beneficiaries included Ms. Shao Liyu. An application has been made to the Court of Cayman Island to, inter alia, remove Ms. Shao Liyu as one of the potential beneficiaries of The Pan Family Trust.

Directors' Report

Sufficiency of Public Float

Based on the information available to the Company and within the knowledge of the Directors, the Company maintained a sufficient public float as required under the Listing Rules as at the date of the Annual Report.

Corporate Governance

Please refer to the Corporate Governance Report in the Annual Report of the Company for the Year.

Disclosure under Rule 13.20 of the Listing Rules

The Directors were not aware of any circumstances resulting in the responsibility of disclosure under Rule 13.20 of the Listing Rules regarding the provision of advances by the Company to an entity.

Directors' Interests in Competing Business

To the best knowledge of the Company, it was not aware of any business or interest of the Directors nor the controlling Shareholder nor any of their respective associates that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group during Year.

Connected Transactions

During the Year, the Group entered into the following connected transaction and continuing connected transactions which are subject to the reporting, announcement, circular and independent Shareholders' approval requirements set out in Chapter 14A of the Listing Rules.

Connected transaction – Sale and Purchase Agreement

On December 28, 2017, the Company (through PanAsia Aluminum (Hong Kong) Limited and PanAsia Trading Limited, the wholly-owned subsidiaries of the Company) as the vendors ("**Vendors**"), Lumy House Limited and Lumy Houseware (Shanghai) Company Limited as the purchasers ("**Purchasers**"), which are companies indirectly and beneficially wholly-owned by Ms. Shao Liyu ("**Ms. Shao**"), the former executive director and joint chief executive officer of the Company who resigned on August 3, 2018, and Ms Shao entered into the sale and purchase agreement ("**Agreement**"), pursuant to which the Vendors conditionally agreed to sell and the Purchasers conditionally agreed to purchase the entire issued shares of OPNY and OPAD. The Vendors shall also procure the accounts receivable owed by OPNY to the Group in the aggregate amount of approximately RMB108.7 million to be transferred or assigned to the Purchasers, all at an aggregate consideration of RMB20 million ("**Disposal**").

Pursuant to the Agreement, the Vendors shall procure PanAsia Aluminium (China) Ltd. ("**PACL**") to repay to OPNY RMB10 million for the bank loan in the principal amount of RMB10 million as soon as practicable. The bank loan was secured by pledging of certain assets of PACL and was further extended by OPNY to PACL, an affiliate of the Vendors. Upon receiving payment from PACL, the Purchasers and Ms Shao shall procure OPNY to immediately repay the bank loan and discharge the pledge for the bank loan as soon as possible.

Pursuant to the Agreement, Ms. Shao agreed to warrant the Purchasers' warranties as set out in the Agreement.

The Agreement was withdrawn as the resolutions proposed at the EGM were not passed by way of poll on October 26, 2018.

Directors' Report

Continuing Connected Transaction – the Framework Agreement

On December 28, 2017, the Company and Lumy House Limited, which is one of the Purchasers, entered into a framework agreement ("**Framework Agreement**"), pursuant to which Lumy House Limited shall engage the Company and/or its subsidiaries as the manufacturer and supplier for the business of OPNY and OPAD and its subsidiaries.

The Board (excluding the independent non-executive Directors who will express their view after receiving advice from the independent financial adviser) is of the view that the transactions contemplated under the Framework Agreement are fair and reasonable and on normal commercial terms and entering into the Framework Agreement is in the interests of the Company and the Shareholders as a whole.

Details of the above transactions are set out in the announcements of the Company dated December 28, 2017, January 19, 2018, March 29, 2018, May 14, 2018, June 29, 2018, August 24, 2018, August 29, 2018, September 28, 2018, October 9, 2018 and October 26, 2018.

The Framework Agreement was withdrawn as the resolutions proposed at the EGM were not passed by way of poll on October 26, 2018.

On November 5, 2018, the Company entered into another framework agreement for supplying goods to Lumy Houseware (Shanghai) Company Limited. This framework agreement shall commence on the date of signing for a period of three (3) years. The annual cap for the supplied amount is HK$16 million.

Related Party Transactions

The related party transactions of the Group are disclosed in Note 30(i) to the consolidated financial statements. These related party transactions did not fall under the definition of connected transaction or continuing connected transaction under Chapter 14A of the Listing Rules.

Employee and Remuneration Policies

As of December 31, 2018, the Group had an aggregate of approximately 2,900 full-time employees. The Group recruited and promoted individual persons according to their strength and development potential. The Group determined the remuneration packages of all employees (including the Directors) with reference to corporate performance, individual performance and current market salary scale. The Group also operated the mandatory provident fund scheme for its Hong Kong staff and participates in the employee social security plan as required by the regulations in the PRC.

Directors' Report

Taxation

Shareholders are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owing and disposing of the Company's shares.

Audit Committee

The Company has an audit committee ("**Audit Committee**") which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three members who are the independent non-executive Directors, namely Mr. Mar Selwyn, Mr. Leung Ka Tin and Dr. Cheung Wah Keung.

The Audit Committee and the Management have reviewed the accounting principles and practices adopted by the Group, as well as the audited consolidated financial statements for the Year and has recommended their adoption to the Board.

Auditors

On January 24, 2018 at the conclusion of the adjourned annual general meeting of the Company, the term of office of PricewaterhouseCoopers expired and BDO Limited was appointed as the new auditor of the Company. BDO Limited will hold office until the conclusion of the next annual general meeting of the Company. Save for the aforesaid, there has been no change in auditors of the Company in any of the preceding three years.

The consolidated financial statements for the fifteen months ended December 31, 2016, the year ended December 31, 2017 and for the Year have been audited by BDO Limited.

By order of the Board
Huang Gang
Chairman

Hong Kong, March 28, 2019

Corporate Governance Report

Corporate Governance Practices

The Board, with the best information available, confirmed that the Company had the following deviations from the Code on Corporate Governance Practice ("**CG Code**") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Exchange**") ("**Listing Rules**").

Under the Rules 3.10(1) of the Listing Rules, it provides that every board of directors of a listed issuer must include at least three independent non-executive directors. Under Rules 3.21 of the Listing Rules, the audit committee must comprise a minimum of three members. Subsequent to the retirement of Mr. Chan Kai Nang on January 24, 2018 as an independent non-executive Director, the number of independent non-executive Directors and audit committee members had fallen below the minimum number required under Rules 3.10(1) and 3.21 of the Listing Rules. On March 22, 2018, the Company appointed Dr. Cheung Wah Keung as an independent non-executive Director and a member of the audit committee of the Company. Hence, the requirements under Rules 3.10(1) and 3.21 of the Listing Rules were fulfilled since then.

The Board of Directors

Responsibilities

The Board is responsible for overseeing the overall development of the Company's business with the objective of enhancing value of the Shareholders including setting and approving the Company's strategic implementation, considering substantial investments, reviewing the Group's financial performance and developing and reviewing the Group's policies and practices on corporate governance.

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

Directors' Securities Transaction

The Company has adopted the Model Code as its code of conduct for dealings in securities of the Company by the Directors. The Company, having made specific enquiry, all Directors confirmed that they had complied with the Model Code provisions during the Year.

Relationship with Directors

During the Year and up to the date of the Annual Report, Mr. Cosimo Borrelli is a managing director and shareholder interested in over 25% of the shares of Borrelli Walsh; and Ms. Chi Lai Man Jocelyn is a director and shareholder interested in less than 10% of the shares of Borrelli Walsh. Ms. Cai Xinyu Annabelle is also a director of Borrelli Walsh.

Mr. Cosimo Borrelli and Ms. Chi Lai Man Jocelyn are also authorized representatives of the directors of Easy Star Holdings Limited, which is interested in 75% of the issued shares of the Company as at the date hereof. Easy Star Holdings Limited is wholly-owned by Marina Star Limited, which is in turn wholly-owned by HSBC International Trustee Limited as trustee for The Pan Family Trust. The Pan Family Trust was a discretionary trust established by Mr. Marcus Pan, the former spouse of Ms. Shao Liyu, the former executive Director, as settlor and Ms. Shao Liyu is one of the beneficiaries.

Independence Confirmation

The Company has received annual confirmations from each of the independent non-executive Directors as to their independence pursuant to Rule 3.13 of the Listing Rules, and considered all the independent non-executive Directors to be independent.

Corporate Governance Report

Appointment and Re-election of Directors

In accordance with the Articles of Association, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed by the Board to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by Shareholders at the first general meeting after appointment.

Term of Appointment of the Non-Executive Director and Independent Non-Executive Directors

During the Year, the non-executive Directors and independent non-executive Directors were appointed for a term of 3 years and 1 year respectively with specific terms referred in their respective contracts and are subject to retirement by rotation and re-election in accordance with the Articles of Association.

Mr. Mar Selwyn, Mr. Leung Ka Tin and Dr. Cheung Wah Keung, the independent non-executive Directors, have each entered into a letter of appointment with the Company for a specific term of commencing from February 8, 2019 to March 31, 2021, from February 24, 2019 to March 31, 2021 and from March 22, 2019 to March 31, 2021 respectively.

Chairman and Chief Executive Officer

Mr. Cosimo Borrelli was the non-executive Chairman between November 9, 2017 and August 3, 2018 and Dr. Huang Gang is currently the Chairman since August 3, 2018.

Ms. Shao Liyu was the chief executive officer of the Company ("**CEO**") since April 22, 2015 and was re-designated as the joint chief executive officer ("**Joint CEO**") on June 22, 2018 following the appointment of Dr. Huang Gang as the Joint CEO. On August 3, 2018, Ms. Shao Liyu and Dr. Huang Gang resigned as the Joint CEO and Mr. Wong Kwok Wai Eddy was appointed as the CEO. Following the appointment of Ms. Li Jiewen as Joint CEO and re-designation of Mr. Wong Kwok Wai Eddy form CEO to Joint CEO with effect on November 6, 2018, Ms. Li Jiewen and Mr. Wong Kwok Wai Eddy currently serve as the Joint CEO.

Dr. Huang Gang provides leadership for the Board, attends to management development, provides strategic plan guidance and makes suggestion on CEO succession plan. Ms. Li Jiewen and Mr. Wong Kwok Wai Eddy are responsible for the overall strategic planning, operation and sales and marketing of the Group, and overall control system and supervision of the management team.

Mr. Cosimo Borrelli, the former non-executive Chairman, met with the non-executive Directors (including independent non-executive Directors) without the executive Directors present in the Year.

The responsibilities of the Chairman and the CEO have been clearly defined in the Company's "Job Descriptions for Directors and Senior Management"

Corporate Governance Report

Directors' Training

The Company has arranged induction training for newly appointed Directors. All Directors are encouraged to participate in continuous professional development trainings to develop and refresh their knowledge and skills.

The individual training record of each Directors who confirmed they had received trainings for the Year is summarized as follows:

Directors	Type of continuous professional development programmes
Executive Directors	
Dr. Huang Gang	A
Mr. Wong Kwok Wai Eddy	A
Ms. Li Jiewen	A
Ms. Shao Liyu (formerly known as Ms. Shao Lidan)	B
Mr. Zhu Hongtao	A and B
Mr. Chan Kai Lun Allan	A and B
Non-executive Directors	
Mr. Cosimo Borrelli	A and B
Ms. Chi Lai Man Jocelyn	A and B
Ms. Cai Xinyu Annabelle	A and B
Independent non-executive Directors	
Mr. Mar Selwyn	A and B
Mr. Leung Ka Tin	A and B
Dr. Cheung Wah Keung	A and B
Mr. Chan Kai Nang	A and B

Notes:

A: attending seminars/forums/workshops/conferences relevant to the business or directors' duties

B: reading regulatory updates

Board practices and conduct of meetings

Delegation by the Board

The Board undertakes the responsibility for decision making in major matters of the Company, with the day-to-day management delegated to the CEO and senior management. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board, for discharge of their duties.

Corporate Governance Report

Board Committees

The Board has established three standing committees, namely, the Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are available to Shareholders on the Company's website.

Nomination Committee

During the Year, the majority members of the Nomination Committee were independent non-executive Directors, with Mr. Leung Ka Tin acted as the Chairman of the Nomination Committee. The members of the Nomination Committee for the Year were:

Mr. Leung Ka Tin (Chairman)
Dr. Huang Gang (appointed on August 3, 2018)
Mr. Mar Selwyn
Dr. Cheung Wah Keung (appointed on March 22, 2018)
Mr. Chan Kai Nang (ceased on January 24, 2018)
Ms. Shao Liyu (formerly known as Ms. Shao Lidan) (ceased on August 3, 2018)

During the Year, the Nomination Committee was primarily responsible:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

- to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on selection of individuals nominated for directorships;

- to assess the independence of independent non-executive Directors, having regard to the requirements under the applicable laws, rules and regulations;

- to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors and, in particular, the chairman and the chief executive officer of the Company;

- to review the policy on Board diversity ("**Board Diversity Policy**"), the policy on nomination ("**Nomination Policy**") and any measurable objectives for implementing such Board Diversity Policy and Nomination Policy as may be adopted by the Board from time to time and to review the progress on achieving the objectives; and

- to make disclosure of its review results in the annual report of the Company annually.

Board Diversity Policy

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board. Accordingly, selection of candidates to the Board is based on a range of measurable objectives, including but not limited to gender, age, cultural and educational background, professional experience and qualifications, skills, knowledge and length of service, having due regard to the Company's own business model and specific needs from time to time. With the existing Board members coming from a variety of business and professional background, the Company considers that the Board possesses a balance of skills, experience, expertise and diversity of perspectives appropriate to the requirements of the Company's business.

Corporate Governance Report

Director Nomination Policy

Director Nomination Policy of the Group ("**Nomination Policy**") is in place and was adopted in writing in the Year taking into consideration the revised Listing Rules effective from January 1, 2019. The Nomination Policy sets out the procedures, process and criteria for identifying and recommending candidates for election to the Board.

During the Year, the Nomination Committee held 7 meetings for nominating or considering the candidacies of potential board members and senior management, making recommendations to the Board on the appointment and re-appointment of Directors, re-election of Directors at the general meeting, board diversity policy and the formulation of an nomination of directors policy; reviewing the structure, size, composition and diversity of the Board members, assessing the independence of the independent non-executive Director and reviewing amendment of its terms of reference. The individual attendance record of the Directors at the meeting of Nomination Committee is set out in the paragraph headed "**Attendance Records of Board and Committee Meetings**" of this Corporate Governance Report.

Remuneration Committee

During the Year, the majority of members of the Remuneration Committee were independent non-executive Directors, with Dr. Cheung Wah Keung acted as the chairman of the Remuneration Committee with effect from March 22, 2018 in place of Mr. Chan Kai Nang, who had retired on January 24, 2018. The members of the Remuneration Committee were:

Dr. Cheung Wah Keung (Chairman) (appointed on March 22, 2018)
Dr. Huang Gang (appointed on August 3, 2018)
Mr. Mar Selwyn
Mr. Leung Ka Tin
Mr. Chan Kai Nang (Chairman) (ceased on January 24, 2018)
Ms. Shao Liyu (formerly known as Ms. Shao Lidan) (ceased on August 3, 2018)

During the Year, the Remuneration Committee was primarily responsible:

- to make recommendations to the Board on the Company's policy and structure for all remunerations of Directors and senior management and on the establishment of formal and transparent procedures for developing policies on all such remunerations;

- to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management;

- to review and approve performance-based remunerations by reference to corporate goals and objectives resolved by the Board from time to time;

- to make recommendations to the Board on the remuneration of non-executive Directors;

- to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

- to review and approve compensation payable to executive Directors and senior management members of the Company in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is fair and not excessive for the Company;

- to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is reasonable and appropriate; and

- to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

Corporate Governance Report

During the Year, the Remuneration Committee held 5 meetings for reviewing (i) the remuneration package for Directors and (ii) the policy and structure of the remuneration packages for Directors and making recommendations to the Board on the remuneration proposals and honorarium for the Directors. The individual attendance record of the Directors at the meeting of Remuneration Committee is set out in the paragraph headed "**Attendance Records of Board and Committee Meetings**" of this Corporate Governance Report.

Audit Committee

During the Year, the Audit Committee comprised all independent non-executive Directors, with Mr. Mar Selwyn acted as the chairman of the Audit Committee. The members of Audit Committee during the Year were:

Mr. Mar Selwyn (Chairman)
Mr. Leung Ka Tin
Dr. Cheung Wah Keung (appointed on March 22, 2018)
Mr. Chan Kai Nang (ceased on January 24, 2018)

During the Year, the Audit Committee was primarily responsible:

- to make recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that external auditor;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- to develop and implement policy on the engagement of an external auditor to supply non-audit services;
- to monitor integrity of financial statements of the Company and the Company's annual report and accounts and half-year reports and to review significant financial reporting judgments contained in them;
- to review the Company's financial controls, internal control and risk management systems annually;
- to discuss with management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- to review the Group's financial and accounting policies and practices; and
- to review the external auditor's management letter, any material queries raised by the auditor to the management in respect of the accounting records, financial accounts or systems of control and management's response, and to ensure that the Board provides a timely response to the issues raised.

During the Year, the Audit Committee held 7 meetings for considering and reviewing the internal control procedures, internal audit, whistleblowing policy, risk management, cash flow, taxation, compliance testing, financial results, accounting policies and related matters, adequacy of staff experience, qualifications, resources of the company's accounting and financial reporting departments, training programs and budget, amendments to its terms of reference, appointment and re-appointment of auditor, and outstanding issues raised by the auditor. The individual attendance record of the Directors at the meeting of Audit Committee is set out in the paragraph headed **"Attendance Records of Board and Committee Meetings"** of this Corporate Governance Report.

