



登輝控股有限公司 Town Ray Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1692

ANNUAL 2019 REPORT



Steam Mop



Food Steamer



Soup Maker



Steam Generator



Coffee Machine

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chan Wai Ming (*Chief Executive Officer*)
Mr. Chiu Wai Kwong
Ms. Tang Mei Wah
Mr. Yu Kwok Wai

Non-executive Directors

Dr. Chan Kam Kwong Charles (*Chairman*)
Ms. Cheng Yuk Sim Connie
(also known as Ms. Cheng Yuk Yee Connie)

Independent Non-executive Directors

Mr. Chan Ping Yim
Mr. Choi Chi Leung Danny
Mr. Chan Shing Jee

BOARD COMMITTEES

Audit Committee

Mr. Chan Ping Yim (*Chairman*)
Mr. Choi Chi Leung Danny
Mr. Chan Shing Jee

Remuneration Committee

Mr. Chan Shing Jee (*Chairman*)
Mr. Chan Ping Yim
Mr. Choi Chi Leung Danny

Nomination Committee

Mr. Choi Chi Leung Danny (*Chairman*)
Mr. Chan Ping Yim
Mr. Chan Shing Jee

COMPANY SECRETARY

Mr. Chiu Wai Kwong

AUTHORISED REPRESENTATIVES

Mr. Chan Wai Ming
Mr. Chiu Wai Kwong

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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COMPLIANCE ADVISER

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LEGAL ADVISER

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PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited

AUDITOR

Ernst & Young
Certified Public Accountants
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COMPANY'S WEBSITE

www.townray.com

STOCK CODE

1692 (listed on the Main Board of
The Stock Exchange of Hong Kong Limited)

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of Town Ray Holdings Limited (the “**Company**”, “**Town Ray**”, together with its subsidiaries, collectively the “**Group**” or “**we**”, “**ours**” or “**us**”), I am pleased to present to our valued shareholders the first annual report of our Group for the year ended 31 December 2019 (the “**Year**”) after the successful listing (the “**Listing**”) of our Company on the Main Board of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 25 October 2019 (the “**Listing Date**”).

Town Ray is an advanced product developer for ODM and OEM business. We have extensive and the state-of-the-art thermodynamics technology in developing sophisticated electrothermic household appliances. Outstandingly, steam irons and coffee machines are our “star” performing product categories. Through long term cooperation with our business partners, our products are well accepted in over 30 countries and regions, such as Germany, France, the United Kingdom and the Netherlands.

On 25 October 2019, Town Ray was successfully listed on the Main Board of the Stock Exchange. I wish to express my sincere gratitude to the hard work of everyone in our sales, marketing, design, engineering, manufacturing, finance, and management teams as well as our investors, customers, professional parties and bankers. Also I wish to specially thank for the continuous support from our vendors of raw materials, parts, and components. I look forward to seeing more opportunities open up to our business through new platforms in future, and create additional value for our investors, shareholders and supporters.

For 2019, the Group recorded an impressive financial results. Revenue and gross profit of the Company were HK\$510.2 million and HK\$178.5 million, representing an increase of 36.6% and 69.5% respectively as compared with last year. Profit attributable to equity holders of the Company was HK\$60.8 million, representing an increase of 59.9% from last year. Overall gross profit margin and net profit margin improved by 6.8% and 1.7% to 35.0% and 11.9% respectively. The significant growth was primarily attributable to (i) the increase in sales of the Group; and (ii) decrease in costs as a result of the depreciation of Renminbi against Hong Kong Dollars.

Given the impressive financial results of the Group achieved in the Year, the Board of Directors recommended the payment of a final dividend of HK10.6 cents per share for the Year after due consideration of the future business development as well as financial position of the Group.

PROSPECTS

The economic and political conflicts between major economies continue to affect the supplies to certain extents in nearly all sectors. Brexit took place but its effects are yet to determine. Bank interest rates and foreign exchange rates are volatile, and business climate can change rapidly. Up to the date of this annual report, coronavirus pandemic (the “Pandemic”) is not fully controlled and cured.

As affected by the Pandemic, the production of our factory was shortly suspended and resumed on 14 February 2020. Outputs are affected due to the controls of people and materials movements in different regions in China. Our supply chain was interfered as our upstream vendors are suffering from shortage of labours and materials. As the overseas markets of the Group have been affected by the Pandemic, we foresee challenges on our supply chain and sales in 2020. We will monitor the situation and maintain close contact with our clients and react positively in view of the deteriorating development of the Pandemic globally.

Our success largely builds on our diversified product portfolio, advanced thermodynamics technology and long term cooperation with our customers, suppliers and business partners. Garment care appliances will remain as one of our core product lines; cooking appliances will continue to be our winning contributors.

CHAIRMAN'S STATEMENT

Thanks to the continuous improvements of life style globally, we anticipate that the increased purchasing power, and health awareness will help the consumers choosing our products with additional confidence.

We will strengthen our design teams, extend development capabilities, introduce new models, expand into new markets, and develop new product categories. We will maintain good business intelligence with our clients. We will install additional equipment and upgrade production facilities. We target to transform our factory to meet Industry 4.0 standard in future, which in turn helps us to achieve a better level of service, quality and satisfaction, and eventually a higher level of profitability.

Despite the challenges from various directions and different levels, we are optimistic to continue on the path of success by adhering to our corporate philosophy of “Five Bests”, which is: Best Communication, Best Service, Best Quality, Best Design and Best Value.

We will adopt a “checks and balances” policy in management and ensure “effectiveness and efficiency” in operations. We are fully committed to bring the maximum value to our investors, shareholders, employees and supporters.

APPRECIATION

Taking this opportunity, I would like to extend my gratitude to the Board, the management and all of our staff for their dedication and commitment, as well as our business partners, customers and shareholders for their continuous support to the Group during the Year.

Chan Kam Kwong Charles

Chairman and non-executive Director

Hong Kong, 23 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

COMPANY PROFILE

The Group is an advanced product developer and industrial designer as well as manufacturer and supplier for a broad range of electrothermic household appliances mainly to overseas markets, covering over 30 countries and regions to cater for the requirements of different customers, many of them being reputable, high-end and internationally recognised brand companies. The Group's electrothermic household appliance products can be grouped into two main categories, namely: (i) garment care appliances, including steam generator irons, garment steamers and steam irons; and (ii) cooking appliances, including coffee machines, steam cooking appliances and other cooking appliances.

BUSINESS REVIEW

2019 is an exciting year for the Group. On 25 October 2019, the Company was successfully listed on the Main Board of the Stock Exchange. Entering the capital market would bring more opportunities to the Group in the years onward. Looking ahead, the Group is determined to leverage such opportunities to strengthen its position in the global electrothermic household appliances manufacturing industry.

In 2019, the Group mainly focused on customers in overseas markets. Some of them are reputable and internationally recognised brand companies headquartered in Europe. Thanks to the Group's efforts in the development of its new technology and the new products added in its portfolio, as well as the improvements in its existing products in terms of appearance, dimensions, capabilities, functionalities and production cost, the Group achieved an impressive growth in both revenue and profit for the Year.

PROSPECTS

Looking ahead to 2020, the Group expects the year to be challenging. The emerging protectionism in certain countries, the ongoing geopolitical uncertainties, and the outbreak of the Pandemic continues to cloud the global economy in the first quarter of 2020. In February 2020, the PRC government implemented a series of measures to contain the spread of the Pandemic, while businesses and factories in the PRC resumed operations gradually. The Group's production plant in Huizhou followed these measures strictly and resumed its operation in mid-February 2020. The Group will continue to closely monitor the situation and will take all necessary actions to protect the health and safety of its workers, safeguard the adequate supply of raw materials, and ensure timely delivery of products to its customers. As the overseas markets of the Group have been affected by the Pandemic, the Group foresaw challenges on its supply chain and sales in 2020.

The market demand of medium to high-end electrothermic household appliance is driven by new model of products with advanced technology and innovative features. With the expected growth in consumer purchasing power and increase in health awareness in the Group's target markets, the demand for premium and advanced electrothermic household appliances is expected to increase. As part of its growth strategies, the Group will continue to leverage on its excellent capabilities in research and development to develop new technology and new features. Riding on the Group's strong and sustained customer relationships, the Group will collaborate with them closely to develop new products and value-adding upgrades to existing product lines to cater for consumer demands that can aid customers in market penetration.

To better facilitate its product development, the Group established a research and development centre with a dedicated team based in Hong Kong in 2019. In 2020, the Group will continue to expand the team to advance its thermodynamics technology and the respective product development. Resources will also be allocated to its production facilities upgrades and production capacity expansion to cope with the growing product demand.

Amidst a challenging business environment, the management remains optimistic about the long-term growth of the Group, as there are numerous opportunities in the electrothermic household appliance manufacturing industry. With ongoing research and development, the Group will uphold its advantages in thermodynamics technology, strengthen its product design and development capabilities, increase its product offerings, so as to create new market trends. The Group is confident in its ability to grow and bring long-term, sustainable values to its shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The total revenue of the Group increased by approximately HK\$136.7 million or approximately 36.6% from approximately HK\$373.5 million for the year ended 31 December 2018 to approximately HK\$510.2 million for the year ended 31 December 2019. Such increase was mainly attributable to the increase in the sales of cooking appliances during the Year.

Gross Profit and Gross Profit Margin

The gross profit of the Group increased from approximately HK\$105.3 million for the year ended 31 December 2018 to approximately HK\$178.5 million for the year ended 31 December 2019, representing an increase of approximately 69.5%. The Group's gross profit margin was approximately 28.2% and 35.0% for the years ended 31 December 2018 and 2019, respectively. The gross profit margin of the Group increased by approximately 6.8% by comparing that for the year ended 31 December 2018 against the year ended 31 December 2019. The increase in gross profit margin was primarily attributable to (i) the increase in sales of the products with higher gross profit margin; and (ii) decrease in costs as a result of the depreciation of Renminbi against Hong Kong Dollars.

Other Income and Gains

Other income decreased from approximately HK\$8.2 million for the year ended 31 December 2018 to approximately HK\$4.2 million for the year ended 31 December 2019. Such decrease was mainly due to the Group had the exchange gain of approximately HK\$4.3 million for the year ended 31 December 2018, while the Group incurred exchange loss of approximately HK\$2.4 million which was included in "Other expenses, net" for the year ended 31 December 2019.

General and Administrative Expenses

General and administrative expenses increased from approximately HK\$57.2 million for year ended 31 December 2018 to approximately HK\$86.0 million for the year ended 31 December 2019. Such increases were due to the Listing expenses of approximately HK\$19.6 million recorded for the year ended 31 December 2019 and also due to the increase of approximately HK\$8.8 million in the staff costs and director remuneration for the year ended 31 December 2019.

Finance Costs

Finance costs increased from approximately HK\$0.9 million for the year ended 31 December 2018 to approximately HK\$3.3 million for the year ended 31 December 2019. Such increase was due to the increase of approximately HK\$1.4 million in interest on lease liabilities and approximately HK\$1.0 million in interest on bank loans for the year ended 31 December 2019 for operations.

Income Tax Expenses

The income tax expenses increased by approximately HK\$12.2 million, representing an increase of approximately 154.3%, from approximately HK\$7.9 million for the year ended 31 December 2018 to approximately HK\$20.1 million for the year ended 31 December 2019. The increase was primarily attributable to increase in revenue and gross margin. The effective tax rate was approximately 17.2% and 24.8% for the years ended 31 December 2018 and 2019, respectively. The increase of approximately 7.6% was mainly due to the increase in the non-deductible tax item of Listing expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

Net Profit and Adjusted Net Profit

As a result of the foregoing, the profit for the year of our Group increased by approximately HK\$22.8 million, or approximately 59.9%, from approximately HK\$38.0 million for the year ended 31 December 2018 to approximately HK\$60.8 million for the year ended 31 December 2019. Setting aside the Listing expenses amounted to approximately HK\$19.6 million for the year ended 31 December 2019, the Group's adjusted net profit for the year ended 31 December 2019 was approximately HK\$80.4 million, as compared to approximately HK\$38.0 million for the year ended 31 December 2018. The adjusted net profit margin (excluding the Listing expenses) for the years ended 31 December 2018 and 2019 were approximately 10.2% and 15.8%, respectively, representing an increase of approximately 5.6%.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Company was incorporated in the Cayman Islands on 28 September 2017 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Group completed the group reorganisation on 30 September 2019 (the "**Reorganisation**") in preparation for the Listing of the shares on the Stock Exchange pursuant to which the Company became the holding company of the Group. For further information in relation to the Reorganisation, please refer to the section headed "History, development and Reorganisation" in the prospectus of the Company dated 15 October 2019 (the "**Prospectus**"). Apart from the Reorganisation, there were no material acquisitions or disposals of subsidiaries and associated companies during the Year.

CAPITAL COMMITMENTS

As at 31 December 2019, the Group has capital commitments in respect of purchase of furniture, fixtures and equipment and moulds, which had been contracted but not provided for in the consolidated financial statements, in the total amount of approximately HK\$1.4 million, of which approximately HK\$1.2 million will be settled through the net proceeds (the "**Net Proceeds**") raised from the share offer of the Company (the "**Share Offer**").

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities (2018: nil).

FOREIGN EXCHANGE EXPOSURE

The Group's major revenue is principally denominated in United States Dollars and the Group's major expenses are denominated in Renminbi. The Group currently does not have a foreign currency hedging policy. As at 31 December 2019, the Group did not have any foreign currency investments which have been hedged by currency borrowing and other hedging instruments. However, the management monitors foreign exchange exposure closely to keep the net exposure to an acceptable level.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Except for those disclosed in the Prospectus and in this annual report, the Group does not have any specific plans for material investments and capital assets as at 31 December 2019.