Corporate Governance Report

Corporate governance functions

The Company's corporate governance function is carried out by the Board in compliance with code provision D.3.1 of the CG Code, which include (i) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (ii) to review and monitor the training and continuous professional development of Directors; (iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and (v) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report. During the Year, the Board has reviewed the policy of the corporate governance and the corporate governance report of the Company.

Attendance Records of Board and Committee Meetings

The Board meets regularly discuss the Company's affairs and operations. During the Year, the Board held 10 Board meetings which were convened when board-level decisions on particular matters were required in person, by phone or through other electronic means of communication. The attendance records of each Director at the Board, Nomination Committee, Remuneration Committee, Audit Committee meetings and general meetings for the Year are set out below:

	Attendance/Number of Meetings				
	Board Meetings	Nomination Committee Meetings	Remuneration Committee Meetings	Audit Committee Meetings	General Meetings
Executive Directors					
Dr. Huang Gang (the Chairman) (appointed as Executive Director on July 11, 2018 and member of Nomination Committee and Remuneration Committee on August 3, 2018)	4/4	1/2	1/2	N/A	2/2
Mr. Wong Kwok Wai Eddy (appointed on March 2, 2018)	8/8	N/A	N/A	N/A	2/2
Ms. Li Jiewen (appointed on November 6, 2018)	1/1	N/A	N/A	N/A	0/0
Ms. Shao Liyu (formerly known as Ms. Shao Lidan) (ceased on August 3, 2018)	7/7	5/5	3/3	N/A	2/2
Mr. Zhu Hongtao (ceased on January 24, 2018)	1/1	N/A	N/A	N/A	0/2
Mr. Chan Kai Lun Allan (ceased on May 11, 2018)	3/3	N/A	N/A	N/A	2/2
Non-Executive Directors					
Mr. Cosimo Borrelli	9/10	N/A	N/A	N/A	2/4
Ms. Chi Lai Man Jocelyn	10/10	N/A	N/A	N/A	4/4
Ms. Cai Xinyu Annabelle (appointed on July 11, 2018)	4/4	N/A	N/A	N/A	2/2
Independent Non-executive Directors					
Mr. Mar Selwyn	10/10	6/7	4/5	7/7	4/4
Mr. Leung Ka Tin	10/10	7/7	5/5	7/7	4/4
Dr. Cheung Wah Keung (appointed on March 22, 2018)	8/8	6/6	5/5	5/5	2/2
Mr. Chan Kai Nang (ceased on January 24, 2018)	1/1	0/0	0/0	1/1	2/2

Corporate Governance Report

For the Year, apart from the meetings of the Board, Nomination Committee and Remuneration Committee, consent/approval from the Board and Board committees had also been obtained by written resolutions on a number of matters.

Annual Report and Financial Statements

All Directors acknowledge their responsibilities to prepare financial statements for the Year which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statements, and announcements to the Shareholders. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects of the financial statements of the Group.

The statements of the external auditor of the Company, BDO Limited, about their reporting responsibilities on the financial statements of the Group are set out in the Independent Auditor's Report on pages 39 to 45 of the Annual report.

Risk Management and Internal Control

The Board is responsible for evaluating and determining the nature and extent of the risks that it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems for reviewing their effectiveness annually. The system of internal controls is designed to facilitate effective and efficient operations, to safeguard assets and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations. It is also designed to provide reasonable, but not absolute, assurance that material loss can be avoided, and to manage and minimize risks of failure in operation systems. The Company has established Audit Committee and Internal Audit Department to perform internal audit functions conduct and analysis and independent assessments on the adequacy and effectiveness of the risk management and internal control systems of the Company. The Company is committed to implementing stricter and more regulated internal control procedures in the new financial year.

The Audit Committee reviews the risk management and internal controls that are significant to the Group on an on-going basis. The Audit Committee would consider the adequacy of resources, qualifications and experience and training of staff and external advisor of the Group's accounting, internal audit and financial reporting function.

The management of the Group is responsible for designing, maintaining, implementing and monitoring of the risk management and internal control system to ensure adequate control in place to safeguard the Group's assets and stakeholder's interest.

The Group has established risk management procedures to address and handle significant risks associated with the business of the Group including strategic risk, financial risk, business risk, environmental and social risk, and legal risk. The Board would perform annual review on significant change of the business environment and establish procedures to response to the risks resulted from significant changes of business environment. The risk management and internal control systems are designed to mitigate the potential losses of the business.

The management would identify the risks associated with the business of the Group by considering both internal and external factors and events which include political, economic, technological, environmental, social and staff. Each of the risks has been assessed and prioritized based on their relevant impacts and occurrence opportunities. The relevant risk management strategy would be applied to each type of risk according to the assessment results. Types of risk management strategy are: (i) risk reduction; (ii) risk avoidance; (iii) risk diversification; and (iv) risk transfer.

The internal control systems are designed and implemented to reduce the risks associated with the business accepted by the Group and minimize the adverse impact resulted from the risks. The risk management and internal control system 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.

Corporate Governance Report

The Board considered that, for the Year, the risk management and internal control system and procedures of the Group, covering all material controls including financial, operational and compliance controls and risk management functions were reasonably effective and adequate.

Company Secretary

During the Year, Ms. Kwok Ka Huen ("**Ms. Kwok**"), delegated by an external service provider, was appointed as the Company Secretary on November 10, 2017. Ms. Kwok has confirmed that she has taken not less than 15 hours of appropriate professional training as required under Rule 3.29 of the Listing Rules. Ms. Kwok's primary corporate contact is Ms. Li Jiewen, the executive Director and Joint CEO.

External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the consolidated financial statements is set out in the "**Independent Auditor's Report**" on pages 39 to 45.

During the Year, the remuneration paid/payable to the Company's external auditor, BDO Limited, is set out below:

Type of Services	Fees Paid/ Payable (HK$'000)
Year end audit services	
– Audit of annual financial statements	4,700
Non-Audit Services	
– Tax advisory	250
– Others	465
Total	5,415

Shareholders' Rights

Convening an extraordinary general meeting by Shareholders

Procedures for Shareholders to convene an extraordinary general meeting (including making proposals/moving a resolution at the extraordinary general meeting)

Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company ("**Eligible Shareholder(s)**") shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at an extraordinary general meeting. Eligible Shareholders who wish to convene an extraordinary general meeting for the purpose of making proposals or moving a resolution at an extraordinary general meeting must deposit a written requisition ("**Requisition**") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong. The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an extraordinary general meeting, the agenda proposed to be included, the details of the business(es) proposed to be transacted in the extraordinary general meeting, signed by the Eligible Shareholder(s) concerned. If within 21 days of the deposit of the Requisition, the Board has not advised the Eligible Shareholders of any outcome to the contrary and fails to proceed to convene an extraordinary general meeting, the Eligible Shareholder(s) himself/herself/themselves may do so in accordance with the Articles of Associations, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

Corporate Governance Report

Investors Relations

During the Year, there was no change in the Company's constitutional documents.

Communication with Shareholders and Making Enquiry to the Board

The Company has updated its status to Shareholders from time to time through announcements and information as appeared on the website of the Company.

Shareholders may send their enquiries and concerns to the Board by addressing them to the principal place of business of the Company in Hong Kong by post or email to ir@palum.com.

The Company will hold an annual general meeting to approve the financial results for the Year as soon as practicable within 2019. The notice of annual general meeting will be sent to Shareholders at least 20 clear business days before the annual general meeting.

Independent Auditor's Report

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To the Shareholders of Panasialum Holdings Company Limited
(Incorporated in the Cayman Islands with limited liability)

Qualified Opinion

We have audited the consolidated financial statements of PanAsialum Holdings Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 46 to 135, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the "Basis for Qualified Opinion" section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 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 issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

(1) Prepayments to a supplier

As set out in Note 2.1.2(A) to the consolidated financial statements, the Group derecognized a prepayment asset when it recovered the amount during the year ended December 31, 2017. The derecognition did not give rise to material gain or loss. However in our audit of the Group's consolidated financial statements for the fifteen months ended December 31, 2016, we were unable to obtain sufficient appropriate audit evidence regarding the carrying amount of the prepayment asset and the related impairment loss as at December 31, 2016. Due to such audit scope limitation, our audit opinion on the Group's consolidated financial statements for the year ended December 31, 2017 ("2017 consolidated financial statements") was modified as the prepayment asset's carrying amount after impairment loss as at December 31, 2016 may have consequential impact on the result of the derecognition of the prepayment asset in 2017. Our audit opinion on the Group's financial performance for the year ended December 31, 2017 was modified accordingly. Our audit opinion on the consolidated financial statements for the year ended December 31, 2018 is also modified because of the possible effect of our audit scope limitation on 2017 consolidated financial statements on the comparability of the related 2018 figures and the 2017 figures in the consolidated statement of comprehensive income.

Independent Auditor's Report

Basis for Qualified Opinion *(Continued)*

(2) Receivables from, and possible relationship with, certain customers

As set out in Note 2.1.2(B) to the consolidated financial statements, an investigation performed by an independent professional advisor was completed in August 2017 (the "Investigation"). The Investigation and other documents revealed possible connection between the Group and its certain customers (Australia Customer A, Australia Customer B and Customer C as detailed in Note 2.1.2(B) to the consolidated financial statements).

Included in the Group's 2017 consolidated financial statements were trade receivables due from Australia Customer A, Australia Customer B and Customer C and their corresponding impairment losses recognized by the Company's management. In respect of Australia Customer A and Australia Customer B, our audit opinion was modified as we were not able to obtain sufficient appropriate audit evidence to satisfy ourselves whether no write-down of the trade receivables due from them recognized for the year ended December 31, 2017 was appropriate. This audit scope limitation was because our audit opinion on trade receivables due from Australia Customer A and Australia Customer B as at December 31, 2016 was also modified for audit scope limitation. Our audit opinion on the consolidated financial statements for the year ended December 31, 2018 is also modified because of the possible effect of our audit scope limitation in 2017 consolidated financial statements on the comparability of the related 2018 figures and the 2017 figures in the consolidated statement of comprehensive income.

In respect of Customer C, in our audit of the 2017 consolidated financial statements we were unable to obtain satisfactory confirmation reply to confirm the trade receivables balance due from Customer C. This receivable was fully impaired in prior years. Management was not able to provide us with satisfactory explanations and adequate information to support the impairment assessment of the outstanding trade receivables due from Customer C as at December 31, 2017. As a result, we were unable to satisfy ourselves whether the carrying amount of trade receivables due from Customer C of HK$Nil as at December 31, 2017 was fairly stated, and impairment loss thereon was recognized in the appropriate financial years. During the current year, management has taken into account the new developments in 2018 as set out in Note 2.1.2(B) to the consolidated financial statements in their impairment assessment of trade receivables due from Customer C and they concluded that they had no reasonable expectations of recovering the trade receivables due from Customer C and therefore the trade receivables were derecognized as at December 31, 2018. However as our audit scope limitations in our audit of the 2017 consolidated financial statements remained unresolved, we are not able to satisfy ourselves whether no write-down on trade receivables due from Customer C recognized during the current year was appropriate. Our audit opinion on the consolidated financial statements for the year ended December 31, 2018 is also modified because of the possible effect of our modified opinion on 2017 consolidated financial statements on the comparability of the related 2018 figures and the 2017 figures in the consolidated financial statements for the year ended December 31, 2018.

In our audit of 2017 consolidated financial statements, management was not able to provide us with sufficient information and explanations about the relationship between the Group, Australia Customer A, Australia Customer B and Customer C. As a result, we were unable to satisfy ourselves whether the Group had any related party relationships with them and thus the accuracy and completeness of the disclosures of related party balances and transactions in the Group's consolidated financial statements for the year ended December 31, 2017. This audit scope limitation remains unresolved in the current year audit and our opinion on the accuracy and completeness of related party disclosures in 2018 consolidated financial statements is also modified.

Independent Auditor's Report

Basis for Qualified Opinion *(Continued)*

(3) Investment in and advances to an associated company

As set out in Note 2.1.2(C) to the consolidated financial statements, as at December 31, 2017, the Group had an 45% equity interest in Leading Sense Limited ("Leading Sense"), which was accounted for as an associated company of the Group with carrying value of HK$Nil, and recorded an advance with carrying value of HK$Nil (after impairment loss) to Leading Sense and its subsidiaries (the "Leading Sense Group"). These balances of HK$Nil were brought forward from prior years.

In respect of the advance due from the Leading Sense Group, in our audit of the 2017 consolidated financial statements we were unable to obtain satisfactory confirmation reply to confirm the advance due from the Leading Sense Group. This advance was fully impaired in prior years. Management was not able to provide us with satisfactory explanations and adequate information to support the impairment assessment of the outstanding advance due from the Leading Sense Group as at December 31, 2017. As a result, we were unable to satisfy ourselves whether the carrying amount of advance due from the Leading Sense Group of HK$Nil as at December 31, 2017 was fairly stated, and no impairment loss thereon was recognized in the year ended December 31, 2017 was appropriate. During the current year, management has taken into account the new developments in 2018 as set out in Note 2.1.2(C) to the consolidated financial statements in their impairment assessment of advance due from the Leading Sense Group and they concluded that they had no reasonable expectations of recovering the advance and therefore the advance was derecognized as at 31 December 2018. However as our audit scope limitations in our audit of the 2017 consolidated financial statements remained unresolved, we are not able to satisfy ourselves whether no write-down on advance due from the Leading Sense Group recognized during the current year was appropriate. Our audit opinion on the consolidated financial statements for the year ended December 31, 2018 is also modified because of the possible effect of our modified opinion on 2017 consolidated financial statements on the comparability of the related 2018 figures and the 2017 figures in the consolidated financial statements for the year ended December 31, 2018.

During the year ended December 31, 2018, the Group disposed of its entire equity interest in Leading Sense and recorded disposal gain of US$1 (equivalent to HK$8).

Management was not able to obtain the financial information of the Leading Sense Group, nor were they able to contact the other shareholders or management of the Leading Sense Group since January 2015 and therefore we are not able to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether the Group's share of results of an associated company of HK$Nil and the gain on disposal of an associated company of HK$8 were fairly stated in the Group's consolidated financial statements for the year ended December 31, 2018.

Due to inability to obtain sufficient appropriate audit evidence regarding the Group's investment in Leading Sense as at December 31, 2017 and the Group's share of its results for the year then ended, audit opinion on the 2017 consolidated financial statements was modified. Any adjustments to the related investment in the Leading Sense Group as at December 31, 2017 would have a consequential impact on the Group's net assets as at December 31, 2017 and accordingly the Group's financial performance for the current year.

Independent Auditor's Report

Basis for Qualified Opinion *(Continued)*

(3) Investment in and advances to an associated company *(Continued)*

Audit opinion on the 2017 consolidated financial statements regarding whether the investment in an associated company of HK$Nil and the share of its results of HK$Nil were fairly stated in the Group's 2017 consolidated financial statements was modified on the same basis as mentioned above. Our opinion on the current year consolidated financial statements is also modified because of the possible effects of this matter on the comparability of the related 2018 figures and the 2017 figures in the consolidated financial statements for the year ended December 31, 2018.

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 qualified opinion.

Other Information in the Annual Report

The directors are responsible for the other information. The other information comprises the information included in the Company's 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. As described in the "Basis for Qualified Opinion" section above, we were not able to obtain sufficient appropriate evidence about (1) prepayments to a supplier; (2) receivables from, and possible relationship with, certain customers; and (3) investment in and advances to an associated company. Accordingly we are unable to conclude whether or not the other information is materially misstated with respect to these matters.

Independent Auditor's Report

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, we do not provide a separate opinion on these matters. In addition to the matters described in the "Basis for Qualified Opinion" section of our report, we have determined the matter described below to be the key audit matter to be communicated in our report.

Impairment of property, plant and equipment

Refer to Notes 2, 4 and 14 to the consolidated financial statements.

The carrying value of the Group's property, plant and equipment amounted to HK$958,941,000 as at December 31, 2018. The Group sustained a loss for the year ended December 31, 2018 and accordingly, management considered that there were indicators of impairment of property, plant and equipment.

The directors' assessment on the impairment of property, plant and equipment is based on the value-in-use calculation of the Group's cash-generating units (the "CGUs") which involves judgment and estimates about the future results of the businesses. Key assumptions including budgeted gross margins, discount rate and growth rate are applied to the future cash flow forecast.

Our response:

Our audit procedures included, amongst others, the following:

(1) Evaluating and checking the composition of the Group's future cash flow forecasts in the CGUs, and the process by which they were drawn up, including testing the underlying value-in-use calculations and comparing them to the latest approved budgets;

(2) Checking the key assumptions by comparing the current year actual results with the 2018 figures included in the prior year forecast, by reference to future plans and by performing independent market analysis; and

(3) Utilising our own valuation specialists' work when considering the appropriateness of the methodology and assumptions adopted in the valuation.

Independent Auditor's Report

Directors' Responsibilities for the Consolidated Financial Statements

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

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibilities in this regard.

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. This report is made solely to you, as a body, in accordance with the terms of our 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.

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(Continued)*

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

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

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

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

From the matters communicated with the directors, 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.