GEARING RATIO

As at 31 December 2019, the gearing ratio of the Group (defined as the total of bank borrowings and amounts due to related companies divided by total equity) was approximately 14.2% (2018: approximately 34.5%). Such decrease was mainly due to the increase in total equity of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has principally funded the liquidity and capital requirements through capital contributions from the shareholders, bank borrowings and net cash generated from operating activities. As at 31 December 2019, the Group had time deposits and cash and bank balances of approximately HK\$245.6 million (2018: approximately HK\$51.9 million). The gearing ratio of the Group as at 31 December 2019 was approximately 14.2% (2018: approximately 34.5%). As at 31 December 2019, the current ratio of the Group was approximately 2.8 times (2018: approximately 1.8 times), such increase was mainly due to the Net Proceeds. The financial resources presently available to the Group include bank borrowings and the Net Proceeds, our Directors believe that the Group have sufficient working capital for our future requirements.

On the date of incorporation of the Company, the Company had an issued share capital of HK\$0.01 divided into one share. On 28 September 2017, the Company allotted and issued 10,174 shares and on 9 October 2017, the Company further allotted and issued 1,003 shares. On 3 October 2019, the authorised issued share capital of the Company increased from HK\$380,000 divided into 38,000,000 shares to HK\$40,000,000 divided into 4,000,000,000 shares. On 24 October 2019, 100,000,000 shares were allotted and issued under the Share Offer and immediately prior to the Listing, 299,988,822 shares were allotted and issued pursuant to the Capitalisation Issue (as defined in the Prospectus). Upon the Listing of the Company, the Company had an issued share capital of HK\$4,000,000 divided into 400,000,000 shares.

The Company's shares were successfully listed on the Stock Exchange on 25 October 2019. There has been no change in the capital structure of the Group since the date of Listing and up to the date of this annual report.

DEBTS AND CHARGE ON ASSETS

The total interest-bearing bank borrowings of the Group amounted to approximately HK\$43.5 million as at 31 December 2019 (2018: approximately HK\$46.7 million). As at 31 December 2019, no charge was made or subsisting on assets of the Group.

PRINCIPAL RISKS AND UNCERTAINTIES

The followings are some principal risks and uncertainties facing the Group, which may materially adversely affect its business, financial condition or results of operations:

The Group's sales are subject to changes in consumer preferences and other macroeconomic factors that affect consumer spending patterns. If the Group fails to design and develop products with acceptable quality, or fall behind its competitors in improving its product quality or product variety, the Group's operating results and financial condition may be adversely affected.

The Group relies on a few major customers and its performance will be materially and adversely affected if the Group's relationship with any one of them deteriorates.

The Group's business and financial position may be adversely affected if it is not able to continue servicing the European market effectively or if there is any adverse change in the macro-economic situation or economic downturn in Europe.

The Group's results of operations could be adversely affected if it fails to keep pace with customer demands and preferences on product design, research and development and manufacturing of its products.

The Group may not be successful in the development of new initiatives or improvement in the quality of its existing products.

For further information, please refer to the detailed discussion on the risk factors in the section headed "Risk factors" in the Prospectus.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS HELD

Except for the Company's investment in various subsidiaries, the Company did not hold any significant investments as at 31 December 2019.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group has a total of 836 full-time employees (2018: 922). The Group has developed its human resources policies and procedures to determine the individual remuneration with reference to factors such as performance, merits, responsibilities of each individual, market conditions, etc. Remuneration packages are normally reviewed on a regular basis. Apart from salary payments, other staff benefits including provident fund contributions, medical insurance coverage, annual leave, share options which may be granted under the share option scheme adopted by the Company on 3 October 2019. The total staff costs (excluding directors' remuneration) incurred by the Group during the year ended 31 December 2019 was approximately HK\$76.9 million (2018: approximately HK\$81.9 million).

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group's business is subject to the relevant PRC national and local environmental laws and regulations, such as the Environmental Protection Law of the PRC. These laws and regulations govern a broad range of environmental matters, including discharge of wastewater and disposal of hazardous waste. A summary of the environmental protection laws and regulations applicable to the Group is set out in the section headed "Regulatory overview" in the Prospectus.

During the Year, the Group is not subject to any major environmental claims, lawsuits, penalties, administrative or disciplinary actions.

More information in environmental policies of the Group can be found in the Environmental, Social and Governance Report in this annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Year and up to the date of this annual report, the Group has complied with all the relevant laws and regulations in Hong Kong and the PRC for the business operations of the Group in all material respects.

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**").

In the opinion of the Directors, the Company has complied with the provisions set out in the CG Code since the Listing Date and up to the date of this annual report. For the compliance of the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules, please refer to the paragraph headed "Model Code for Securities Transactions by Directors" below in this annual report.

DIVIDEND

The Directors recommended the payment of a final dividend of HK10.6 cents per share for the year ended 31 December 2019 (2018: nil). Payment of the final dividend is subject to the shareholders' approval in the annual general meeting of the Company scheduled to be held on Thursday, 28 May 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

KEY RELATIONSHIPS WITH CUSTOMERS, SUPPLIERS AND EMPLOYEES

During the Year, the Group has maintained good relationship with its customers, suppliers and employees. The Group will continue to ensure effective communication and maintain good relationship with them.

Customers

The Group has established long-term relationships with its major customers who are reputable and internationally-recognised brand companies headquartered in Europe. The Group has built up a strong presence in the electrothermic household appliances manufacturing industry and established good and close business relationships with its major customers. With the long-term cooperation with such internationally-recognised brand companies, the Group has developed its capability with reference to international standards in terms of safety and quality assurance, and exchanged ideas on electrothermic household appliances worldwide.

Suppliers

The Group sources electrical parts, plastic raw materials and parts, metal raw materials and parts, power cords and lead wires, and electronic parts from its approved suppliers or suppliers designated by its customers. Given the well established business relationships with its suppliers, the Group is able to secure a stable supply of safe and high quality raw materials, and may be able to obtain a more competitive price.

Employees

The Group recognised employees as valuable assets of the Group. The Group intends to adopt the competitive remuneration, good welfare benefits and continuous professional training to attract and retain appropriate and suitable personnel to serve the Group.

During the year ended 31 December 2019, there was no material dispute or argument between the Group and its customers, suppliers and employees.

USE OF PROCEEDS

The Net Proceeds of the Share Offer received by the Group in relation to the Listing were approximately HK\$90.7 million, after deducting the underwriting fees and related expenses. These proceeds are intended to be applied in accordance with the proposed application set out in the section headed "Future plans and use of proceeds" in the Prospectus. The below table sets out the proposed application and actual usage of the Net Proceeds as at 31 December 2019:

	Total Planned use of Net Proceeds HK\$ million	Planned use of Net Proceeds from the Listing Date to 31 December 2019 HK\$ million	Actual use of Net Proceeds from the Listing Date to 31 December 2019 HK\$ million	Remaining balance of Net proceeds as at 31 December 2019 HK\$ million
(A) Upgrading production facilities and enhancing production capacity	50.4	5.3	-	50.4
(B) Strengthening product design and development capabilities and increasing product offerings	31.6	2.1	0.6	31.0
(C) Strengthening customer base	3.0	1.6	0.3	2.7
(D) Upgrading information technology systems	5.7	-	-	5.7
Total	90.7	9.0	0.9	89.8

From the Listing Date to 31 December 2019, the Company utilised approximately HK\$0.9 million of Net Proceeds, which was lower than the planned use of proceeds. The delay in use of Net Proceeds was due to the short period between the Listing Date and 31 December 2019, which led to insufficient time for the Company to apply the Net Proceeds as scheduled. The Company intends to apply the unutilised portion of the Net Proceeds according to the planned use of Net Proceeds.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chan Wai Ming (陳偉明先生) (“Mr. Chan”), aged 51, was appointed as a Director on 28 September 2017 and was re-designated as an executive Director on 28 February 2019. He also serves as the chief executive officer of our Group. He is primarily responsible for the overall administration management and formulation of business strategies of our Group. He is also a director of all our subsidiaries, namely Town Ray Investments (BVI) Limited, Town Ray Development Limited, Town Ray Enterprises Limited, Town Ray Hong Kong Limited, Tunbow Group Limited and Town Ray Electrical (Huizhou) Limited.

Mr. Chan has over 20 years of experience in accounting. He was a staff accountant at Ernst & Young, certified public accountants in Hong Kong, from October 1997 to January 2000. He was an accountant from February 2000 to December 2000 and the chief accountant from January 2001 to March 2002 of China Sci-Tech Holdings Limited (currently known as CST Group Limited) (stock code: 985), a company listed on the Stock Exchange, respectively. He was also the financial controller of Full Apex (Holdings) Limited, a company listed on the Singapore Exchange Limited, from March 2002 to September 2004. He worked as the financial controller of Tunbow Industries Limited from August 2004 to December 2004 and Tunbow Electrical Limited from January 2005 to April 2016. Mr. Chan joined Tunbow Group Limited as corporate finance and business development officer in May 2016.

Mr. Chan graduated from the University of Hawaii, Honolulu in December 1995 with a bachelor’s degree in business administration with a major in accounting. He has been a member of the Hong Kong Institute of Certified Public Accountants since January 1999. He also became a certified public accountant of the Washington State Board of Accountancy in April 1998 and is currently an inactive certified public accountant. Mr. Chan has been awarded an associateship (electrical appliance industry) of The Professional Validation Council of Hong Kong Industries since November 2012. He is currently a member of the American Institute of Certified Public Accountants.

Further, Mr. Chan was the vice president of the 6th council and has been the executive vice president of the 7th council of the Huizhou City Huicheng District Foreign Investment Enterprise Association (惠州市惠城區外商投資企業協會) from November 2015 to October 2016 and since November 2016, respectively. He has been the vice president of the 6th and 7th council of the Huizhou City Foreign Investment Enterprise Association (惠州市外商投資企業協會) since July 2015. He was the executive vice president of the management committee of the 1st council and has been the executive vice president of the management committee of the 2nd council of the Huizhou Ganghui Love Foundation (惠州市港惠愛心基金會) from March 2016 to March 2019 and since March 2019, respectively. He has been an executive committee member of the Huizhou Division of the Federation of Hong Kong Industries of Pearl River Delta Council (香港工業總會珠三角工業協會惠州分部) since September 2015. Since December 2019, he has been appointed as a committee member of the 7th council of the Guangdong Association of Enterprises with Foreign Investment (廣東外商投資企業協會).

Mr. Chiu Wai Kwong (趙維光先生) (“Mr. Chiu”), aged 55, was appointed as a Director on 28 September 2017 and was re-designated as an executive Director on 28 February 2019. He is the company secretary of our Company and also serves as the finance director of our Group. He is primarily responsible for the overall financial management, investment operation and budgeting of our Group. He is also a director of all our subsidiaries, namely Town Ray Investments (BVI) Limited, Town Ray Development Limited, Town Ray Enterprises Limited, Town Ray Hong Kong Limited, Tunbow Group Limited and Town Ray Electrical (Huizhou) Limited.

Mr. Chiu has over 30 years of experience in accounting and finance. He worked at the Inland Revenue Department as an assistant assessor from June 1987 to July 1991. He was the financial controller of Oceania Brothers Manufacturing Co., Ltd from August 1991 to November 1997. He worked at Tunbow Industries Limited as the financial controller from January 1998 to December 2004 and Tunbow Electrical Limited as the finance director from January 2005 to March 2009. He joined Tunbow Group Limited as a director in November 2007 and as finance director in April 2009.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chiu graduated from the University of Hong Kong in November 1987 with a bachelor's degree of social sciences. He has been a fellow of the Association of Chartered Certified Accountants (formerly known as the Chartered Association of Certified Accountants) since May 1996, a fellow of the Hong Kong Institute of Certified Public Accountants since October 2004 and a chartered financial analyst of the CFA Institute since September 2006.

Mr. Chiu has been awarded an associateship (electrical appliance industry) of The Professional Validation Council of Hong Kong Industries since November 2012.

Ms. Tang Mei Wah (鄧美華女士) ("Ms. Tang"), aged 45, was appointed as a Director on 28 September 2017 and was re-designated as an executive Director on 28 February 2019. She also serves as the managing director of our Group. She is primarily responsible for the overall operation management, formulation of business strategies and overall administration of our Group. She is also a director of Tunbow Group Limited and Town Ray Electrical (Huizhou) Limited.

Ms. Tang has over 20 years of experience in the household appliances industry. From September 1998 to January 2005, Ms. Tang worked at Tunbow Industries Limited with the last position as account manager. From January 2005 to April 2009, Ms. Tang worked at Tunbow Electrical Limited with the last position as marketing manager. She joined Tunbow Group Limited as a director in November 2007 and was promoted to managing director in March 2013.

Ms. Tang graduated from Hong Kong Shue Yan College in July 1998 with a diploma in business administration. She subsequently obtained a master's degree in business administration from the University of Louisiana at Monroe through long distance learning in December 2001.

Ms. Tang was one of the 16 recipients of the Outstanding Businesswomen Award 2018 awarded in December 2018 by Hong Kong Commercial Daily.

Mr. Yu Kwok Wai (俞國偉先生) ("Mr. Yu"), aged 43, was appointed as a Director on 28 September 2017 and was re-designated as an executive Director on 28 February 2019. He also serves as the marketing director of our Group. He is primarily responsible for the overall management, formulation of business strategies and overall marketing management, daily operation management and product development planning of our Group. He is also a director of Tunbow Group Limited and Town Ray Electrical (Huizhou) Limited.

Mr. Yu has over 15 years of experience in the sales and marketing of household appliances. Mr. Yu was a sales executive of Sweda Limited from October 1994 to September 1995, a marketing and sales executive of Hon Hing Computer and Machinery Company Limited from February 1996 to May 1997 and a marketing assistant of Joint Publishing (Hong Kong) Company Limited from August 1997 to July 1998. He joined Tunbow Industries Limited as a sales executive from July 2002 to December 2004 and Tunbow Electrical Limited as a marketing manager from January 2005 to March 2009. He joined Tunbow Group Limited as a director in November 2007 and as a marketing director in April 2009.