BDO Limited
Certified Public Accountants

Lam Siu Fung
Practising Certificate Number: P05308

Hong Kong, March 28, 2019

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2018

	Notes	Year ended December 31, 2018 HK$'000	Year ended December 31, 2017 HK$'000
Revenue	5	**1,642,215**	1,778,683
Cost of sales		**(1,489,479)**	(1,546,662)
Gross profit		**152,736**	232,021
Distribution and selling expenses		**(69,815)**	(103,640)
Administrative expenses		**(247,279)**	(255,371)
Other income	8	**13,877**	19,597
Other gains – net	9	**5,700**	11,584
Operating loss		**(144,781)**	(95,809)
Finance income	10	**174**	913
Finance costs	10	**(64,167)**	(46,641)
Finance costs – net	10	**(63,993)**	(45,728)
Share of results of investments accounted for using the equity method	16(b)	**(662)**	(8,936)
Loss before income tax		**(209,436)**	(150,473)
Income tax expense	11	**(24,089)**	(7,989)
Loss for the year		**(233,525)**	(158,462)
Loss attributable to:			
– Owners of the Company		**(233,463)**	(156,332)
– Non-controlling interests		**(62)**	(2,130)
		(233,525)	(158,462)
Loss per share for loss attributable to equity holders of the Company			
Basic and diluted (HK cents per share)	12	**(19.5)**	(13.0)

The notes on pages 52 to 135 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2018

	Year ended December 31, 2018 HK$'000	Year ended December 31, 2017 HK$'000
Loss for the year	**(233,525)**	(158,462)
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	**(20,196)**	46,812
Total comprehensive income for the year	**(253,721)**	(111,650)
Attributable to:		
– Owners of the Company	**(253,655)**	(109,567)
– Non-controlling interests	**(66)**	(2,083)
	(253,721)	(111,650)

The notes on pages 52 to 135 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at December 31, 2018

	Notes	December 31, 2018 HK$'000	December 31, 2017 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*14*	**958,941**	1,062,722
Land use rights	*15*	**278,598**	299,569
Investments accounted for using the equity method	*16(b)*	**–**	4,463
Deposits and lease prepayments		**1,587**	2,445
Prepayments for property, plant and equipment	*19*	**80,027**	82,048
		1,319,153	1,451,247
Current assets			
Inventories	*18*	**243,523**	368,256
Trade and bills receivables	*19*	**419,977**	491,346
Prepayments, deposits and other receivables	*19*	**81,604**	90,589
Due from related companies	*20*	**–**	16,232
Due from the investments accounted for using the equity method	*20*	**–**	21,009
Pledged bank deposits	*21*	**3,635**	7,983
Cash and cash equivalents	*21*	**22,720**	26,336
		771,459	1,021,751
Total assets		**2,090,612**	2,472,998
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*22*	**120,000**	120,000
Reserves	*24*	**624,888**	878,543
Equity attributable to owners of the Company		**744,888**	998,543
Non-controlling interests		**–**	66
Total equity		**744,888**	998,609

The notes on pages 52 to 135 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at December 31, 2018

	Notes	**December 31, 2018 HK$'000**	December 31, 2017 HK$'000
LIABILITIES			
Non-current liabilities			
Obligations under finance leases – non-current portion	*25*	**–**	136
Borrowings	*27*	**70,509**	17,980
		70,509	18,116
Current liabilities			
Trade payables	*26*	**98,375**	106,081
Contract liabilities, other payables and accrued charges	*26*	**236,511**	361,229
Due to the investments accounted for using the equity method	*20*	**–**	1,703
Due to a related company	*20*	**–**	14,084
Due to a director	*20*	**6,645**	–
Borrowings	*27*	**816,965**	856,789
Obligations under finance leases – current portion	*25*	**136**	3,504
Deferred income on government grants		**18,469**	19,814
Current income tax liabilities		**98,114**	93,069
		1,275,215	1,456,273
Total liabilities		**1,345,724**	1,474,389
Total equity and liabilities		**2,090,612**	2,472,998

The consolidated financial statements on pages 46 to 135 were approved by the Board of Directors on March 28, 2019 and were signed on its behalf.

Huang Gang
Director

Wong Kwok Wai Eddy
Director

Consolidated Statement of Changes in Equity

For the year ended December 31, 2018

	Attributable to equity holders of the Company						
	Share capital HK$'000	Share premium HK$'000	Shares held for share award scheme HK$'000	Other reserves* HK$'000	Retained earnings/ (accumulated losses) HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at January 1, 2018	**120,000**	**1,001,287**	**(774)**	**(9,793)**	**(112,177)**	**66**	**998,609**
Loss for the year	**–**	**–**	**–**	**–**	**(233,463)**	**(62)**	**(233,525)**
Other comprehensive income:							
Currency translation differences	**–**	**–**	**–**	**(20,192)**	**–**	**(4)**	**(20,196)**
Total comprehensive income for the year	**–**	**–**	**–**	**(20,192)**	**(233,463)**	**(66)**	**(253,721)**
Balance at December 31, 2018	**120,000**	**1,001,287**	**(774)**	**(29,985)**	**(345,640)**	**–**	**744,888**
Balance at January 1, 2017	120,000	1,001,287	(774)	(56,558)	44,155	1,366	1,109,476
Loss for the year	–	–	–	–	(156,332)	(2,130)	(158,462)
Other comprehensive income:							
Currency translation differences	–	–	–	46,765	–	47	46,812
Total comprehensive income for the year	–	–	–	46,765	(156,332)	(2,083)	(111,650)
Transactions with owners in their capacity as owners:							
Non-controlling interests on incorporation of subsidiary	–	–	–	–	–	703	703
Disposal of a subsidiary	–	–	–	–	–	80	80
	–	–	–	–	–	783	783
Balance at December 31, 2017	120,000	1,001,287	(774)	(9,793)	(112,177)	66	998,609

* The other reserves comprises foreign currency translation reserve of debit balance of HK$49,230,000 (December 31, 2017: debit balance of HK$29,038,000) and statutory reserves of HK$19,245,000 (December 31, 2017: HK$19,245,000). There was no movement in the statutory reserves during the year ended December 31, 2017 and the year ended December 31, 2018, further details of which are set out in Note 24.

The notes on pages 52 to 135 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended December 31, 2018

	Notes	Year ended December 31, 2018 HK$'000	Year ended December 31, 2017 HK$'000
Cash flows from operating activities			
Cash generated from/(used in) operations	*28(a)*	**46,817**	(74,211)
Interest paid		**(11,130)**	(10,466)
Income tax paid		**(13,259)**	(1,905)
Net cash generated from/(used in) operating activities		**22,428**	(86,582)
Cash flows from investing activities			
Purchase of property, plant and equipment and construction in progress		**(69,963)**	(259,358)
(Increase)/decrease in prepayments for property, plant and equipment		**(2,129)**	52,188
Proceeds from sales or property, plant and equipment	*28(b)*	**7,990**	18,809
Proceeds from disposal of investments accounted for using the equity method		**4,591**	479
Decrease/(increase) in due from the investments accounted for using the equity method		**7,084**	(1,342)
Interest received		**174**	913
Net cash used in investing activities		**(52,253)**	(188,311)
Cash flows from financing activities			
Proceeds from borrowings	*28(c)*	**693,414**	467,457
Repayments of borrowings	*28(c)*	**(614,545)**	(199,570)
Payment of finance lease liabilities	*28(c)*	**(3,504)**	(20,388)
Decrease in pledged bank deposits		**4,077**	58,818
Interest paid	*28(c)*	**(53,037)**	(40,563)
Net cash generated from financing activities		**26,405**	265,754
Net decrease in cash and cash equivalents		**(3,420)**	(9,139)
Cash and cash equivalents at beginning of the year		**26,336**	35,209
Exchange (loss)/gain on cash and cash equivalents		**(196)**	266
Cash and cash equivalents at end of the year	*21*	**22,720**	26,336

The notes on pages 52 to 135 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 General information

PanAsialum Holdings Company Limited (the "**Company**") and its subsidiaries (together the "**Group**") are principally engaged in the manufacturing and trading of aluminium products. The Company is an investment holding company. The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on October 7, 2005 under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Exchange**") since February 5, 2013.

These consolidated financial statements are presented in Hong Kong Dollar ("**HK$**" or "**HKD**"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors (the "**Board**") on March 28, 2019.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Exchange. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The directors of the Company (the "**Directors**") have given careful consideration to the going concern status of the Group in light of the fact that (i) the Group incurred a loss attributable to owners of the Company of approximately HK$233 million for the year ended December 31, 2018, (ii) the Group's current liabilities exceeded its current assets by approximately HK$504 million as at December 31, 2018 and (iii) the Group had cash and cash equivalents of approximately HK$23 million against the Group's total borrowings (comprising borrowings and obligations under finance leases) amounted to approximately HK$817 million, which will be due within twelve months after December 31, 2018. The Directors have evaluated the Group's current undrawn facilities and renewable borrowings and are confident that the Group is able to meet its financial obligations when they become due and payable. In order to improve liquidity, the management has been closely monitoring and managing the Group's cash position and conducts on-going negotiations with financial institutions to ensure that the existing facilities will be successfully renewed and additional facilities are obtained when necessary to meet the Group's working capital requirements.

The Directors have assessed the situation and taken the following measures to improve its liquidity position:

(i) as at December 31, 2018, the Group has undrawn facilities of HK$427 million (Note 27) of which facilities of HK$289 million have maturity in March 2021;

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(ii) the Group has been proactively negotiating with the financial institutions in the PRC to seek for renewing the existing facilities and obtaining new facilities. The Directors have evaluated all the relevant facts available to them and are of the opinion that there are good track records and relationship with the relevant financial institutions which enhance the Group's ability to renew the existing interest-bearing borrowings upon expiry. Subsequent to December 31, 2018, its current borrowings as at December 31, 2018 in the amount of not less than HK$211 million have been successfully renewed to a repayment date after December 31, 2019. Subsequent to December 31, 2018, the Group has obtained the new facilities amounted to HK$456 million with maturity in January 2024; and

(iii) the Group has been discussing with financial institutions with the view to convert or consolidate the Group's short term borrowings into term loans or syndicate term loans.

The Directors are of the opinion that, taking into account the successful implementation of measures of the Group as described above, the uncertainty will not have significant impact to the Group and the Group will have sufficient working capital to meet its cashflow requirements in the next twelve months. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

Should the going concern basis be determined to be not appropriate, adjustments would have to be made to write down the carrying amounts of the Group's assets to their net realisable values, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

2.1.1 Changes in accounting policy and disclosure

(a) New, revised or amended standards and interpretation adopted by the Group

The following new and amended standards have been adopted by the Group for the first time for the current year's financial statements:

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)–Int 22	Foreign Currency Transactions and Advance Consideration

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosure (Continued)

(a) New, revised or amended standards and interpretation adopted by the Group (Continued)

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

The adoption of these amendments has no impact on these financial statements as the periods to which the transition provision exemptions related have passed.

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKAS 28, Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organization's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

The adoption of these amendments has no impact on these financial statements as the Group is not a venture capital organization.

Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The adoption of these amendments has no impact on these financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosure (Continued)

(a) New, revised or amended standards and interpretation adopted by the Group (Continued)

HKFRS 9 – Financial Instruments

Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment; and (3) hedge accounting. The adoption of HKFRS 9 from January 1, 2018 has resulted in changes in accounting policies of the Group and the amounts recognized in the consolidated financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of the liability is recognized in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("**FVTPL**"), transaction costs. A financial asset is classified as: (i) financial assets at amortized cost ("**amortized costs**"); (ii) financial assets at fair value through other comprehensive income ("**FVOCI**"); or (iii) FVTPL. The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "**solely payments of principal and interest**" criterion, also known as "**SPPI criterion**"). Under HKFRS 9, embedded derivative is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortized cost if it meets both of the following conditions and it has not been designated as at FVTPL:

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

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosure (Continued)

(a) New, revised or amended standards and interpretation adopted by the Group (Continued)

HKFRS 9 – Financial Instruments (Continued)

Classification and measurement of financial instruments *(Continued)*

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to be achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortized cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets as follows:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognized in profit or loss.
Amortized cost	Financial assets at amortized cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain on derecognition is recognized in profit or loss.
FVOCI (equity instruments)	Equity investments at FVOCI are measured at fair value. Dividend income is recognized in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognized in other comprehensive income and are not reclassified to profit or loss.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosure (Continued)

(a) New, revised or amended standards and interpretation adopted by the Group (Continued)

HKFRS 9 – Financial Instruments (Continued)

Classification and measurement of financial instruments *(Continued)*

The following table summarizes the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at January 1, 2018:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at January 1, 2018 under HKAS 39 HK$'000	Carrying amount as at January 1, 2018 under HKFRS 9 HK$'000
Trade and bills receivables	Loans and receivables	Amortized cost	491,346	491,346
Deposits and other receivables	Loans and receivables	Amortized cost	59,660	59,660
Due from related companies	Loans and receivables	Amortized cost	16,232	16,232
Due from the investments accounted for using the equity method	Loans and receivables	Amortized cost	21,009	21,009
Pledged bank deposits	Loans and receivables	Amortized cost	7,983	7,983
Cash and cash equivalents	Loans and receivables	Amortized cost	26,336	26,336

Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("**ECLs**") model". HKFRS 9 requires the Group to recognize ECL for trade receivables and financial assets at amortized costs earlier than HKAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

Under HKFRS 9, the loss allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; or (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosure (Continued)

(a) New, revised or amended standards and interpretation adopted by the Group (Continued)

HKFRS 9 – Financial Instruments (Continued)

Measurement of ECLs *(Continued)*

For other debt financial assets, the ECLs are based on the 12-month ECLs. The 12-month ECLs are the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or (2) the financial asset is more than 90 days past due.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Impact of the ECL model

Impairment of trade receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which recognizes lifetime ECLs for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The adoption of HKFRS 9 from January 1, 2018 resulted in changes in accounting policies and the adoption of the simplified ECL approach under HKFRS 9 has not resulted in any material additional impairment loss for trade receivables as at January 1, 2018.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosure (Continued)

(a) New, revised or amended standards and interpretation adopted by the Group (Continued)

HKFRS 9 – Financial Instruments (Continued)

Impairment of deposits and other receivables

Other financial assets at amortized cost of the Group include deposits and other receivables. Applying the ECLs model, no additional impairment of deposits and other receivables as at January 1, 2018 was recognized as the amount of the impairment measured under the ECLs model is immaterial.

Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at December 31, 2017, but are recognized in the statement of financial position on January 1, 2018. This means that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognized in reserves as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9.

HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") and amendments to HKFRS 15

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognized at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognized the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, January 1, 2018). As a result, the financial information presented for 2017 has not been restated.

The Directors consider that the application of HKFRS 15 does not have a material impact on the timing and amounts of revenue recognized for contracts with customers in the manufacturing and trading of aluminium products in the respective reporting periods upon its initial adoption because the Directors are of the view that the Group's inputs are expected to be proportionate, in material aspect, to the progress in satisfying the performance obligation in rendering the services with reference to the Group's typical contracts.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosure (Continued)

(a) New, revised or amended standards and interpretation adopted by the Group (Continued)

HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") and amendments to HKFRS 15 (Continued)

Note	Product/service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on January 1, 2018
(a)	Manufacture and sale of electronics parts	Customers obtain control of the goods when the goods are delivered to and have been accepted. Revenue is thus recognized when the customers accepted the products. There is generally only one performance obligation. Invoices are usually payable within 30 to 90 days. There are no right of return, discounts, rebates, refunds, price concessions, incentive, penalties or similar terms in the sales order.	**Impact** HKFRS 15 did not result in significant impact on the Group's accounting policies. However, upon the adoption of HKFRS 15, the Group has to make reclassification from trade and other payables to contract liabilities since under HKFRS 15, a contract liability is recognized when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognizes the related revenue.
(b)	Electronic parts: processing services	Revenue is recognized over time as those services are provided. Invoices are usually payable within 90 days. There are no right of return, discounts, rebates, refunds, price concessions, incentive, penalties or similar terms in the sales order.	**Impact** HKFRS 15 did not result in significant impact on the Group's accounting policies. Upon the adoption of HKFRS 15, the Group should make a reclassification from trade and other receivables to contract assets if there is any satisfied performance obligation but where the entity does not have an unconditional right to consideration. However, as the Group has unconditional right to consideration for all satisfied performance obligation as at January 1, 2018, no contract asset was recognized.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosure (Continued)

(a) New, revised or amended standards and interpretation adopted by the Group (Continued)

HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") and amendments to HKFRS 15 (Continued)

Note	Product/service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on January 1, 2018
(c)	Construction and industrial products	Customers obtain control of the goods when the goods are delivered to and have been accepted. Revenue is thus recognized when the customers accepted the products. There is generally only one performance obligation. Invoices are usually payable within 30 to 60 days. There are no right of return, discounts, rebates, refunds, price concessions, incentive, penalties or similar terms in the sales order.	**Impact** HKFRS 15 did not result in significant impact on the Group's accounting policies. Same as above, upon the adoption of HKFRS 15, the Group has to make reclassification from trade and other receivables to contract assets since under HKFRS 15, if there is any satisfied performance obligation but where the entity does not have an unconditional right to consideration, an entity should recognize a contract asset.
(d)	Branded OPLV products industrial products	Customers obtain control of the goods when the goods are delivered to and have been accepted. Revenue is thus recognized when the customers accepted the products. There is generally only one performance obligation. Invoices are usually payable within 30 to 60 days. There are no right of return, discounts, rebates, refunds, price concessions, incentive, penalties or similar terms in the sales order.	**Impact** HKFRS 15 did not result in significant impact on the Group's accounting policies. Same as above, upon the adoption of HKFRS 15, the Group has to make reclassification from trade and other receivables to contract assets since under HKFRS 15, if there is any satisfied performance obligation but where the entity does not have an unconditional right to consideration, an entity should recognize a contract asset.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosure (Continued)

(a) New, revised or amended standards and interpretation adopted by the Group (Continued)

HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") and amendments to HKFRS 15 (Continued)

Based on the assessment of the Group, no adjustments to the opening balance of reserves as at January 1, 2018 have been made on the initial application of HKFRS 15; and HKFRS 15 did not result in significant impact on the Group's accounting policies.

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this year.

Under HKFRS 15, a contract liability is recognized when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognizes the related revenue. As a result, "Deposits received" which were previously included in other payables, amounting to HK$10,782,000 and HK$36,859,000 as at December 31, 2018 and January 1, 2018 respectively, are now included under contract liabilities to reflect the terminology of HKFRS 15.

HK(IFRIC)-Int 22 – Foreign Currency Transactions and Advance Consideration

The interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transaction that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of this interpretation has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosure (Continued)

(b) *New and amendments to standards, interpretations and improvements not yet adopted*

The following new and amendments to standards, interpretations and improvements have been issued, but are not effective for the financial year beginning on January 1, 2018 and have not been early adopted by the Group:

HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, Business Combinations[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing Costs[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]

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

2 The amendments were originally intended to be effective for periods beginning on or after January 1, 2017. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 Leases and related interpretations, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

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

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosure (Continued)

(b) New and amendments to standards, interpretations and improvements not yet adopted (Continued)

HKFRS 16 – Leases (Continued)

As set out in Note 29(b) to the financial statements, the total future minimum lease payments under non-cancellable operating leases of the Group as at December 31, 2018 amounted to approximately HK$32,355,000. The Group does not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group's financial performance but it is expected that the Group has to separately recognize the interest expense on the lease liabilities and the depreciation expense on the right-of-use assets, and that certain portion of the future minimum lease payments under the Group's operating leases will be required to be recognized in the Group's consolidated statement of financial position as right-of-use assets and lease liabilities.

HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments

The interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortized cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

Amendments to HKAS 28 – Long-term Interests in Associates and Joint Ventures

The amendment clarifies that HKFRS 9 applies to long-term interests ("**LTI**") in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition-date fair value.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosure (Continued)

(b) New and amendments to standards, interpretations and improvements not yet adopted (Continued)

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognized consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarify that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognized when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognized in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognized only to the extent of the unrelated investors' interests in the joint venture or associate.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

2.1.2 Prior years investigation

In prior years, the Group established an independent committee which had engaged an independent professional adviser to investigate into certain matters during the course of the audit of the consolidated financial statements for the year ended September 30, 2014 (the "**Investigation**") on (i) discrepancies in aluminium ingots receipt and consumption records and recoverability of prepayments to certain suppliers; (ii) transactions with a contractor for the construction of the Group's new manufacturing facility in Nanyang city, the PRC; (iii) recoverability of receivables from, and possible relationship with, certain customers; and (iv) certain transactions conducted through personal bank accounts. The Investigation was completed in August 2017. Moreover, the Company also engaged a legal adviser to identify any possible relationship between the Group and an associated company.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Prior years investigation (Continued)

The Investigation had a number of limitations in respect of the nature and extent of the procedures conducted. During the course of the preparation of the consolidated financial statements of the Company for the year ended December 31, 2018, the Board had taken into account the following findings of the Investigation, considered the relevant information and supporting evidence available and had used their best effort to estimate the relevant financial impact of the matters identified in the Investigation. The Board considered it appropriate to make certain accounting treatments in the Company's consolidated financial statements for the year ended December 31, 2018 in respect of the following matters which are relevant to these consolidated financial statements.

(A) Prepayments to a supplier

In the normal course of business, the Group prepays its suppliers for purchase of aluminium ingots, including prepayments made to a major supplier ("**Supplier A**"), which was one of the largest aluminium ingots vendors of the Group since August 2013. As described in section (B) below, there were possible connections between Supplier A and certain Australian customers of the Group. During the year ended September 30, 2014 and as at that date, the Group made an impairment provision of RMB25,999,000 (equivalent to HK$33,014,000) against the prepayments made to Supplier A after considering the subsequent cash collections and deliveries of aluminium ingots.

During the year ended September 30, 2015, the Group continued to make prepayments to Supplier A totalling RMB12,696,000 (equivalent to HK$16,043,000) for the purchase of aluminium ingots. The Group had continuously followed up with the Supplier A for subsequent delivery of aluminium ingots. However, no aluminium ingots were subsequently delivered to the Group by Supplier A in relation to the prepayments made during the year ended September 30, 2015. In this connection, a claim was lodged by the Group against Supplier A through legal proceedings in the PRC to recover certain outstanding balances paid to Supplier A. On December 29, 2016, the PRC court ruled in favour of the Group and the Group had recovered a cash settlement of RMB5,430,000 (equivalent to HK$6,094,000) according to a settlement agreement signed by a shareholder of Supplier A dated August 8, 2017.

After taking into account of the amount of RMB5,430,000 recovered through the legal proceedings in the PRC against Supplier A, the Board considered that it is unlikely to recover the remaining outstanding amounts of RMB12,696,000 (equivalent to HK$16,043,000). Hence, a further impairment provision of RMB12,696,000 (equivalent to HK$16,043,000) had been made during the year ended September 30, 2015. During the fifteen months ended December 31, 2016, no further payment was made to Supplier A and there was no subsequent further provision or reversal of provision recognized. The prepayments to Supplier A after impairment provision, amounted to RMB5,430,000 as at December 31, 2016 (equivalent to HK$6,094,000) were subsequently recovered during the prior year through the final settlement as a result of the legal proceedings against Supplier A, and the gross prepayments and the related impairment provision had been derecognized during the year ended December 31, 2017.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Prior years investigation (Continued)

(B) Receivables from, and possible relationship with, certain customers

A customer in Australia together with its subsidiaries and affiliates (collectively the "**Australia Customers**") was one of the Group's largest customers in prior years. Due to a group restructuring of the Australia Customers, two new companies were incorporated in Australia in April 2014 ("**Australia Customer A**" and "**Australia Customer B**"). In May 2014, Australia Customer A agreed to assume, from the Australia Customers, the payment obligations of the trade payables to the Group totalling HK$319,503,000. Since May 2014, Australia Customer B had begun to act as an import agent for Australia Customer A.

Based on the findings of the Investigation, the sister of the former chairman of the Company held 70% of the shareholding of Australia Customer A and was a director of Australia Customer A during the period from July 11, 2014 to November 20, 2014. She was also the deputy financial controller of a PRC subsidiary of the Company since late October 2014, but resigned from such position in November 2014. Moreover, the address of the sole shareholder of Australia Customer B appeared to be the same as that stated on a copy of the personal identity card of a relative of the former chairman of the Company. The Investigation further identified potential connections between some of the Australia Customers and Supplier A which shared common shareholders' names and addresses since August 30, 2013. Despite the above, the Board did not consider the Australia Customers, Australia Customer A and Australia Customer B as related parties of the Group, as the Group did not have significant influence over them and there was also no evidence indicating that the sister of the former chairman of the Company held her shares in Australia Customer A on his behalf.

The Group stopped trading directly with Australia Customer A in July 2014 and continued the trading business with Australia Customer B until March 2015. Although the Group had continuously demanded for settlement, both Australia Customer A and Australia Customer B delayed in settlement and the outstanding trade receivables became long overdue. The Group also noticed a downside business impact on Australia Customer A and Australia Customer B following the significant increase in anti-dumping duty imposed on foreign imports from Mainland China to Australia in February 2015. In view of the above, the Group filed a claim with a court in Australia and issued winding up petitions against Australia Customer A and Australia Customer B in July 2015. During the year ended September 30, 2014, the Group has written down total outstanding trade receivables of HK$69,306,000 and HK$15,056,000 due from Australia Customer A and Australia Customer B respectively after taking into account the subsequent collections and balances recovered from the winding up petitions against them.

During the year ended September 30, 2015, while there were no sales to Australia Customer A, sales to Australia Customer B amounted to HK$241,902,000. During the year ended September 30, 2015, after taking into account the subsequent collections and balances recovered from the winding up petitions against them, the Group recognized a further write-down to administrative expenses of the outstanding trade receivables of HK$137,806,000 due from Australia Customer B in relation to the sales executed in the same year.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Prior years investigation (Continued)

(B) Receivables from, and possible relationship with, certain customers *(Continued)*

During the year ended September 30, 2014, there were also sales to another new customer in Australia ("**Customer C**"), which was incorporated in the British Virgin Islands (the "**BVI**"), by the Group. Based on the information in the winding up petitions against Australia Customer B, certain goods sold to Customer C were resold to Australia Customer B. During the year ended September 30, 2014, the Group had written down the outstanding trade receivables of HK$15,740,000 due from Customer C. During the year ended September 30, 2015, the Group recognized revenue of HK$36,352,000 for sales to Customer C. However, Customer C had delayed its settlement. The Group had continuously demanded Customer C for settlement but in vain. The Group had therefore recognized an additional write-down of the outstanding trade receivables from Customer C of HK$36,352,000 to administrative expenses during the year ended September 30, 2015.

From the fifteen months ended December 31, 2016 onwards, no further sales to Australia Customer A, Australia Customer B and Customer C were recorded by the Group. After taking into account the subsequent collections and balances recovered from the relevant legal actions, total trade receivables from Australia Customer A and Australia Customer B of HK$2,822,000 had been written down for the fifteen months ended December 31, 2016. During the years ended December 31, 2017 and 2018, the net trade receivables from Australia Customer A and Australia Customer B, after write-down, of HK$12,326,000 as at December 31, 2016 were recovered through the final settlements as a result of legal proceedings against Australia Customer A and Australia Customer B, and there was no further write-down or reversal of write-down recognized. The gross trade receivables and the related write-down in relation to Australia Customer A and Australia Customer B have been derecognized as of December 31, 2018 (Note 19).

Taking into account the circumstances, inter alia, the legal opinion and the legal action taken during the current year as well as the estimated further legal costs and the likelihood of recovery of amounts, the Group has determined it is not beneficial to the Group for taking further legal actions to recover the trade receivables from the Customer C, and accordingly the Directors concluded that they had no reasonable expectations of recovering the trade receivables due from Customer C and therefore such trade receivables were derecognized as at December 31, 2018.

(C) Investment in and advances to an associated company

In August 2014, the Group invested an amount of HK$17,524,000 to acquire a 45% equity interest in Leading Sense Limited ("**Leading Sense**"), which was principally engaged in manufacturing and trading of mobile phones (the "**Mobile Business**"). Leading Sense was accounted for as an associated company.

As at September 30, 2015 and December 31, 2016 and 2017, the Group had an outstanding advance of HK$44,841,000 (before write-down) to Leading Sense and its subsidiaries (the "**Leading Sense Group**").

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Prior years investigation (Continued)

(C) Investment in and advances to an associated company *(Continued)*

According to the findings of a legal adviser of the Company, one of the registered shareholders of Leading Sense might have a possible connection with the former chairman of the Company. Despite this, the Board did not consider such person and Leading Sense as related parties of the Group, as the Group did not have significant influence over them before the subscription of the issued share capital of Leading Sense in August 2014.

Upon the acquisition in August 2014, management of the Company was provided with, on a monthly basis, the management accounts of the Leading Sense Group which had been unavailable since January 2015. In addition, the other shareholders or the management of the Leading Sense Group ceased to be contactable since January 2015. Based on the latest available management accounts for the three months ended December 31, 2014 of the Leading Sense Group, management estimated that the Group's attributable share of loss of the Leading Sense Group to be HK$9,493,000, which had been recorded as share of loss of an associated company during the year ended September 30, 2015.

As the management of the Company was unable to obtain further financial information from the Leading Sense Group and in view of the financial position of the Leading Sense Group based on the latest available management accounts as well as the discontinuation of the Mobile Business in 2015, the Board resolved to fully write down the investment in an associated company of HK$5,893,000 and the amount due from an associated company totalling HK$44,841,000. The total amounts written down were charged to administrative expenses in the Company's consolidated financial statements for the year ended September 30, 2015 (Note 16(b)). No material subsequent reversal of write-down was recognized for the fifteen months ended December 31, 2016 and the year ended December 31, 2017. Taking into account the circumstances, inter alia, the legal opinion and the legal action taken during the current year as well as the estimated further legal costs and the likelihood of recovery of amounts, the Group has determined it is not beneficial to the Group for taking further legal actions to recover the advances from the Leading Sense Group, and accordingly the Directors concluded that they had no reasonable expectations of recovering the advances and therefore such advances were derecognized as at December 31, 2018 (Note 16(b)).

During the year ended December 31, 2018, the Group entered into a disposal agreement to dispose of its entire 45% equity interest in Leading Sense to an independent third party at a consideration of US$1 with effective on June 26, 2018.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition-date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated statement of comprehensive income.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation (Continued)

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associated company, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Investments accounted for using the equity method

An associated company is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Under HKFRS 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has joint ventures only.

Investments in an associated company and a joint venture are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in an associated company and a joint venture include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associated company and a joint venture, any difference between the cost of the associated company or a joint venture or the Group's share of the net fair value of the associated company's or the joint venture's identifiable assets and liabilities is accounted for as goodwill.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.3 Investments accounted for using the equity method *(Continued)*

The Group's share of post-acquisition profit or loss is recognized in the profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of results in the investment equals or exceeds its interest in the investment, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the investment.

The Group determines at each reporting date whether there is any objective evidence that the investment is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying amount and recognizes the amount in the consolidated statement of comprehensive income.

Impairment testing of the investment is required upon receiving dividends from this investment if the dividend exceeds the total comprehensive income of the investment in the period the dividend is declared or if the carrying amount of the investment in the Company's separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Profits and losses resulting from upstream and downstream transactions between the Group and its associated company or a joint venture are recognized in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associated company or a joint venture. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred. Accounting policies of the investment have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains and losses on dilution arising in investments accounted for using the equity method are recognized in the consolidated statement of comprehensive income.

2.4 Structured entity

The Group controls a structured entity, the trust constituted by the trust deed, which is set up solely for the purpose of purchasing, administering and holding the Company shares for an employees' share award scheme. As the Group has the power to direct the relevant activities of the trust and it has the ability to use its power over the trust to affect its exposure to returns, the assets and liabilities of trust are included in the consolidated statement of financial position and the Company shares held by the trust are presented as a deduction in equity as shares held for share award scheme.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.6 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates (the "**functional currency**"). The consolidated financial statements are presented in HKD, which is the Company's functional currency and the Company's and the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at FVTPL are recognized in profit or loss as part of the fair value gain or loss.

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting date;

– income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

2.7 Land use rights

Land use rights are stated at cost less accumulated amortization and impairment losses. Cost mainly represents consideration paid for the rights to use the land from the date the respective rights were granted. Amortization of land use rights is calculated on a straight-line basis over the period of the rights, i.e. 50 years.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.8 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using straight-line method to allocate their costs, less their estimated residual value, if any, over their estimated useful lives, as follows:

Buildings	20 years
Plant and machinery	3 – 10 years
Office equipment	3 – 5 years
Furniture and fixtures	5 years
Motor vehicles	4 – 10 years

Construction in progress, which includes direct expenditures for construction of buildings, is stated at cost. Capitalized costs include costs incurred during the construction phase which directly relates to the asset under construction. Once all the activities necessary to prepare an asset to be available for its intended use are substantially completed, the construction in progress is transferred to property, plant and equipment. No depreciation is provided in respect of construction in progress.

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

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

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the consolidated statement of comprehensive income.

2.9 Intangible assets

Trademarks and patents

Separately acquired trademarks and patents are shown at historical cost. Trademarks and patents acquired in a business combination are recognized at fair value at the acquisition date. Trademarks and patents have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and patents over their estimated useful lives of 10 years.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life – for instance, goodwill – are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Financial Instruments (accounting policies applied from January 1, 2018)

2.11.1 Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at **FVTPL**, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Financial assets at amortized cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain on derecognition is recognized in profit or loss.

FVTOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Debt investments at FVTOCI are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.11 Financial Instruments (accounting policies applied from January 1, 2018) *(Continued)*

2.11.1 Financial assets (Continued)

Debt instruments *(Continued)*

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

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at FVTOCI are measured at fair value. Dividend income are recognized in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognized in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognized in profit or loss.

2.11.2 Impairment loss on financial assets

The Group recognizes loss allowances for expected credit loss ("**ECL**") on trade receivables, contract assets, financial assets measured at amortized cost and debt investments measured at FVOCI. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.11 Financial Instruments (accounting policies applied from January 1, 2018) *(Continued)*

2.11.2 Impairment loss on financial assets (Continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or (2) the financial asset is more than 90 days past due.

Interest income on credit-impaired financial assets is calculated based on the amortized cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

2.11.3 Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at FVTPL are initially measured at fair value and financial liabilities at amortized costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortized cost

Financial liabilities at amortized cost are subsequently measured at amortized cost, using the effective interest method. The related interest expense is recognized in profit or loss.

Gains or losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

2.11.4 Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

2.11.5 Derecognition

The Group derecognizes a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.11 Financial Instruments (accounting policies applied from January 1, 2018) *(Continued)*

2.11.5 Derecognition (Continued)

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognized initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognized in profit or loss for the year.