Mr. Yu graduated from Bond University in June 2002 with a bachelor's degree of arts. He subsequently obtained a master's degree of social sciences in applied psychology from the City University of Hong Kong in October 2013. Mr. Yu further obtained an international award in barista skills (Chinese) from The City and Guilds of London Institute in December 2016 and a certification in barista skills intermediate from The Specialty Coffee Association in July 2017. Since July 2017 and September 2019, Mr. Yu has been appointed as a committee member of the Hong Kong Mould and Product Technology Association and a member of the 12th council of the Hong Kong Federation of Innovative Technologies and Manufacturing Industries, respectively.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Dr. Chan Kam Kwong Charles (陳鑑光博士) (“Dr. Chan”), aged 61, is one of the founders of our Group. He was appointed as a Director on 28 September 2017 and was re-designated as a non-executive Director on 28 February 2019. He also serves as the chairman of our Board. He is primarily responsible for overall strategic planning, development planning and investment planning of our Group. He is also a director of all our subsidiaries, namely Town Ray Investments (BVI) Limited, Town Ray Development Limited, Town Ray Enterprises Limited, Town Ray Hong Kong Limited, Tunbow Group Limited and Town Ray Electrical (Huizhou) Limited. Dr. Chan is the husband of Ms. Cheng, a non-executive Director.

Dr. Chan has over 40 years of experience in the household appliances industry. He worked at Dixons Stores Group (Far East) Limited from January 1977 to October 1993 with the first position as assistant buyer and last positions as senior buyer and director. He was a director of Town Ray International Limited from July 1994 to April 2015. He was a director of Tunbow Limited from July 1992 to November 1993 and rejoined as a director since March 1994. He has been a director of Tunbow Industries Limited and Tunbow Electrical Limited since November 1993 and July 1995, respectively. He has been a director of Tunbow Electrical (Huizhou) Limited and Tunbow Electronics Limited since December 2005 and April 2007, respectively. He became a director of Tunbow Group Limited in September 2017.

Dr. Chan became a fellow of the Hong Kong Institute of Directors in January 2007 and of the Canadian Chartered Institute of Business Administration in September 2009. In May 2010, Dr. Chan was awarded the 12th World Outstanding Chinese Award (世界傑出華人獎) by the World Chinese Business Investment Foundation (世界華商投資基金會). He also won the Outstanding Entrepreneurship Award at the Asia Pacific Entrepreneurship Awards 2011 organised by Enterprise Asia in July 2011. Since July 2019 and September 2019, Dr. Chan has been appointed as the president of the committee of the Hong Kong Mould and Product Technology Association and the vice president of the 12th council of the Hong Kong Federation of Innovative Technologies and Manufacturing Industries, respectively. Dr. Chan was conferred an honorary doctorate degree in engineering from Lincoln University in September 2009. Dr. Chan attended secondary education till 1977.

Ms. Cheng Yuk Sim Connie (鄭玉嬋女士) (“Ms. Cheng”) (also known as Ms. Cheng Yuk Yee Connie (鄭玉而女士)), aged 62, is one of the founders of our Group. She was appointed as a Director on 28 September 2017 and was re-designated as a non-executive Director on 28 February 2019. She is primarily responsible for overall finance control, operation management and human resource management of our Group. She is also a director of all our subsidiaries, namely Town Ray Investments (BVI) Limited, Town Ray Development Limited, Town Ray Enterprises Limited, Town Ray Hong Kong Limited, Tunbow Group Limited and Town Ray Electrical (Huizhou) Limited. Ms. Cheng is the spouse of Dr. Chan, chairman of our Board and a non-executive Director, and the aunt of Mr. Lee Kwok Ho, a member of our senior management.

Ms. Cheng has over 35 years of experience in management and marketing in the household appliances industry. Ms. Cheng joined Goodway Electrical Company, Limited in 1978 as a quality inspector and was a director from April 1989 to June 1994. She has been a director of Tunbow Electrical Limited since September 1994. She has been a director of Tunbow Electrical (Huizhou) Limited and Tunbow Electronics Limited since December 2005 and April 2007, respectively. She became a director of Tunbow Group Limited in September 2017.

In May 2010, Ms. Cheng was awarded the 12th World Outstanding Chinese Award (世界傑出華人獎) by the World Chinese Business Investment Foundation (世界華商投資基金會). Since October 2010, Ms. Cheng has been appointed as an honorary vice president of the Hong Kong Electrical Appliance Industries Association (formerly known as the Hong Kong Electrical Appliances Manufacturers Association). She was awarded with the Medal of Honor by the Hong Kong Government in 2014. Ms. Cheng attended secondary education till 1979.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Ping Yim (陳炳炎先生), aged 73, was appointed as an independent non-executive Director on 3 October 2019. He is the chairman of our audit committee and a member of our remuneration committee and nomination committee.

Mr. Chan has over 40 years of experience in accounting. From May 1969 to September 1974, Mr. Chan worked at Ling-McCann Erickson Limited (currently known as McCann-Erickson (HK) Limited) as an account executive. He worked at Arthur Young & Company as a junior audit assistant from October 1974 and as a semi-senior auditor from April 1976 to August 1976, at John Leung & Company as an audit senior from September 1976 to May 1977 and at Andrew Ma & Company as a senior audit assistant from June 1977 to September 1981. Mr. Chan joined Investment Consolidated Limited as an accountant from September 1981 to December 1984. He practised as a principal of Dominic P.Y. Chan & Co. from January 1985 to March 1999 and as a partner of W.Y. Lam, Dominic Chan & Co. Certified Public Accountants from July 1998 to September 2007 before practising as the principal of Dominic P.Y. Chan, Certified Public Accountant since October 2007. He has also been the chief risk officer of Euto Capital Partners Limited since July 2017.

Mr. Chan completed his secondary education in 1967. He has been an associate of the Association of Chartered Certified Accountants (formerly known as the Chartered Association of Certified Accountants) since November 1984 and of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) since January 1985. In July 2010, Mr. Chan became an associate and a certified tax Adviser “CTA” of the Taxation Institute of Hong Kong and ceased to be a CTA as from 17 February 2020.

Mr. Choi Chi Leung Danny (蔡志良先生), aged 65, was appointed as an independent non-executive Director on 3 October 2019. He is the chairman of our nomination committee and a member of our audit committee and remuneration committee.

Mr. Choi has approximately 35 years of experience in the electrical products industry. He worked as a clerk at Electrical & Electronics Limited from September 1973 to February 1979. He was a founder and director of Ronford Industrial Limited, a company engaging in manufacturing and sale of electrical products, from January 1981 to July 1984 and of Neumax Industrial Limited, a company engaging in manufacturing and sale of electrical products, from September 1984 to September 2018. From October 2014 to August 2019, he was a director of Naree International Limited, a company providing environmental consulting services.

Mr. Choi completed his secondary education in 1972.

Mr. Chan Shing Jee (陳承志先生), aged 33, was appointed as an independent non-executive Director on 3 October 2019. He is the chairman of our remuneration committee and a member of our audit committee and nomination committee.