2.12 Financial Instruments (accounting policies applied until December 31, 2017)

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. Accordingly, the comparative financial information provided continues to be accounted for in accordance with the Group's previous accounting policy.

2.12.1 Financial assets

Classification

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the Group's financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets.

Recognition and measurement

Regular way of purchases and sales of financial assets are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at FVTPL. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortized cost using effective interest method.

2.12.2 Impairment of financial assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "**loss event**") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.12 Financial Instruments (accounting policies applied until December 31, 2017) *(Continued)*

2.12.2 Impairment of financial assets carried at amortized cost (Continued)

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in consolidated statement of comprehensive income.

2.12.3 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account and the loss is recognized in the consolidated statement of comprehensive income. When a receivable is uncollectible, it is written off against the provision account for receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.12 Financial Instruments (accounting policies applied until December 31, 2017) *(Continued)*

2.12.4 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.12.5 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.14 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, excluding pledged deposits.

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs, net of tax, directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.18 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in the consolidated statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis difference

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.18 Current and deferred income tax *(Continued)*

(b) Deferred income tax (Continued)

Inside basis difference (Continued)

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis difference

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated company and joint arrangement except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associated company and joint arrangement only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Revenue recognition

2.19.1 Accounting policies applied from January 1, 2018

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- 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.

If control of the goods or services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods or service.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.19 Revenue recognition *(Continued)*

2.19.1 Accounting policies applied from January 1, 2018

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

2.19.2 Sales of goods

Customers obtain control of the products when the goods are delivered to and have been accepted. Revenue is thus recognized when the customers accepted the products. There is generally only one performance obligation. Invoices are usually payable within 30 to 90 days. In the comparative period, revenue from sales of goods is recognized on transfer of risks and rewards of ownership, which was taken as at the time of delivery and the title is passed to customer.

2.19.3 Processing services

Revenue is recognized over time as those services are provided. Invoices for processing services are issued on a monthly basis and are usually payable within 90 days. For any satisfied performance obligation but where the Group does not have an unconditional right to consideration, a contract asset is recognized.

2.19.4 Other income

- Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

- Dividend income is recognized when the right to receive the dividend is established.

2.19.5 Accounting policies applied until December 31, 2017

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

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.19 Revenue recognition *(Continued)*

2.19.5 Accounting policies applied until December 31, 2017 (Continued)

Revenue is recognized as follows:

(a) sales of goods (including mold and samples) are recognized on the transfer of risks and rewards of ownership of the products, which generally coincides with the time when the goods are delivered to customers and the title is passed.

(b) income from processing services is recognized when the services are rendered.

(c) interest income is recognized on a time-proportion basis using the effective interest method.

(d) dividend income is recognized when the right to receive payment is established.

2.20 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of each reporting period.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(b) Pension obligations

The Group participates in defined contribution schemes which are available to eligible employees, the assets of which are held in separate trustee administered funds. The Group's contributions to the defined contribution retirement schemes are expensed as incurred. The Group has no further obligation once the contributions have been paid.

The Group also participates in the employee social security plan (the "**Plan**") as required by the regulations in the PRC. The Group is required to make welfare contributions to the Plan which is based on a certain percentage of the employees' relevant income.

(c) Bonus plans

The Group recognizes a liability and an expense for bonus plans that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliges or where there is a past practice that has created a constructive obligation.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.20 Employee benefits *(Continued)*

(d) *Equity-settled share-based payment transactions*

The Group operates a share award scheme, under which the entity receives services from employees as consideration for equity instruments of the Group and the share awards were granted under the share award scheme to employees as part of their compensation package.

The amount to be expensed as share-based compensation expenses is determined by reference to the fair value of the award shares granted, taking into account all non-vesting conditions associated with the grants. The total expense is recognized over the relevant vesting periods (or on the grant date if the shares vest immediately), with a corresponding credit to an employee share-based compensation reserve under equity.

Upon vesting and transfer to the awardees, the related costs of the shares are credited to shares held for share award scheme, and the related fair value of the shares are debited to employee share-based compensation reserve. The difference between the cost and the fair value of the shares is credited to share premium if the fair value is higher than the cost or debited against retained earnings if the fair value is less than the cost.

2.21 Leases

(a) *Operating leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss for the year on a straight-line basis over the period of the lease.

(b) *Finance leases*

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in current and non-current liabilities. The interest element of the finance costs is charged to the consolidated statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2.22 Government grants and subsidies

Grants and subsidies from government are recognized at their fair value where there is a reasonable assurance that the grants and subsidies will be received and the Group will comply with all attached conditions.

Under these circumstances, the grants and subsidies are recognized as income or matched with the associated costs which the grants and subsidies are intended to compensate.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

2.23 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

Notes to the Consolidated Financial Statements

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group is not exposed to material equity price risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group's management regularly monitors the exposures and implements timely and effective policies to mitigate potential risks. Risk management is carried out by the group treasury department under policies approved by the Board. Financial risks are identified and evaluated in different units with close cooperation with the group treasury. Based on the policies, the Group can also use derivative financial instruments to hedge certain risk exposures.

(a) *Market risk*

Foreign exchange risk

The Group mainly operates in Hong Kong, Macao and the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar ("**USD**"), Renminbi ("**RMB**"), and Australian Dollar ("**AUD**"). Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. The results of net foreign exchange difference arise from relevant foreign currencies denominated trade and other receivables, cash and bank deposits, other payables and current accounts with group companies. The Group's exposure to different currencies is disclosed in the following table:

	2018 Increase/ (decrease) on loss for the year HK$'000	2017 Increase/ (decrease) on loss for the year HK$'000
For companies with HKD as their functional currency:		
RMB weakens against HKD by 10%	**577**	700
RMB strengthens against HKD by 10%	**(577)**	(700)
For companies with RMB as their functional currency:		
USD weakens against RMB by 10%	**(55)**	(619)
USD strengthens against RMB by 10%	**55**	619
For companies with USD as their functional currency:		
AUD weakens against USD by 10%	**200**	(882)
AUD strengthens against USD by 10%	**(200)**	882

Notes to the Consolidated Financial Statements

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, these evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade customers and, where appropriate, credit guarantee insurance cover is purchased. Normally, the Group does not obtain collateral from customers.

The credit risk is characterized by high concentration of business with several customers. At the end of reporting period, the Group has a certain concentration of credit risk as 34% (2017: 37%) and 50% (2017: 53%) of the total trade and other receivables due from the Group's largest customer and the five largest customers respectively.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECL, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

Loss allowances for other receivables are also measured at an amount equal to lifetime ECLs. No additional impairment for these financial assets as at January 1, 2018 and during the year ended December 31, 2018 is recognized as the amount of additional impairment measured under the ECLs model is insignificant.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at December 31, 2018:

	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000	Net carrying amount HK$'000
Current	0.0%	308,551	–	308,551
1-30 days	0.6%	62,303	374	61,929
31-60 days	2.4%	26,247	630	25,617
61-90 days	4.3%	8,331	359	7,972
91-180 days	7.8%	6,965	544	6,421
181 days - 1 year	17.5%	3,896	682	3,214
More than 1 year	35.3%	9,695	3,422	6,273
		425,988	6,011	419,977

Notes to the Consolidated Financial Statements

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk (Continued)

Expected loss rates are based on actual loss experience over the past three years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Prior to January 1, 2018, an impairment loss was recognized only when there was objective evidence of impairment.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2018 HK$'000	2017 HK$'000
Balance at beginning of year under HKAS 39	**7,384**	5,172
Impact of initial application of HKFRS 9	**–**	–
Adjusted balance at beginning of year	**7,384**	5,172
Amounts written off during the year	**(4,933)**	–
Impairment losses recognized during the year	**3,560**	2,212
Balance at end of year	**6,011**	7,384

The Group maintains frequent communications with these customers to ensure relevant transactions are running effectively and smoothly and balances are reconciled. Management believes that the credit risk related to these customers is not significant in respect of the net trade receivables.

Settlements from the customers are closely monitored on an ongoing basis by management of the Group to ensure any overdue debts are identified and follow-up action is taken to recover the overdue debts.

Notes to the Consolidated Financial Statements

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of an adequate amount of credit facilities.

Management monitors rolling forecasts of the Group's liquidity reserve (comprises undrawn borrowing facility and cash and cash equivalents) on the basis of expected cash flows, further details of which are set out in Note 2.1.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining years at the reporting date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000
At December 31, 2018					
Borrowings	**887,474**	**915,652**	**835,786**	**–**	**79,866**
Trade and other payables	**324,104**	**324,104**	**324,104**	**–**	**–**
Due to a director	**6,645**	**6,645**	**6,645**	**–**	**–**
Obligations under finance leases	**136**	**136**	**136**	**–**	**–**

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000
At December 31, 2017					
Borrowings	874,769	878,364	856,789	–	21,575
Trade and other payables	432,154	432,154	432,154	–	–
Due to a related company	14,084	14,084	14,084	–	–
Obligations under finance leases	3,640	4,060	3,924	136	–

Notes to the Consolidated Financial Statements

3 Financial risk management *(Continued)*

3.2 Capital risk management

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

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

The gearing ratios of the Group as at December 31, 2017 and 2018 were as follows:

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
Total borrowings	**887,610**	878,409
Less: Cash and cash equivalents	**(22,720)**	(26,336)
Net debt	**864,890**	852,073
Total equity	**744,888**	998,609
Total capital and net debt	**1,609,778**	1,850,682
Gearing ratio	**54%**	46%

The Board is of the view that the increase in the gearing ratio as at December 31, 2018 was the result of loss and increase in total borrowings during the year ended December 31, 2018.

3.3 Fair value estimation

The carrying amounts of the Group's financial assets and liabilities approximate their fair values due to their short maturity.

Notes to the Consolidated Financial Statements

4 Critical accounting estimates and judgments

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Save as disclosed in Note 2.1, the estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provision in the period in which such determination is made.

(b) Provision for impairment of receivables

The loss allowances for financial assets are based on assumptions about risk default and ECLs rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period.

The carrying amount and impairment of trade receivables are disclosed in Note 19.

(c) Identification of functional currencies

The functional currency for each entity in the Group is the currency of the primary economic environment in which it operates. Determination of functional currency involves significant judgment. The Group reconsiders the functional currency of its entities if there is a change in the underlying transactions, events and conditions which determine their primary economic environment.

(d) Estimated useful lives and impairment of property, plant and equipment

Management estimates useful lives of the property, plant and equipment by reference to the Group's business model, its assets management policy, the industry practice, expected usage of the assets, expected repair and maintenance, the technical or commercial obsolescence arising from changes or improvements in the market. Residual values of the property, plant and equipment are determined based on prevailing market values for equivalent aged assets taking into account the condition of the relevant assets and other economic considerations. Depreciation would be significantly affected by the useful lives and residual values of the property, plant and equipment as estimated by management.

Notes to the Consolidated Financial Statements

4 Critical accounting estimates and judgments *(Continued)*

(d) Estimated useful lives and impairment of property, plant and equipment *(Continued)*

The Group's major operating assets represent property, plant and equipment which are carried at cost less depreciation and impairment. Management performs review for impairment of the property, plant and equipment whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

5 Revenue and Segment information

The chief operating decision-maker has been identified as the Board. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. The Board has determined the operating segments based on these reports.

The Board considers the business from both product and geographical perspectives. The Board regularly reviews the consolidated financial statements from both product and geographical perspectives to assess performance and make resources allocation decisions. The operating segments are determined to be based on products. Management assesses the performance of the operating segments based on a measure of gross profit.

The Group derives its revenue from three product segments, namely the electronics parts, branded OPLV products, and construction and industrial products which are operating in five geographical areas, namely The PRC (excluding Hong Kong), Australia, North America, Hong Kong and others.

The description of each reportable product segment is as follows:

Reportable product segment	Type of products
Revenue from contracts with customer within scope of HKFRS 15:	
Electronics parts	Aluminium parts for consumer electronics products, examples include heat sinks and chassis for computers
Construction and industrial products	Products sold for construction and industrial use, examples include window and door frames, curtain walls, guardrails, body parts for transportation, mechanical and electrical equipment and consumer durable goods
Branded OPLV products	Door and window frames systems marketed under "**OPLV**" brand and sold through distributors

Notes to the Consolidated Financial Statements

5 Revenue and Segment information *(Continued)*

The segment information for the operating segments for the year ended December 31, 2018 is as follows:

	Electronics parts HK$'000	Construction and industrial products HK$'000	Branded OPLV products HK$'000	Total HK$'000
Sales to external customers	**717,516**	**788,828**	**135,871**	**1,642,215**
Cost of sales	**(602,449)**	**(762,150)**	**(124,880)**	**(1,489,479)**
Segment gross profit	**115,067**	**26,678**	**10,991**	**152,736**
Unallocated operating costs				**(317,094)**
Other income				**13,877**
Other gains – net				**5,700**
Finance costs – net				**(63,993)**
Share of results of investments accounted for using the equity method				**(662)**
Loss before income tax				**(209,436)**

Unallocated operating costs mainly comprise salaries and allowance, rent and rates and other general selling and administrative expenses.

The segment information for the operating segments for the year ended December 31, 2017 is as follows:

	Electronics parts HK$'000	Construction and industrial products HK$'000	Branded OPLV products HK$'000	Total HK$'000
Sales to external customers	902,899	697,428	178,356	1,778,683
Cost of sales	(731,767)	(649,382)	(165,513)	(1,546,662)
Segment gross profit	171,132	48,046	12,843	232,021
Unallocated operating costs				(359,011)
Other income				19,597
Other gains – net				11,584
Finance costs – net				(45,728)
Share of results of investments accounted for using the equity method				(8,936)
Loss before income tax				(150,473)

Notes to the Consolidated Financial Statements

5 Revenue and Segment information *(Continued)*

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines and geographical regions:

	Disaggregation of revenue from contracts with customers Year ended December 31, 2018			
	Electronic parts HK$'000	Construction and industrial products HK$'000	Banded OPLV products HK$'000	Total HK$'000
Primary geographical markets				
The PRC	717,516	262,206	135,871	1,115,593
Australia	–	301,286	–	301,286
North America	–	53,100	–	53,100
Hong Kong	–	75,177	–	75,177
Others	–	97,059	–	97,059
Total	717,516	788,828	135,871	1,642,215
Major products/Services				
Sales of goods	712,490	788,828	135,871	1,637,189
Processing fees	5,026	–	–	5,026
	717,516	788,828	135,871	1,642,215
Timing of revenue recognition				
At a point in time	712,490	788,828	135,871	1,637,189
Transferred over time	5,026	–	–	5,026
	717,516	788,828	135,871	1,642,215

Notes to the Consolidated Financial Statements

5 Revenue and Segment information *(Continued)*

	Disaggregation of revenue from contracts with customers Year ended December 31, 2017			
	Electronic parts HK$'000	Construction and industrial products HK$'000	Banded OPLV products HK$'000	Total HK$'000
Primary geographical markets				
The PRC	902,899	255,514	178,356	1,336,769
Australia	–	286,647	–	286,647
North America	–	31,060	–	31,060
Hong Kong	–	96,668	–	96,668
Others	–	27,539	–	27,539
Total	902,899	697,428	178,356	1,778,683
Major products/Services				
Sales of goods	878,582	697,428	178,356	1,754,366
Processing fees	24,317	–	–	24,317
	902,899	697,428	178,356	1,778,683
Timing of revenue recognition				
At a point in time	878,582	697,428	178,356	1,754,366
Transferred over time	24,317	–	–	24,317
	902,899	697,428	178,356	1,778,683

The analysis of the Group's revenue and gross profit from external customers attributed to the locations in which the sales originated during the years ended December 31, 2017 and 2018 consists of the following:

	Year ended December 31, 2018					
	The PRC HK$'000	**Australia HK$'000**	**North America HK$'000**	**Hong Kong HK$'000**	**Others HK$'000**	**Total HK$'000**
Sales to external customers	**1,115,593**	**301,286**	**53,100**	**75,177**	**97,059**	**1,642,215**
Cost of sales	**(1,014,665)**	**(267,253)**	**(40,069)**	**(66,210)**	**(101,282)**	**(1,489,479)**
Gross profit	**100,928**	**34,033**	**13,031**	**8,967**	**(4,223)**	**152,736**

Notes to the Consolidated Financial Statements

5 Revenue and Segment information *(Continued)*

	Year ended December 31, 2017					
	The PRC HK$'000	Australia HK$'000	North America HK$'000	Hong Kong HK$'000	Others HK$'000	Total HK$'000
Sales to external customers	1,336,769	286,647	31,060	96,668	27,539	1,778,683
Cost of sales	(1,184,226)	(239,599)	(25,575)	(72,195)	(25,067)	(1,546,662)
Gross profit	152,543	47,048	5,485	24,473	2,472	232,021

Details of customers accounting for 10% or more of total revenue are as follows:

	Year ended December 31, 2018 HK$'000	Year ended December 31, 2017 HK$'000
PRC Customer A	**476,208**	688,829

The geographical locations of non-current assets are determined based on the countries of domicile of the companies now comprising the Group. The total of non-current assets, excluding investments accounted for using the equity method, located in respective geographical locations is as follows:

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
The PRC	**1,299,305**	1,426,101
Hong Kong	**4,637**	4,647
Other countries	**15,211**	16,036
	1,319,153	1,446,784

Analysis of segment assets and liabilities for each reportable segment has not been presented as such amounts are not regularly provided to the Board.

Notes to the Consolidated Financial Statements

6 Expenses by nature

Expenses included in cost of sales, distribution and selling expenses and administrative expenses are analyzed as follows:

	Year ended December 31, 2018 HK$'000	Year ended December 31, 2017 HK$'000
Auditor's remuneration – current year	**4,700**	4,700
Operating leases – land and buildings	**17,880**	16,552
Cost of inventories recognized as expenses	**1,489,479**	1,546,662
Loss on disposal of property, plant and equipment *(Note 28(b))*	**3,109**	118
Loss on disposal of investments accounted for using the equity method	**2,683**	6,978
Employee benefit expenses *(Note 7)*	**305,645**	405,632
Depreciation:		
– Owned property, plant and equipment *(Note 14)*	**95,018**	97,457
– Leased property, plant and equipment *(Note 14)*	**2,306**	2,280
Amortization of land use rights *(Note 15)*	**6,412**	6,254
Impairment provision of investments accounted for using the equity method *(Note 16(b))*	**–**	2,780
Write off of inventories	**4,117**	3,177
Write off of trade receivables, net	**2,967**	–
Legal and professional fees	**17,763**	16,262

7 Employee benefit expenses (including directors' emoluments) and five highest paid individuals

	Year ended December 31, 2018 HK$'000	Year ended December 31, 2017 HK$'000
Wages and salaries	**266,597**	353,309
Contributions to defined contribution plans	**23,798**	32,205
Other benefits	**15,250**	20,118
	305,645	405,632

Notes to the Consolidated Financial Statements

7 Employee benefit expenses (including directors' emoluments) and five highest paid individuals *(Continued)*

Five highest paid individuals

For the year ended December 31, 2018, the five individuals whose emoluments were the highest in the Group include 4 directors (year ended December 31, 2017: 3), whose emoluments are reflected in the analysis presented in Note 33. The emolument paid to the remaining 1 individual (year ended December 31, 2017: 2 individuals) is as follows:

	Year ended December 31, 2018 HK$'000	Year ended December 31, 2017 HK$'000
Salaries and allowances	**910**	6,108
Contributions to defined contribution plans	**18**	137
	928	6,245

The emoluments of these remaining individuals fell within the following emolument bands:

	Year ended December 31, 2018	Year ended December 31, 2017
HK$Nil to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**–**	1
HK$5,000,001 to HK$5,500,000	**–**	1
	1	2

During the year ended December 31, 2018, none of the directors of the Company or the five highest paid individuals of the Group (i) received any emolument from the Group as an inducement to join or upon joining the Group; (ii) received any compensation for loss of office as a director or management of any member of the Group; or (iii) waived or has agreed to waive any emoluments (year ended December 31, 2017: Same).

Notes to the Consolidated Financial Statements

8 Other income

	Year ended December 31, 2018 HK$'000	Year ended December 31, 2017 HK$'000
Government grants[(i)]	**3,801**	5,883
Forfeiture of customer deposits	**338**	1
Insurance claims	**450**	1,468
Scrap sales, net	**7,762**	10,851
Others	**1,526**	1,394
	13,877	19,597

(i) For the year ended December 31, 2018, government grants include HK$3,430,000 (year ended December 31, 2017: HK$5,486,000) received from several PRC government authorities for the technical renovation of the Group's equipment. There were no conditions to be fulfilled or contingencies related to these grants. The remaining amounts were transferred from deferred income to consolidated statement of comprehensive income during the respective year.

9 Other gains – net

	Year ended December 31, 2018 HK$'000	Year ended December 31, 2017 HK$'000
Net exchange (losses)/gains	**(27,754)**	11,163
Gain on disposal of subsidiaries *(Note 31(b))*	**33,454**	421
	5,700	11,584

Notes to the Consolidated Financial Statements

10 Finance income and costs

	Year ended December 31, 2018 HK$'000	Year ended December 31, 2017 HK$'000
Interest income:		
Interest income on bank deposits	**174**	913
Finance income	**174**	913
Interest expenses:		
Interest expense on borrowings*	**(63,755)**	(45,138)
Interest element of finance leases	**(412)**	(1,503)
Finance costs	**(64,167)**	(46,641)
Finance costs – net	**(63,993)**	(45,728)

* The balance is arrived at after netting of interest capitalized of HK$Nil for the year ended December 31, 2018 (year ended December 31, 2017: HK$4,388,000).

11 Income tax expense

Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profits for the year ended December 31, 2018 (year ended December 31, 2017: Same).

The Group's operations in the PRC are subject to the PRC corporate income tax. No PRC corporate income tax has been provided as the Group has no estimated assessable profit for the year ended December 31, 2018 (year ended December 31, 2017: Same). The standard PRC corporate income tax rate was 25% for the year ended December 31, 2018 (year ended December 31, 2017: Same).

Pursuant to Article 12 of Decree-Law No. 58/99/M issued by the Macao Government, OPAL (defined in Note 16(a)) is exempted from Macao Complementary Tax during the year ended December 31, 2018 (year ended December 31, 2017: Same).

	Year ended December 31, 2018 HK$'000	Year ended December 31, 2017 HK$'000
Hong Kong profits tax		
– current year	**–**	1,863
– under-provisions in respect of prior years	**20,271**	–
Overseas taxation		
– current year	**3,818**	6,126
	24,089	7,989

Notes to the Consolidated Financial Statements

11 Income tax expense *(Continued)*

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to results of the companies comprising the Group as follows:

	Year ended December 31, 2018 HK$'000	Year ended December 31, 2017 HK$'000
Loss before income tax	**(209,436)**	(150,473)
Tax calculated at Hong Kong profits tax rate of 16.5%	**(34,557)**	(24,828)
Income not subject to tax	**(5,545)**	(2,000)
Expenses not deductible for tax purposes	**9,754**	8,716
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(27,015)**	(36,864)
Tax losses for which no deferred income tax asset was recognized	**56,617**	59,406
Share of results of investments accounted for using equity method	**166**	2,234
Under-provision in respect of prior years	**20,271**	–
Other temporary differences not recognized	**4,398**	1,325
Income tax expense	**24,089**	7,989

As at December 31, 2018, the Group had unused tax losses arising in Hong Kong of HK$179,997,000 (December 31, 2017: HK$151,840,000) and the PRC of approximately HK$342,470,000 (December 31, 2017: HK$407,271,000) which are available for offset against future taxable profits of the Group in which the losses arose for an indefinite period and a period of five years respectively. Deferred tax assets have not been recognized in respect of these losses as they have arisen in the group companies that have been loss-making for some years.

As at December 31, 2018, the subsidiaries have no unremitted earnings with deferred income tax liability arising thereon. Management is of the view that unremitted earnings are intended for re-investment in the PRC and there is no current plan for distribution (December 31, 2017: Same).

The Hong Kong Inland Revenue Department ("**IRD**") issued protective estimated assessments for the years of assessment 2006/07 to 2012/13 to the Company and certain of its subsidiaries, demanding profits tax payments. Notices of objection have been lodged and the IRD has granted unconditional holdover orders in respect of certain protective estimated assessments and the profits tax payments demanded.

Notes to the Consolidated Financial Statements

11 Income tax expense *(Continued)*

It is the management's understanding that the protective estimated assessments were merely issued to keep the relevant assessment years open in view of the statutory time-bar, and the case is in the information collection stage. Management is of the view that the tax position taken by the Company and the relevant subsidiaries are supported by sustainable facts and technical grounds. Management is however also of the view that, as at the date of this report, the under-provision in respect of prior years was approximately HK$20,271,000 based on the best estimate of the Group with reference to the currently available information, and the related provision was made during the year ended December 31, 2018. However, there is no reliable basis for estimating, and providing for the corresponding penalty and interest, if any.

12 Loss per share

(a) Basic

Basic loss per share is calculated by dividing the loss for the year attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31, 2018	Year ended December 31, 2017
Loss attributable to equity holders of the Company (HK$'000)	**(233,463)**	(156,332)
Weighted average number of ordinary shares in issue less shares held for share award scheme (thousands)	**1,199,405**	1,199,405

(b) Diluted

Diluted loss per share is of the same amount as the basic loss per share as there were no potential dilutive ordinary shares outstanding as at December 31, 2018 (December 31, 2017: same).

13 Dividends

No dividend has been paid or declared by the Company during the year ended December 31, 2018 (year ended December 31, 2017: Nil).

Notes to the Consolidated Financial Statements

14 Property, plant and equipment

	Buildings HK$'000	Plant and machinery HK$'000	Office equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At January 1, 2017							
Cost	115,718	944,595	20,230	7,834	26,716	146,635	1,261,728
Accumulated depreciation	(26,200)	(347,760)	(15,962)	(3,691)	(14,358)	–	(407,971)
Net book amount	89,518	596,835	4,268	4,143	12,358	146,635	853,757
Year ended December 31, 2017							
Opening net book amount	89,518	596,835	4,268	4,143	12,358	146,635	853,757
Exchange differences	6,104	37,938	343	26	565	18,907	63,883
Additions	–	68,321	3,438	42	349	191,596	263,746
Transfers	156,360	53,505	–	–	–	(209,865)	–
Disposals *(Note 28(b))*	–	(15,173)	(1)	(34)	(319)	(3,400)	(18,927)
Depreciation *(Note 6)*	(10,140)	(81,514)	(1,979)	(2,088)	(4,016)	–	(99,737)
Closing net book value	241,842	659,912	6,069	2,089	8,937	143,873	1,062,722
At December 31, 2017 and January 1, 2018							
Cost	280,086	1,083,334	24,853	7,871	27,965	143,873	1,567,982
Accumulated depreciation	(38,244)	(423,422)	(18,784)	(5,782)	(19,028)	–	(505,260)
Net book amount	241,842	659,912	6,069	2,089	8,937	143,873	1,062,722
Year ended December 31, 2018							
Opening net book amount	241,842	659,912	6,069	2,089	8,937	143,873	1,062,722
Exchange differences	(11,882)	(30,291)	(438)	(21)	(625)	(7,173)	(50,430)
Additions	–	21,549	3,458	1,480	35	43,441	69,963
Transfers	5,871	4,871	–	–	–	(10,742)	–
Disposals *(Note 28(b))*	–	(11,095)	(2)	(2)	–	–	(11,099)
Disposal of subsidiaries *(Note 31(b))*	(4,800)	(9,075)	(747)	(117)	(152)	–	(14,891)
Depreciation *(Note 6)*	(19,510)	(71,494)	(1,667)	(1,685)	(2,968)	–	(97,324)
Closing net book value	211,521	564,377	6,673	1,744	5,227	169,399	958,941
At December 31, 2018							
Cost	266,716	1,031,120	25,270	3,395	26,216	169,399	1,522,116
Accumulated depreciation	(55,195)	(466,743)	(18,597)	(1,651)	(20,989)	–	(563,175)
Net book amount	211,521	564,377	6,673	1,744	5,227	169,399	958,941

Notes to the Consolidated Financial Statements

14 Property, plant and equipment *(Continued)*

As at December 31, 2018, the net book amount of buildings pledged as securities for the Group's borrowing facilities was HK$25,069,000 (December 31, 2017: HK$29,118,000) (Note 27).

As at December 31, 2018, the net book value of plant and machinery pledged as securities for the Group's borrowing facilities was HK$127,291,000 (December 31, 2017: HK$86,128,000) (Note 27).

As at December 31, 2018, the net book amount of a motor vehicle held by the Group under finance leases was as follows:

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
Cost – Capitalized finance leases	**2,495**	21,894
Accumulated depreciation	**(2,162)**	(3,553)
Net book amount	**333**	18,341

Depreciation expense of the Group's property, plant and equipment has been charged to the consolidated statement of comprehensive income as follows:

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
Cost of sales	**88,017**	87,843
Administrative expenses	**9,307**	11,894
	97,324	99,737

All buildings are located in the PRC and Australia.

Notes to the Consolidated Financial Statements

15 Land use rights

The Group's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
The PRC, held on leases of between 10 to 50 years	**273,313**	293,696
Overseas, freehold	**5,285**	5,873
	278,598	299,569

As at December 31, 2018, land use rights with net book value of HK$269,468,000 were pledged as securities for the Group's borrowings (December 31, 2017: HK$289,563,000) (Note 27).

In late February 2018, the Guangzhou Urban Renewal Bureau announced that the Zengcheng land where the Group's Zengcheng factory situated fell under the Zengcheng city's redevelopment scheme.

The fair value of Zengcheng land was estimated at HK$529,613,000 (approximately RMB465,000,000), and the carrying amount was HK$6,667,000 (approximately RMB5,854,000) as at December 31, 2018. The fair value of Zengcheng land was estimated by the Directors with reference to the valuation performed by an independent and professionally qualified valuer, Knight Frank Hong Kong Limited, which was determined using the direct comparison approach.

Subject to formal documentation converting the usage of land from industrial use to commercial and residential use, the Group's Zengcheng production plant moved out from the existing site and further discussion and negotiation with relevant government authorities or potential investors, the Group considered that it would likely be further benefitted from the potential improvement in value of the Zengcheng land.

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
Opening net book value	**299,569**	270,846
Addition	**1,685**	16,199
Disposal of subsidiaries *(Note 31(b))*	**(1,220)**	–
Amortization for the year *(Note 6)*	**(6,412)**	(6,254)
Exchange differences	**(15,024)**	18,778
Closing net book value	**278,598**	299,569

Amortization expense has been charged to "administrative expenses" in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

16 Subsidiaries, investments accounted for using the equity method and controlled structured entity

(a) Particulars of subsidiaries

The following is a list of the principal subsidiaries at December 31, 2018:

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest	Principal activities and place of operations
PanAsia Aluminium (Hong Kong) Limited	Hong Kong	1,010,000 ordinary shares of HK$1 each	100% (indirect)	Trading of aluminium products/Hong Kong
PanAsia Aluminium Limited	Hong Kong	10,000 ordinary shares of HK$1 each	100% (indirect)	Investment holding and provision of management services/Hong Kong
PanAsia Trading Limited	Hong Kong	10,000 ordinary shares of HK$1 each	100% (indirect)	Trading of aluminium products/Hong Kong
OPAL (Macao Commercial Offshore) Limited ("**OPAL**")	Macao	Registered capital of MOP1,000,000	100% (indirect)	Trading of aluminium products/Macao
PanAsia Aluminium (China) Ltd.[#] ("**PACL**")	The PRC	Registered capital of US$106,800,000 and paid-up capital of US$106,800,000	100% (indirect)	Manufacturing and trading of aluminium products/ the PRC
Cepa Chance Investments Limited	The BVI	1 ordinary share of US$1 each	100% (indirect)	Trading of aluminium products/Macao

Notes to the Consolidated Financial Statements

16 Subsidiaries, investments accounted for using the equity method and controlled structured entity *(Continued)*

(a) Particulars of subsidiaries *(Continued)*

The following is a list of the principal subsidiaries at December 31, 2018: *(Continued)*

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest	Principal activities and place of operations
Triplerich Associates Limited	The BVI	1 ordinary share of US$1 each	100% (indirect)	Holding of trademarks
PanAsia Enterprises (Nanyang) Company Limited#	The PRC	Registered capital of USD226,650,000 and paid-up capital of USD179,364,298	100% (indirect)	Manufacturing and trading of aluminium products/ the PRC
PanAsia Aluminium Pty Ltd	Australia	AUD100	100% (indirect)	Trading of aluminium products and provision of vehicle lease services in Australia
吉木薩爾縣宏睿鋁業有限公司	The PRC	Registered capital of RMB8,000,000 and paid-up capital of RMB8,000,000	100% (indirect)	Inactive due to production facilities construction in progress/the PRC

\# The English names of certain subsidiaries referred in the above represent the best efforts by management of the Company in translating their Chinese names as they do not have official English names.

Notes to the Consolidated Financial Statements

16 Subsidiaries, investments accounted for using the equity method and controlled structured entity *(Continued)*

(b) Investments accounted for using the equity method

On August 28, 2014, PanAsia Enterprises Group Limited ("**PanAsia Enterprises**"), a wholly-owned subsidiary of the Company, entered into the subscription agreement pursuant to which PanAsia Enterprises agreed to subscribe for the shares of Leading Sense, a company incorporated in the BVI, which represented 45% issued share capital of Leading Sense. The consideration for the subscription was HK$17,524,000.

Leading Sense has issued share capital consisting solely of ordinary shares, with 2,000 ordinary shares of US$1 each.

Leading Sense is an investment holding company. The Leading Sense Group is principally engaged in the development, production and trading of smart phones, electronics products and related parts and components.

Write-down of investment in associate and amounts due from the Leading Sense Group of HK$5,893,000 and HK$44,841,000 respectively, had been charged to profit or loss in prior years. Included in the balance is the net book value of the Group's investment in and advances to the Leading Sense Group of HK$Nil as at December 31, 2017. During the Year, the Group's entire interest in the Leading Sense Group has been disposed of, and this advance was derecognized as at December 31, 2018, further details of which are set out in Note 2.1.2(C).

During the year ended December 31, 2018, the Group disposed all of its equity interests in the investments accounted for using equity method. One of the joint ventures, namely Hunan OPLV Doors and Windows Systems Co., Ltd was disposed of during the year. The remaining equity interests in the investments accounted for using equity method were disposed together with a subsidiary as detailed in Note 31(b).

Set out below are the other principal investments accounted for using the equity method of the Group as at December 31, 2017. The investments accounted for using the equity method as listed below had share capital consisting solely of paid-up capital, which were held indirectly by the Group; the country of incorporation or registration was also their principal place of business.