Mr. Chan has over five years of work experience. He was a junior client service associate of Morgan Stanley from January 2010 to March 2011 and a client servicing officer of Bank of East Asia from March 2011 to March 2013. He also works as a business manager of Prudential Hong Kong Limited since March 2015. He worked at Mega Marketing & Media Company Limited as senior project director from March 2016 to August 2016 and at Cobot Business Strategy Limited as an investment manager from September 2016 to April 2017. He was a project director of Vibes Management Company Limited from November 2016 to July 2018. He has been an administration executive of Fleming International Limited, a wholly-owned subsidiary of Hyfusin Group Holdings Limited (stock code: 8512) since August 2018.

Mr. Chan graduated from University College London with a bachelor's degree in chemical engineering in August 2008 and obtained a level 4 foundation diploma in art and design from the University of the Arts London in August 2008. He subsequently obtained a master's degree of science in technology entrepreneurship in November 2009.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

In addition, Mr. Chan is active in charitable activities. Mr. Chan has been an executive committee member of The Yuen Yuen Institute since February 2005 and a director of Yan Chai Hospital since April 2017. He has also been a director of The Hong Kong Taoist Association since January 2015, a school manager of Hong Kong Taoist Association The Yuen Yuen Institute No. 1 Secondary School since May 2014, a school manager of Hong Kong Taoist Association The Yuen Yuen Institute No. 2 Secondary School from May 2014 to May 2019, a school manager of Hong Kong Taoist Association The Yuen Yuen Institute No. 3 Secondary School since May 2014, a school manager of The Yuen Yuen Institute MFBM Nei Ming Chan Lui Chung Tak Memorial College since July 2013, a school manager of Hong Kong Taoist Association The Yuen Yuen Institute Chan Lui Chung Tak Memorial School since September 2013, a school manager of Hong Kong Taoist Association Yuen Yuen Kindergarten (Fu Shin Estate) since July 2016 and a school manager of Hong Kong Taoist Association Yuen Yuen Kindergarten since July 2016. Mr. Chan also acted as a director of Lifeline Express Hong Kong Foundation from January 2013 to December 2018.

SENIOR MANAGEMENT

Mr. Leung Yat Cheong, Albert (梁鑑昌先生), aged 57, is the quality director of our Group. He is responsible for the quality management of our Group. He is also the legal representative of Town Ray Electrical (Huizhou) Limited.

Mr. Leung has over 35 years of experience in engineering and factory management. Mr. Leung worked at Yangtzekiang Garment Manufacturing Company Limited (currently known as Yangtzekiang Garment Limited) (stock code: 294) from June 1979 to April 1981 as a despatch in its suits production department. He was an inspector at McRink Surveyors Company Limited from April 1981 to April 1982, a technician at Wirley Electrical Manufacturing Company Limited from May 1982 to October 1983 and a technical engineering inspector at Roy Fair Manufacturing Company Limited from November 1983 to August 1985. He was an engineer at Goodway Electrical Company, Limited from September 1985 to June 1988, at Ngai Leung Electrical Limited from July 1988 to December 1989 and rejoined Goodway Electrical Company, Limited from January 1990 to August 1994 as chief engineer and production manager. He worked at Tunbow Electrical Limited from September 1994 as factory manager and left in March 2009 as general manager. He joined Tunbow Group Limited as general manager in March 2009 and became our quality director in April 2014.

Mr. Leung completed his secondary education in 1979. He completed the ISO9000 its contents and application training course and the logistics and supply chain management course held by the Hong Kong Productivity Council in March 1992 and June 2002, respectively. He has been awarded an associateship (electrical appliance industry) of The Professional Validation Council of Hong Kong Industries since November 2010.

Mr. Lee Pak Man (李伯文先生), aged 49, is the research and development director of our Group. He is responsible for the research and development of our Group.

Mr. Lee has over 25 years of experience in product engineering, inspection and development. He joined our Group as research and development director in March 2013. Mr. Lee was an engineer of Yi Kyun Electronics Company Limited* (二權電子有限公司) from March 1992 to April 1993 and an inspector of Dixons Stores Group (Far East) Limited from April 1993 to June 1996. He worked at Tunbow Electrical Limited as an inspector from June 1996 to June 1998, as an engineer from June 1998 to June 2003 and as a senior engineer from June 2003 to April 2009. From April 2009 to March 2013, he was the research and development director of Young Tigers R&D Limited. He joined Tunbow Group Limited as research and development director in March 2013.

Mr. Lee completed his secondary vocational education in 1991.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chu Ming Tak (朱明德先生), aged 56, is the engineering director of our Group. He is responsible for the product development of our Group.

Mr. Chu has over 25 years of experience in product engineering, inspection and development. Mr. Chu was a project engineer of Yip Tat Industrial Limited from March 1989 to March 1990, a senior engineer of Goodway Electrical Company, Limited from March 1991 to March 1994 and a senior project engineer of Nice Win Electrical Limited from March 1994 to October 1994. He worked at Tunbow Electrical Limited as engineer director from October 1994 to March 2009. From April 2009 to March 2013, he was the engineer director of Young Tigers R&D Limited. He joined Tunbow Group Limited as engineering director in April 2013.

Mr. Chu was granted a diploma in business management by the Hong Kong Polytechnic University and the Hong Kong Management Association in September 1997. He has been awarded an associateship (electrical appliance industry) of The Professional Validation Council of Hong Kong Industries since November 2010.

Mr. Poon Ching Ching, Kelvin (潘正正先生), aged 51, is the design director of our Group. He is responsible for the product design development of our Group.

Mr. Poon has over 25 years of experience in product design development. He worked at Willas International Limited as a product designer from September 1992 to September 1994. He worked at Moulin Optical Manufactory Limited (currently known as Moulin Global Eyecare Trading Limited) from September 1994 and left as new product development manager in August 2000. He worked at Tunbow Electrical Limited as design director from September 2000 to March 2013. He joined Tunbow Group Limited as a director in July 2010 and as design director in April 2013.

Mr. Poon was granted a high diploma in industrial design by the Tokyo Designer Gakuin College in March 1992, with a distinction award in his graduation project. He further obtained merit awards for Tunbow Electrical Limited at the 9th and 10th Hong Kong Household Electrical Appliances Design and Innovation Competition organised by the Hong Kong Electrical Appliances Manufacturers Association and the Hong Kong Productivity Council in November 2007 and November 2008, respectively. He has been awarded an associateship (electrical appliance industry) and a fellowship (electrical appliance industry) of The Professional Validation Council of Hong Kong Industries since November 2010 and December 2014, respectively.

Mr. Tong Wai Hung (湯偉雄先生), aged 56, is the sales and marketing director of our Group. He is responsible for the sales and marketing of our Group. He is also a director of Tunbow Group Limited.

Mr. Tong has over 25 years of experience in product sourcing and sales and marketing. Mr. Tong was a commercial trainee of Dixons Stores Group in the United Kingdom from November 1991 to July 1992. He worked in Dixons Stores Group (Far East) Limited from July 1992 to June 1997 with his last position as senior product manager. From July 1997 to March 1999, he was the vice president — households of Pricerite Stores Limited. He was a senior product manager of Polyconcept Hong Kong Limited from April 1999 to August 2006. He worked at Tunbow Electronics Limited as sales and marketing director from April 2007 to March 2013. He joined Tunbow Group Limited as sales and marketing director in April 2013.