Notes to the Consolidated Financial Statements

16 Subsidiaries, investments accounted for using the equity method and controlled structured entity *(Continued)*

(b) Investments accounted for using the equity method *(Continued)*

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of the relationship	Measurement method
OPLV (Hainan) Doors and Windows Systems Co., Ltd	The PRC	49%	Associated company	Equity
Hunan OPLV Doors and Windows Systems Co., Ltd	The PRC	49%	Joint venture	Equity
Gansu OPLV Jiapin Entire System Doors and Windows Co., Ltd	The PRC	49%	Joint venture	Equity
OPLV (Hubei) Doors and Windows Systems Co., Ltd	The PRC	49%	Joint venture	Equity

The above companies were private companies and there were no quoted market price available for their equity interests.

There were no contingent liabilities relating to the Group's interests in the above companies as at December 31, 2017.

The amounts and the movements thereon recognized in the consolidated statement of financial position are as follows:

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
Investments in the joint ventures	–	4,463
	–	4,463

Notes to the Consolidated Financial Statements

16 Subsidiaries, investments accounted for using the equity method and controlled structured entity *(Continued)*

(b) Investments accounted for using the equity method *(Continued)*

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
At beginning of year	**4,463**	16,107
Investment costs	**–**	2,833
Disposal	**(3,552)**	(3,376)
Share of results of investments accounted for using the equity method	**(662)**	(8,936)
Impairment provision *(Note 6)*	**–**	(2,780)
Exchange differences	**(249)**	615
At end of year	**–**	4,463

The Group's associates and joint ventures were not individually material.

During the year ended December 31, 2017, the carrying amount of certain investments accounted for using the equity method had been reduced to its recoverable amount of HK$Nil with reference to its future cash flows and an impairment loss of HK$2,780,000 was recognized in administrative expenses of the consolidated statement of comprehensive income due to the continuously loss-making operations.

(c) Controlled structured entity

The Group controls a structured entity which operates in Hong Kong, particulars of which are as follows:

Structured entity	**Principal activities**
Employees' share award scheme (Employee share trust)	Purchases, administers and holds the Company shares for the share award scheme for the benefit of the Group's eligible employees

As the employee share trust is set up solely for the purpose of purchasing, administering and holding Company's shares for the share award scheme, the Company has the power to direct the relevant activities of the employee share trust and it has the ability to use its power over the employee share trust to affect its exposure to returns. Therefore, the assets and liabilities of employee share trust are included in the consolidated and company statements of financial position and the Company's shares it held are presented as a deduction in equity as shares held for share award scheme.

Notes to the Consolidated Financial Statements

17 Financial instruments by category

	Financial assets at amortized cost HK$'000
Assets as per consolidated statement of financial position	
December 31, 2018	
Trade and bills receivables *(Note 19)*	**419,977**
Deposits and other receivables	**35,177**
Pledged bank deposits *(Note 21)*	**3,635**
Cash and cash equivalents *(Note 21)*	**22,720**
Total	**481,509**
December 31, 2017	
Trade and bills receivables *(Note 19)*	491,346
Deposits and other receivables	59,660
Due from related companies *(Note 20)*	16,232
Due from the investments accounted for using the equity method *(Note 20)*	21,009
Pledged bank deposits *(Note 21)*	7,983
Cash and cash equivalents *(Note 21)*	26,336
Total	622,566

Notes to the Consolidated Financial Statements

17 Financial instruments by category *(Continued)*

	Other financial liabilities at amortized cost HK$'000
Liabilities as per consolidated statement of financial position	
December 31, 2018	
Trade payables *(Note 26)*	**98,375**
Other payables and accrued charges	**225,729**
Due to a director	**6,645**
Borrowings *(Note 27)*	**887,474**
Obligations under finance leases *(Note 25)*	**136**
Total	**1,218,359**
December 31, 2017	
Trade payables *(Note 26)*	106,081
Other payables and accrued charges	324,370
Due to the investments accounted for using the equity method *(Note 20)*	1,703
Due to a related company *(Note 20)*	14,084
Borrowings *(Note 27)*	874,769
Obligations under finance leases *(Note 25)*	3,640
Total	1,324,647

Notes to the Consolidated Financial Statements

18 Inventories

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
Raw materials	**52,886**	116,147
Work-in-progress	**66,722**	93,393
Finished goods	**123,915**	158,716
Total inventories	**243,523**	368,256

19 Trade and bills receivables, prepayments, deposits and other receivables

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
Trade receivables*	**425,988**	498,136
Less: other impairment loss recognized (Note 3.1(b))	**(6,011)**	(7,384)
Trade receivables – net	**419,977**	490,752
Bill receivables	**–**	594
Trade and bills receivables – net	**419,977**	491,346

* Net of impairment loss as at December 31, 2017 in relation to the customers as mentioned in Note 2.1.2(B).

The carrying amounts of these receivables approximate their fair values. The Group's sales are mainly made on (i) cash on delivery; and (ii) credit terms of 30 to 90 days (December 31, 2017: 30 to 120 days). The Group does not hold any collateral as security.

Included in the net balance as at December 31, 2016 are accumulated write-down of HK$277,082,000 related to individual customers, namely, Australia Customer A, Australia Customer B and Customer C. The net trade receivables from Australia Customer A and Australia Customer B, after write-down, of HK$12,326,000 as at December 31, 2016 were recovered during the years ended December 31, 2017 and 2018 through the final settlements as a result of legal proceedings against Australia Customer A and Australia Customer B. The gross trade receivables and the related write-down in relation to Australia Customer A and Australia B have been derecognized as of December 31, 2018. The net carrying value of trade receivables from Customer C amounted to HK$Nil as at December 31, 2017. As at December 31, 2018, such trade receivables due from Customer C were derecognized as at December 31, 2018, further details of which are set out in Note 2.1.2(B).

Notes to the Consolidated Financial Statements

19 Trade and bills receivables, prepayments, deposits and other receivables *(Continued)*

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

As at December 31, 2018, the ageing analysis of the trade and bills receivables based on due date was as follows:

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
Current	**308,551**	320,101
1 – 30 days	**61,929**	72,662
31 – 60 days	**25,617**	23,609
61 – 90 days	**7,972**	18,217
91 – 180 days	**6,421**	35,555
181 days – 1 year	**3,214**	3,714
More than 1 year	**6,273**	17,488
	419,977	491,346

As at December 31, 2018, receivables of HK$308,551,000 were neither past due nor impaired (December 31, 2017: HK$320,101,000). These receivables relate to customers for whom there is no recent history of default. The remaining receivables were past due, which related to a number of independent customers that have a good track record of payment with the Group.

During the years ended December 31, 2017 and 2018, the Group discounted part of its trade receivables with full recourse to financial institutions. In the event of default by the debtors, the Group is obliged to pay the financial institutions the amount in default. Interest is charged at 9% (2017: 9%) on the proceeds received from the financial institutions until the date the debtors pay. The Group is therefore exposed to the risks of credit losses and late payment in respect of the discounted debts.

The discounting transactions do not meet the requirements in HKFRS 9 for de-recognition of financial assets as the Group retains substantially all of the risks and rewards of ownership of the discounted trade receivables. At December 31, 2018, trade receivables of HK$111,930,000 (2017: HK$199,810,000) continue to be recognized in the Group's consolidated financial statements even though they have been legally transferred to the financial institutions. The proceeds of the discounting transactions are included in borrowings (Note 27) until the trade receivables are collected or the Group settles any losses suffered by the financial institutions. At December 31, 2018, the associated secured borrowings amounted to HK$90,161,000 (December 31, 2017: HK$155,602,000). The carrying amount of the transferred assets and their associated liabilities approximates their fair value as at December 31, 2017 and 2018.

As at December 31, 2018, all trade receivables were non-interest bearing (December 31, 2017: Same).

Notes to the Consolidated Financial Statements

19 Trade and bills receivables, prepayments, deposits and other receivables *(Continued)*

As at December 31, 2018, the carrying amounts of the Group's trade and bills receivables are denominated in the following currencies:

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
AUD	**41,473**	78,280
RMB	**244,434**	244,478
USD	**102,222**	154,374
HKD	**11,232**	9,262
Others	**20,616**	4,952
	419,977	491,346

Prepayments for property, plant and equipment represented the prepayments mainly made for purchase of plant and machinery.

As at December 31, 2018, breakdown of prepayments, deposits and other receivables under current assets was as follows:

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
Current portion:		
Prepayments to suppliers for purchases of materials, net	**15,362**	16,973
Others	**66,242**	73,616
	81,604	90,589

Notes to the Consolidated Financial Statements

20 Due from/to related companies, due from/to the investments accounted for using the equity method and due to a director

(i) Due from related companies:

The amounts due were unsecured, interest-free and repayable on demand. The carrying amounts approximated their fair values.

As at December 31, 2017, the related companies were controlled by the then executive director of the Company and a related company was controlled by family member of Mr. Pan, who was the settlor of the Pan Family Trust.

(ii) Due to a related company:

The amount due was unsecured, interest-free and repayable within one year after the end of the reporting period. The carrying amount approximated its fair value. The related company was controlled by the then executive director of the Company.

(iii) Due from the investments accounted for using the equity method:

The amounts due were unsecured, interest-free and repayable on demand. The carrying amounts approximated the fair value.

(iv) Due to the investments accounted for using the equity method:

The amounts due were unsecured, interest-free and repayable on demand. The carrying amounts approximated their fair values.

(v) Due to a director

The amount due was unsecured, interest-free and repayable on demand. The carrying amount approximated its fair value.

Notes to the Consolidated Financial Statements

21 Cash and cash equivalents and pledged bank deposits

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
Cash in hand	**141**	1,428
Cash at bank	**22,579**	24,908
Cash and cash equivalents	**22,720**	26,336
Pledged bank deposits – Current	**3,635**	7,983
	26,355	34,319

As at December 31, 2018, bank deposits of HK$Nil (December 31, 2017: HK$3,084,000) were pledged as securities for the Group's bills payables (December 31, 2017: same). The remaining pledged bank deposits were made for the purchases of raw materials and guarantees for renting warehouses.

The cash at bank and in hand and bank deposits are denominated in the following currencies:

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
HKD	**122**	1,448
AUD	**10,189**	4,454
RMB	**8,519**	18,251
USD	**6,024**	6,407
Others	**1,501**	3,759
	26,355	34,319

Notes to the Consolidated Financial Statements

22 Share capital

	Ordinary shares of HK$0.10 each	
	Number of shares	HK$'000
Authorized:		
As at January 1, 2017, December 31, 2017, January 1, 2018 and December 31, 2018	2,400,000,000	240,000
Issued and fully paid:		
As at January 1, 2017, December 31, 2017, January 1, 2018 and December 31, 2018	1,200,000,000	120,000

23 Share award scheme

Since March 3, 2014, the Group's share award scheme has been in effect. The terms of the share award scheme provide for shares in the Company to be awarded to employees of the Group (including the executive director) as part of their compensation package.

On April 7, 2014, following the Board's decision to award a sum of up to HK$10 million, the awarded shares are purchased from the market. Before vesting, the awarded shares are held in a trust set up by the share award scheme.

No awarded shares were awarded for the years ended December 31, 2017 and 2018.

During the years ended December 31, 2017 and 2018, the share award scheme did not acquire any Company shares through purchases on the open market.

During the years ended December 31, 2017 and 2018, the share award scheme did not transfer any Company shares to the awardees upon vesting of awarded shares.

Notes to the Consolidated Financial Statements

24 Reserves

The amounts of the Group's reserves and the movements therein for the years ended December 31, 2017 and 2018 are presented in the consolidated statement of changes in equity.

The statutory reserves are set up by the Group's subsidiaries, namely PACL and OPAL, by way of appropriation from the profit for the year in accordance with the relevant laws and regulations in the PRC and in Macao respectively.

In the PRC, PACL is required to allocate at least 10% of its net profit for each voting period as reported in its PRC statutory accounts to the statutory reserves until such reserve reaches 50% of registered capital. The reserve is designated for statutory surplus reserve fund and an enterprise expansion fund which are non-distributable. The statutory surplus reserve fund can be used to make up its prior years' losses, if any, and can be applied in conversion into capital by means of capitalization issue. The enterprise expansion fund can be used for expanding the capital base of PACL, by means of capitalization issue.

In Macao, the Macao Commercial Code#377 requires that OPAL should set aside a minimum of 25% of OPAL's profit for each voting period to the statutory reserve until the balance of the reserve reaches a level equivalent to 50% of the capital of OPAL. The reserve is non-distributable.

During the year ended December 31, 2018, there were no appropriations to the statutory reserves (year ended December 31, 2017: Nil).

25 Obligations under finance leases

As at December 31, 2018, the Group's finance lease liabilities were repayable as follows:

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
Within one year	**136**	3,924
In the second to fifth year	**–**	136
	136	4,060
Future finance charges on finance leases	**–**	(420)
Present value of finance lease liabilities	**136**	3,640

The present value of finance lease liabilities is as follows:

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
Within one year	**136**	3,504
In the second to fifth year	**–**	136
	136	3,640

Notes to the Consolidated Financial Statements

25 Obligations under finance leases *(Continued)*

The carrying amounts of the finance lease liabilities approximate their fair values. As at December 31, 2018, the Group has leased a motor vehicle under finance leases, details of which are set out in Note 14 (December 31, 2017: plant and machinery and motor vehicles under finance leases).

26 Trade payables, contract liabilities, other payables and accrued charges

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
Trade and bills payables	**98,375**	106,081
Contract liabilities *(Note)*	**10,782**	–
Deposits received *(Note)*	**–**	36,859
Accrued employee benefit expenses	**60,923**	78,124
Accrued operating expenses	**38,676**	66,546
Provision for sales rebate and claim to customers	**2,888**	13,017
Payable for purchase of property, plant and equipment	**42,076**	109,655
Other payables and accruals	**81,166**	57,028
Total contract liabilities, other payables and accrued charges	**236,511**	361,229

As at December 31, 2018, the ageing analysis of the Group's trade and bills payables based on invoice date was as follows:

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
0 – 30 days	**37,711**	44,212
31 – 60 days	**40,211**	20,387
61 – 90 days	**5,675**	10,285
Over 90 days	**14,778**	31,197
	98,375	106,081

The carrying amounts of the Group's trade and bills payables are denominated in the following currencies:

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
AUD	**4,951**	4,664
RMB	**92,757**	100,433
HKD	**624**	325
USD	**43**	659
	98,375	106,081

Notes to the Consolidated Financial Statements

26 Trade payables, contract liabilities, other payables and accrued charges *(Continued)*

Note:

	31 December 2018 HK$'000	1 January 2018 HK$'000	31 December 2017 HK$'000
Contract liabilities arising from:			
Sale of goods	**10,782**	36,859	–

Typical payment terms which impact on the amount of contract liabilities are as follows:

Sale of goods

For sale of goods, the Group may take a deposit on acceptance of the order, with the remainder of the consideration payable when the customers accepted the goods. The remainder of the consideration is classified as a contract liability until such time as the goods are accepted by the customers.

Movements in contract liabilities

	2018 HK$'000
Balance as beginning of year	**36,859**
Decrease in contract liabilities as a result of recognizing revenue during the year that was included in the contract liabilities at the beginning of the year	**(13,563)**
Increase in contract liabilities as a result of receiving deposits	**14,649**
Decrease in contract liabilities as a result of disposal of subsidiaries *(Note 31(b))*	**(27,163)**
Balance at end of year	**10,782**

The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at January 1, 2018. Upon the adoption of HKFRS 15, amounts previously included as "Deposits received" have been reclassified to "Contract liabilities".

27 Borrowings

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
Current		
Collateralized borrowings of a financial institution *(Note 19)*	**90,161**	155,602
Other loans	**726,804**	701,187
	816,965	856,789
Non-current		
Other loans	**70,509**	17,980
Total	**887,474**	874,769

Notes to the Consolidated Financial Statements

27 Borrowings *(Continued)*

As at December 31, 2018, the effective interest rate of the interest-bearing borrowings was 7.24% per annum (December 31, 2017: 6.29% per annum).

The carrying amounts of all borrowings are carried at amortized cost and approximate their fair values which carry interest at fixed rates.

The carrying amounts of the borrowings are denominated in RMB.

The Group had the following undrawn borrowing facilities:

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
Expiring within one year	**137,629**	605,514
Expiring in the second to fifth year inclusive	**289,066**	–
Total	**426,695**	605,514

The facilities expiring within one year are annual facilities subject to review at various dates during the year ending December 31, 2019.

During the year ended December 31, 2018, the Group's facilities were secured by the following:

(i) guarantees of the Company and certain subsidiaries during the year ended December 31, 2018 (year ended December 31, 2017: Same);

(ii) guarantees of a former executive director of the Company;

(iii) guarantees of a director of a PRC subsidiary and a key management of a PRC subsidiary (2017: a former executive director of the Company);

(iv) guarantees of two state-owned enterprises of the PRC;

(v) pledge of the Group's certain trade receivables (Note 19); and

(vi) pledge of the Group's certain property, plant and equipment (Note 14) and land use rights (Note 15).