Mr. Tong graduated from the Middlesex Polytechnic with a bachelor of science in mathematics for business degree in June 1990 and further obtained a master's degree of science in operational research and information systems from the London School of Economics and Political Science in July 1991.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lee Kwok Ho (李國豪先生), aged 38, is the engineering sales manager of our Group. He is responsible for the product development and project management of our Group. He is a nephew of Ms. Cheng, a non-executive Director.

Mr. Lee has over five years of experience in product development and project management. He worked at Tunbow Electrical Limited as a management trainee from June 2003 to June 2004 and an operation officer from June 2004 to March 2008. He worked as an operation officer of Young Tigers R&D Limited from April 2009 to March 2013. He joined Tunbow Group Limited as project manager in April 2013 and has been promoted to engineering sales manager since September 2015.

Mr. Lee graduated from the Hong Kong University of Science and Technology with a bachelor of engineering in industrial engineering and engineering management (with a minor in information technology) degree in November 2003 and further obtained a master's degree of science in technology management from the Hong Kong Polytechnic University in October 2011.

COMPANY SECRETARY

Mr. Chiu Wai Kwong is our company secretary for the purposes of Rule 8.17 of the Listing Rule. For details of his biography, please refer to the paragraph headed "Executive Directors" under this section.

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company believes that an effective corporate governance framework is fundamental to maintaining and promoting investors' confidence, safeguarding interests of shareholders and other stakeholders and enhancing shareholders' value.

The Company has adopted the code provisions set out in the CG Code under Appendix 14 to the Listing Rules as its own code of corporate governance.

Pursuant to paragraph 34 of Appendix 16 of the Listing Rules, the Board is pleased to present the corporate governance report to the Company for the year ended 31 December 2019.

In the opinion of the Directors, the Company has complied with the provisions set out in the CG Code since the Listing Date and up to the date of this annual report. Key corporate governance principles and practices of the Company are summarized below.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the required standards for the directors' dealing in the securities of the Company.

The Board was informed by Mr. Chan Shing Jee, an independent non-executive Director of the Company, that on 5 March 2020, a date during the period of which the Directors are prohibited from dealing in the shares in the Company under Rule A.3(a) of the Model Code (the "**Black-out Period**"), Mr. Chan Shing Jee's father purchased 1,000,000 shares of the Company (the "**Acquisition**") by using a securities account jointly held by Mr. Chan Shing Jee and his father (the "**Incident**"). Upon being aware of the Incident, Mr. Chan Shing Jee notified the Board immediately and Mr. Chan Shing Jee confirmed to the Board that he had no prior knowledge that his father would use the joint-name securities account to acquire the shares in the Company and he had no participation in the Acquisition.

Upon making enquiry by the Board, the Board considered that the Acquisition technically constituted a "dealing in securities" under the Model Code and therefore was a technical breach of Rule A.3(a) of the Model Code. In view of the Incident, the following remedial actions were taken:

- (i) Mr. Chan Shing Jee was reminded of the requirements and prohibitions set out in the Model Code and warning was given to him by the Board;
- (ii) Mr. Chan Shing Jee agreed to take all reasonable steps to close the joint-name account held by him and his father and cease holding the shares in the Company in that account as soon as practicable after the Black-out Period; and
- (iii) Mr. Chan Shing Jee also agreed, and to procure his father, not to dispose of the shares in the Company until the lapse of the Black-out Period in order to prevent further breach of the Model Code.

All of the 1,000,000 Shares of the Company held under the joint securities account of Mr. Chan Shing Jee and his father were disposed of at the market subsequently from 27 March 2020 to 31 March 2020.

Other than the Incident disclosed above, having made specific enquiry of all Directors, the Company confirmed that all Directors (other than Mr. Chan Shing Jee in relation to the Incident) have fully complied with the required standard set out in the Model Code since the Listing Date and up to the date of this annual report.

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE WRITTEN GUIDELINES FOR SECURITIES TRANSACTIONS BY THE RELEVANT EMPLOYEES OF THE COMPANY

The Company has also established written guidelines on no less exacting terms than the Model Code (the “**Employees Written Guidelines**”), governing securities transactions by employees (including directors or employees of a subsidiary or holding company of the Company) who are likely to possess inside information of the Company and/or its securities. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company. In case when the Company is aware of any restricted period for dealings in the Company’s securities, the Company will notify its Directors and relevant employees in advance.

THE BOARD

Board Composition

The Board currently comprises nine members, consisting of four executive Directors, two non-executive Directors and three independent non-executive Directors.

Executive Directors

Mr. Chan Wai Ming (*Chief Executive Officer*)

Mr. Chiu Wai Kwong

Ms. Tang Mei Wah

Mr. Yu Kwok Wai

Non-executive Directors

Dr. Chan Kam Kwong Charles (*Chairman*)

Ms. Cheng Yuk Sim Connie

(also known as Ms. Cheng Yuk Yee Connie)

Independent non-executive Directors

Mr. Chan Ping Yim

Mr. Choi Chi Leung Danny

Mr. Chan Shing Jee

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The biographical details of the Directors of the Company are set out under “Biographical Details of Directors and Senior Management” section in this annual report. Save as disclosed in the section “Biographical Details of Directors and Senior Management” in this annual report, there is no financial, business, family or other material or relevant relationship among members of the Board and senior management.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority. The positions of Chairman and Chief Executive Officer are currently held by Dr. Chan Kam Kwong Charles and Mr. Chan Wai Ming respectively. Their respective responsibilities are clearly defined and set out in writing.

CORPORATE GOVERNANCE REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Since the Listing Date and up to the date of this annual report, the Company has three independent non-executive Directors which represent at least one-third of the Board members, and that at least one of the independent non-executive Directors, namely Mr. Chan Ping Yim, has appropriate professional qualifications or accounting or related financial management expertise. The Company has complied with Rules 3.10 and 3.10A of the Listing Rules.

The independent non-executive Directors bring a wide spectrum of business and financial expertise, experience and independent judgment to the Board for its efficient and effective functioning. They are invited to serve on the Board committees of the Company. Through active participation at Board and Board committees meetings, taking the lead in managing issues involving potential conflict of interests, all independent non-executive Directors have made various contributions to the effective direction of the Company and provided adequate checks and balances to safeguard the interests of both the Group and the shareholders.

The Company has received written annual confirmation from each of the independent non-executive Directors of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent in light of the independence guidelines set out in the said Listing Rules.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service agreement with the Company for an initial fixed term of three years commencing from the Listing Date. The term of service shall be renewed and extended automatically by three years on the expiry of such initial term and on the expiry of every successive period of three years thereafter, unless terminated by either party thereto giving at least six months' written notice before the expiry of the then existing term.

Each of the non-executive Directors and independent non-executive Directors has entered into an appointment letter with the Company for an initial fixed term of one year commencing from the Listing Date. The term of service shall be renewed and extended automatically by one year on the expiry of such initial term and on the expiry of every successive period of one year thereafter, unless terminated by either party thereto giving at least two months' written notice before the expiry of the then existing term.