Notes to the Consolidated Financial Statements

28 Notes to consolidated statement of cash flows

(a) Cash generated from operations

	Year ended December 31, 2018 HK$'000	Year ended December 31, 2017 HK$'000
Loss before income tax	**(209,436)**	(150,473)
Adjustments for:		
– Gain on disposal of subsidiaries *(Note 31(a)&(b))*	**(33,454)**	(421)
– Loss on disposal of property, plant and equipment *(Note 6)*	**3,109**	118
– Depreciation of property, plant and equipment *(Note 14)*	**97,324**	99,737
– Share of results of the investments accounted for using the equity method *(Note 16(b))*	**662**	8,936
– Impairment provision of the investments accounted for using the equity method *(Note 16(b))*	**–**	2,780
– Impairment provision of trade receivables *(Note 3.1(b))*	**3,560**	–
– Loss on disposal of investments accounted for using the equity method *(Note 6)*	**2,683**	6,978
– Write off of inventories *(Note 6)*	**4,117**	3,177
– Write off of trade receivables, net	**2,967**	–
– Amortization of prepaid land use right *(Note 15)*	**6,412**	6,254
– Interest expense on borrowings *(Note 10)*	**63,755**	45,138
– Interest element of finance leases *(Note 10)*	**412**	1,503
– Interest income on bank deposits *(Note 10)*	**(174)**	(913)
	(58,063)	22,814
Changes in working capital:		
– Inventories	**73,655**	(46,387)
– Trade and bills receivables, prepayments, deposits and other receivables	**60,335**	(48,480)
– Trade payables, contract liabilities, other payables and accrued charges and deferred income	**(29,110)**	(1,046)
– Due from related companies	**–**	(1,112)
Cash generated from/(used in) operations	**46,817**	(74,211)

Notes to the Consolidated Financial Statements

28 Notes to consolidated statement of cash flows *(Continued)*

(b) An analysis of loss on disposal of property, plant and equipment is as follows:

	Year ended December 31, 2018 HK$'000	Year ended December 31, 2017 HK$'000
Net book amount *(Note 14)*	**11,099**	18,927
Loss on disposal of property, plant and equipment *(Note 6)*	**(3,109)**	(118)
Proceeds from disposal of property, plant and equipment	**7,990**	18,809

(c) Reconciliation of liabilities arising from financing activities

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

	Borrowings HK$'000	Obligations under finance leases HK$'000	Total HK$'000
At January 1, 2018	874,769	3,640	878,409
Changes from cash flows:			
Interest paid on borrowings	(52,625)	–	(52,625)
Interest paid on finance leases	–	(412)	(412)
Repayment of obligations under finance leases	–	(3,504)	(3,504)
Proceeds from borrowings	693,414	–	693,414
Repayments of borrowings	(614,545)	–	(614,545)
Total changes from financing cash flows:	26,244	(3,916)	22,328
Exchange adjustments:	(66,164)	–	(66,164)
Other changes:			
Interest expense on borrowings	52,625	–	52,625
Interest element of finance leases	–	412	412
Total other changes	(13,539)	412	(13,127)
At December 31, 2018	887,474	136	887,610

Notes to the Consolidated Financial Statements

28 Notes to consolidated statement of cash flows *(Continued)*

(c) Reconciliation of liabilities arising from financing activities *(Continued)*

	Borrowings HK$'000	Obligations under finance leases HK$'000	Total HK$'000
At January 1, 2017	559,543	24,028	583,571
Changes from cash flows:			
Interest paid on borrowings	(49,526)	–	(49,526)
Interest paid on finance leases	–	(1,503)	(1,503)
Repayment of obligations under finance leases	–	(20,388)	(20,388)
Proceeds from borrowings	467,457	–	467,457
Repayments of borrowings	(199,570)	–	(199,570)
Total changes from financing cash flows:	218,361	(21,891)	196,470
Exchange adjustments:	47,339	–	47,339
Other changes:			
Interest expense on borrowings	45,138	–	45,138
Capitalized borrowing costs	4,388	–	4,388
Interest element of finance leases	–	1,503	1,503
Total other changes	96,865	1,503	98,368
At December 31, 2017	874,769	3,640	878,409

Notes to the Consolidated Financial Statements

29 Commitments

(a) Capital commitments

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
Contracted but not provided for:		
– Property, plant and equipment	**278,870**	311,103

The Group won the bids and acquired the land use rights of eight parcels of land located in the Nanyang City. Pursuant to the land use right transfer agreements, the Group agreed to invest an aggregate sum of RMB2,890,590,000 (equivalent to approximately HK$3,655,273,000) in the Nanyang City. As of December 31, 2018, the Group had invested RMB1,637,982,000 (equivalent to approximately HK$1,865,584,000) in the Nanyang City (December 31, 2017: RMB1,579,252,000 (equivalent to approximately HK$1,892,907,000)).

Moreover, the Group also committed a project in Xinjiang for establishing and investing in a new wholly-owned subsidiary with an estimated aggregate capital of at least RMB200 million (equivalent to approximately HK$254 million). The Group invested RMB119,972,000 (equivalent to approximately HK$136,643,000) therein as at December 31, 2018 (December 31, 2017: RMB108,254,000 (equivalent to approximately HK$129,754,000)).

(b) Operating lease commitments

The Group's future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
Within one year	**14,085**	15,175
In the second to fifth year inclusive	**18,270**	26,225
	32,355	41,400

As at December 31, 2018, the Company did not have any significant commitments (December 31, 2017: Same).

Notes to the Consolidated Financial Statements

30 Related party transactions

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following related party transactions during the years ended December 31, 2017 and 2018.

During the Year, the Group incurred service fee of HK$2,606,000 (year ended December 31, 2017: HK$2,969,000) to a related company controlled by certain directors of the Company.

(i) Sales of goods

	Year ended December 31, 2018 HK$'000	Year ended December 31, 2017 HK$'000
Sales of aluminium extrusion materials		
Investments accounted for using equity method:		
OPLV (Shanghai) Doors and Windows System Co., Ltd.	**–**	3,456
Yunnan OXLD Windows Co., Ltd.	**–**	4,884
Hunan OPLV Doors and Windows Systems Co., Ltd.	**875**	5,254
OPLV (Anhui) Doors and Windows Systems Co., Ltd.	**–**	3,495
OPLV (Hubei) Doors and Windows Systems Co., Ltd.	**2,440**	6,697
Gansu OPLV Jiapin Entire System Doors and Windows Co., Ltd.	**1,465**	4,245
OPLV (Hainan) Doors and Windows Systems Co., Ltd	**2,952**	2,115

The English name of the related company established in the PRC represents the best effort by management of the Company in translating its Chinese name as it does not have official English name.

In the opinion of the directors, these transactions were entered into in the normal course of business of the Group at terms mutually agreed by the parties concerned.

(ii) Key management compensation

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

	Year ended December 31, 2018 HK$'000	Year ended December 31, 2017 HK$'000
Salaries, bonus and allowances	**17,939**	16,681
Contributions to defined contribution plans	**212**	147
	18,151	16,828

Notes to the Consolidated Financial Statements

31 Disposal of subsidiaries

(a) During the year ended December 31, 2017 the Group disposed of its entire 51% equity interest in Shaanxi Lumy House Co., Ltd ("**Shaanxi Lumy**") to the non-controlling shareholder of Shaanxi Lumy, for HK$Nil consideration. The financial position of Shaanxi Lumy at the date of disposal was as follows:

	2017 HK$'000
Inventories	491
Other payables	(992)
Non-controlling interest	80
	(421)
Gain on disposal of a subsidiary	421
Total consideration	–
Satisfied by:	
Cash	–
Net cash flow arising on disposal	–

Notes to the Consolidated Financial Statements

31 Disposal of subsidiaries *(Continued)*

(b) During the Year, the Group disposed of its entire 100% equity interest in OPLV (Nanyang) Doors and Windows Systems Co., Ltd and its subsidiaries (collectively the "**OPLV Group**") to an independent third party, at a consideration of RMB5,000,000 (equivalent to HK$5,695,000). The net liabilities of OPLV Group at the date of disposal was as follows:

	2018 **HK$'000**
Property, plant and equipment	**14,891**
Land use rights	**1,220**
Inventories	**38,739**
Trade and other receivables	**64,123**
Cash and cash equivalents	**640**
Trade and other payables	**(215,397)**
Contract liabilities	**(27,163)**
Borrowings	**(22,469)**
Current income tax liabilities	**(1,992)**
	(147,408)
Debts assignment	**119,649***
Gain on disposal of subsidiaries	**33,454**
Total consideration	**5,695**
Satisfied by:	
Cash *(Note)*	**–**
Net cash flow arising on disposal	**–**

Note:

The consideration included in the other receivables as at December 31, 2018, has been subsequently received.

* As part of the disposal, the trade and other payables due by the OPLV Group to the Group in the amount of approximately HK$119,649,000 was assigned to the purchaser pursuant to the relevant deeds of assignment.

Notes to the Consolidated Financial Statements

32 Statement of financial position and reserves movement of the Company

	December 31, 2018 HK$'000	December 31, 2017 HK$'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**–**	–
Current assets		
Due from a subsidiary	**745,808**	999,229
Cash and cash equivalents	**4**	4
	745,812	999,233
Total assets	**745,812**	999,233
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	**120,000**	120,000
Reserves	**624,888**	878,609
Total equity	**744,888**	998,609
LIABILITIES		
Current liabilities		
Other payables and accrued charges	**924**	624
Total liabilities	**924**	624
Total equity and liabilities	**745,812**	999,233

The statement of financial position was approved by the Board of Directors on March 28, 2019.

Huang Gang
Director

Wong Kwok Wai Eddy
Director

Notes to the Consolidated Financial Statements

32 Statement of financial position and reserves movement of the Company *(Continued)*

	Share premium HK$'000	Shares held for share award scheme HK$'000	Other reserves HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at January 1, 2018	1,001,287	(774)	828,317	(950,221)	878,609
Comprehensive income:					
Loss for the year	–	–	–	(253,721)	(253,721)
Total comprehensive income for the year	–	–	–	(253,721)	(253,721)
Balance at December 31, 2018	1,001,287	(774)	828,317	(1,203,942)	624,888
Balance at January 1, 2017	1,001,287	(774)	828,317	(833,108)	995,722
Comprehensive income:					
Loss for the year	–	–	–	(117,113)	(117,113)
Total comprehensive income for the year	–	–	–	(117,113)	(117,113)
Balance at December 31, 2017	1,001,287	(774)	828,317	(950,221)	878,609

Notes to the Consolidated Financial Statements

33 Benefits and interests of directors

The emoluments of individual directors of the Company during the years ended December 31, 2017 and 2018 were set out as follows:

Year ended December 31, 2018	Fees HK$'000	Salaries and allowance HK$'000	Share award scheme HK$'000	Discretionary and retirement bonus HK$'000	Contributions to defined contribution plans HK$'000	Total HK$'000
Name of Directors						
Executive Directors:						
Ms. Shao Li Yu ("**Ms. Shao**") *(Note i)*	80	5,195	–	6,000	8	11,283
Mr. Chan Kai Lun Allan *(Note ii)*	80	1,087	–	–	12	1,179
Mr. Zhu Hong Tao ("**Mr. Zhu**") *(Note iii)*	10	106	–	–	1	117
Ms. Li Jiewen ("**Ms. Li**") *(Note iv)*	20	457	–	–	1	478
Dr. Huang Gang ("**Dr. Huang**") *(Note v)*	60	3,021	–	–	8	3,089
Mr. Wong Kwok Wai Eddy *(Note vi)*	100	1,724	–	–	182	2,006
Non-executive Directors:						
Mr. Cosimo Borrelli *(Note vii)*	360	–	–	–	–	360
Ms. Chi Lai Man Jocelyn *(Note viii)*	360	–	–	–	–	360
Ms. Cai Xinyu Annabelle *(Note ix)*	170	–	–	–	–	170
Independent non-executive Directors:						
Dr. Cheung Wah Keung *(Note x)*	466	–	–	–	–	466
Mr. Chan Kai Nang *(Note xi)*	39	–	–	–	–	39
Mr. Mar Selwyn *(Note xii)*	600	–	–	–	–	600
Mr. Leung Ka Tin *(Note xiii)*	600	–	–	–	–	600
	2,945	11,590	–	6,000	212	20,747

Notes to the Consolidated Financial Statements

33 Benefits and interests of directors *(Continued)*

Year ended December 31, 2017	Fees HK$'000	Salaries and allowances HK$'000	Share award scheme HK$'000	Discretionary and retirement bonus HK$'000	Contributions to defined contribution plans HK$'000	Total HK$'000
Name of Directors						
Executive Directors:						
Ms. Shao Liyu ("**Ms. Shao**") *(Note i)*	120	6,840	–	–	5	6,965
Mr. Chan Kai Lun Allan *(Note ii)*	90	1,260	–	–	14	1,364
Mr. Zhu Hongtao ("**Mr. Zhu**") *(Note iii)*	120	2,118	–	–	5	2,243
Mr. Ma Yu Yan ("**Mr. Ma**") *(Note xiv)*	43	601	–	–	–	644
Non-executive Directors:						
Mr. Cosimo Borrelli *(Note vii)*	360	–	–	–	–	360
Ms. Chi Lai Man Jocelyn *(Note viii)*	360	–	–	–	–	360
Independent non-executive Directors						
Mr. Mar Selwyn *(Note xii)*	323	–	–	–	–	323
Mr. Chan Kai Nang *(Note xi)*	305	–	–	–	–	305
Mr. Leung Ka Tin *(Note xiii)*	305	–	–	–	–	305
Mr. Choi Tze Kit Sammy *(Note xv)*	41	–	–	–	–	41
Mr. Lam Kwok Fai Osmond *(Note xvi)*	79	–	–	–	–	79
Mr. Tang Warren Louis *(Note xvii)*	79	–	–	–	–	79
	2,225	10,819	–	–	24	13,068

Notes to the Consolidated Financial Statements

33 Benefits and interests of directors *(Continued)*

Notes:

(i) Ms. Shao was appointed as the chief executive officer ("**CEO**") on April 22, 2015 and was the chairlady of the Company during the period from December 16, 2014 to November 8, 2017, respectively. She resigned as the chairlady of the Company on November 9, 2017 and resigned as the executive director and the joint CEO of the Company on August 3, 2018.

(ii) Mr. Chan Kai Lun Allan was appointed as an executive Director on March 27, 2017 and resigned on May 11, 2018.

(iii) Mr. Zhu was appointed as an executive director on January 1, 2015. He retired as an executive Director on January 24, 2018.

(iv) Ms. Li was appointed as an executive Director on November 6, 2018.

(v) Dr. Huang was appointed as an executive Director and the Chairman on July 11, 2018 and August 3, 2018 respectively.

(vi) Mr. Wong Kwok Wai Eddy was appointed as an executive Director on March 2, 2018.

(vii) Mr. Cosimo Borrelli was appointed as a non-executive Director on May 27, 2016 and was the non-executive Chairman during the period from November 9, 2017 to August 3, 2018.

(viii) Ms. Chi Lai Man Jocelyn was appointed as a non-executive Director on May 27, 2016.

(ix) Ms. Cai Xinyu Annabelle was appointed as a non-executive Director on July 11, 2018.

(x) Dr. Cheung Wah Keung was appointed as an independent non-executive Director on March 22, 2018.

(xi) Mr. Chan Kai Nang was appointed as an independent non-executive Director on February 24, 2017 and retired on January 24, 2018.

(xii) Mr. Mar Selwyn was appointed as an independent non-executive Director on February 8, 2017.

(xiii) Mr. Leung Ka Tin was appointed as an independent non-executive Director on February 24, 2017.

(xiv) Mr. Ma was appointed as an executive director on July 1, 2015. He resigned as the executive Director on May 9, 2017.

(xv) Mr. Choi Tze Kit Sammy was appointed as an independent non-executive Director on February 11, 2016. He ceased to be the independent non-executive director on February 11, 2017.

(xvi) Mr. Lam Kwok Fai Osmond was appointed as an independent non-executive Director on March 21, 2016. He ceased to be the independent non-executive director on March 21, 2017.

(xvii) Mr. Tang Warren Louis was appointed as an independent non-executive Director on March 21, 2016. He ceased to be the independent non-executive director on March 21, 2017.

The remuneration shown above represents remuneration received from the Group by these directors in their capacity as employees to the Group and/or in their capacity as directors of the companies comprising the Group during the year ended December 31, 2018 (year ended December 31, 2017: Same).

Financial Summary

Consolidated Results

	Year ended December 31, 2018 HK$'000	Year ended December 31, 2017 HK$'000	Fifteen months ended December 31, 2016 HK$'000	Year ended September 30, 2015 HK$'000	2014 HK$'000
Revenue	**1,642,215**	1,778,683	2,236,024	1,821,850	2,826,639
(Loss)/profit before income tax	**(209,436)**	(150,473)	(195,676)	(313,692)	31,022
Income tax expense	**(24,089)**	(7,989)	(38,023)	(22,985)	(28,457)
(Loss)/profit for the year	**(233,525)**	(158,462)	(233,699)	(336,677)	2,565
Other comprehensive income	**(20,196)**	46,812	(85,439)	(30,691)	(1,991)
Total comprehensive income attributable to equity holders of the Company	**(253,655)**	(109,567)	(317,354)	(367,368)	574
(Loss)/earnings per share (HK cents)	**(19.5)**	(13.0)	(19.3)	(28.1)	0.2

Consolidated Assets and Liabilities

	December 31, 2018 HK$'000	2017 HK$'000	2016 HK$'000	September 30, 2015 HK$'000	2014 HK$'000
Total assets	**2,090,612**	2,472,998	2,223,477	2,133,547	2,653,213
Total liabilities	**1,345,724**	1,474,389	1,114,001	708,083	860,381
Net assets attributable to equity holders of the Company	**744,888**	998,543	1,108,110	1,425,464	1,792,832