The procedure and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association (the "**Articles**"). The Nomination Committee is responsible for reviewing Board composition, monitoring the appointment of Directors and assessing the independent non-executive Directors.

According to the Articles, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. The Company at the general meeting at which a Director retires may fill the vacated office. In addition, any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

CORPORATE GOVERNANCE REPORT

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board is also responsible for implementing policies in relation to financial matters, which include risk management and internal controls and compliance, if applicable. In addition, the Board reviews the financial performance of the Group, approves investment proposals, nomination of Directors to the Board and appointment of key management personnel. These functions are carried out either directly by the Board or through Board committees such as Audit Committee, Nomination Committee and Remuneration Committee.

All Directors are aware of their collective and individual responsibilities to the shareholders of the Company, the duties to act honestly and in good faith, in compliance with applicable laws and regulations and in the interests of the Company and its shareholders at all times and to avoid conflicts of interests. Since the Listing Date up to 31 December 2019, in accordance with Code provision C.1.2, all Directors are provided with monthly updates on the Company's performance, position and prospect to enable the Board as a whole and each Director to discharge their duties.

All Directors have timely access to all relevant information as well as the advice and services of the company secretary and senior management, with a view to ensuring compliance with Board procedures and all applicable laws and regulations. Any Director may request for independent professional advice in appropriate circumstances at the Company's expenses, upon reasonable request made to the Board.

Delegation of management functions

The Board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. Matters which are specifically reserved to the full Board for decision are those involving a conflict of interest of a substantial shareholder or a Director, material acquisitions and disposal of assets, corporate or financial restructuring, share issuance and distribution of dividend, and approval of financial results and corporate strategies. The Board will review those issues on a periodic basis to ensure that they remain appropriate to the needs of the Group.

CONTINUING PROFESSIONAL DEVELOPMENT OF DIRECTORS

Each newly appointed Director shall receive induction on the first occasion of his/her appointment to ensure he/she has appropriate understanding of the business and operations of the Company and he/she is fully aware of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Pursuant to code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The existing Directors are continually updated on changes and developments to the Group's business and on the latest developments in the laws, rules and regulations relating to Directors' duties and responsibilities. Directors' training is an ongoing process. All Directors are encouraged to attend relevant training courses at the Company's expenses.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2019, the Directors have complied with the code provision A.6.5 of the CG Code on participation in continuous professional training as follows:

Name of Directors	Attending seminars in relation to the Director's duties and responsibilities
Mr. Chan Wai Ming	✓
Mr. Chiu Wai Kwong	✓
Ms. Tang Mei Wah	✓
Mr. Yu Kwok Wai	✓
Dr. Chan Kam Kwong Charles	✓
Ms. Cheng Yuk Sim Connie	✓
Mr. Chan Ping Yim	✓
Mr. Choi Chi Leung Danny	✓
Mr. Chan Shing Jee	✓

BOARD MEETINGS

The Board intends to hold Board meetings regularly at least four times a year at approximately quarterly intervals. Notices of not less than 14 days will be given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda of meetings. For all other board meetings, reasonable notice period will be given.

Since the Listing Date to 31 December 2019, one Board meeting has been held. Subsequent to 31 December 2019 and up to the date of this annual report, the Board held two meetings. The attendance records of each Director at the Board meetings held are set out below:

Name of Directors	Number of Meetings attended/held
Mr. Chan Wai Ming	3/3
Mr. Chiu Wai Kwong	3/3
Ms. Tang Mei Wah	3/3
Mr. Yu Kwok Wai	3/3
Dr. Chan Kam Kwong Charles	3/3
Ms. Cheng Yuk Sim Connie	3/3
Mr. Chan Ping Yim	3/3
Mr. Choi Chi Leung Danny	3/3
Mr. Chan Shing Jee	3/3

In addition, the Chairman of the Board held a meeting with the independent non-executive directors without the presence of the other executive directors during the year under review.

CORPORATE GOVERNANCE REPORT

Minutes of the Board and committee meetings are prepared and kept by the company secretary of the Company and are open for inspection by Directors. Directors may seek external professional advice in appropriate circumstances at the Company's expenses.

Appropriate insurance cover has been arranged by the Company in respect of any legal action against Directors.

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy (the "**Board Diversity Policy**") pursuant to requirement of the CG Code. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance.

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development.

In designing the Board's composition, board diversity has been considered from a wide range of aspects, including but not limited to gender, age, cultural background and educational background, ethnicity, professional experience and qualifications, skills, knowledge and length of service, and any other factors that the Board may consider relevant and applicable from time to time. High emphasis is placed on ensuring a balanced composition of skills and experience at the Board level in order to provide a range of perspectives, insights and challenge that enable the Board to discharge its duties and responsibilities effectively, support good decision making in view of the core businesses and strategy of the Group, and support succession planning and development of the Board. For achieving an optimal board, additional measurable objectives/specific diversity targets may be set and reviewed from time to time to ensure their appropriateness.

Selection of candidates will be based on the Company's nomination policy and will take into account this Policy. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board, having due regard to the benefits of diversity on the Board and also the needs of the Board without focusing on a single diversity aspect.

The Board will take opportunities to increase the proportion of female members over time when selecting and making recommendation on suitable candidates for board appointments. The Board would ensure that appropriate balance of gender diversity is achieved with reference to stakeholders' expectation and international and local recommended best practices, with the ultimate goal of bringing the Board to gender parity. The Board also aspires to having an appropriate proportion of Directors who have direct experience in the Group's core markets, with different ethnic backgrounds, and reflecting the Group's strategy.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board has established three Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, to oversee specific aspects of the Group's affairs. Each of the Board committees has its own terms of reference in compliance with the CG Code relating to its authority and duties. All Board committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary. The composition of each of the committees as at the date of this annual report is as follows:

Name of Directors	Audit Committee	Remuneration Committee	Nomination Committee
Mr. Chan Ping Yim	Chairman	Member	Member
Mr. Choi Chi Leung Danny	Member	Member	Chairman
Mr. Chan Shing Jee	Member	Chairman	Member

Audit Committee

The Audit Committee consists of three members who are all independent non-executive Directors and is delegated with the authority from the Board primarily to make recommendations to the Board on the appointment, reappointment and removal of external auditor, review the financial statements and provide material advice in respect of financial reporting, oversee the financial reporting process, internal control, risk management systems and audit process of the Group and perform other duties and responsibilities assigned by the Board. The composition of the Audit Committee meets the requirements of Rule 3.21 of Listing Rules. Details of the authority and duties of Audit Committee are set out in the Audit Committee's terms of reference which are available on the websites of the Stock Exchange and the Company.

Since the Listing Date to 31 December 2019, one Audit Committee meeting has been held. Subsequent to 31 December 2019 and up to the date of this annual report, the Audit Committee held two meetings. The individual attendance record of each member at the Audit Committee meetings is set out below:

Name of Directors	Number of Meetings attended/held
Mr. Chan Ping Yim (<i>Chairman</i>)	3/3
Mr. Choi Chi Leung Danny	3/3
Mr. Chan Shing Jee	3/3

The following is a summary of the work performed by the Audit Committee since the Listing Date and up to the date of this annual report:

- reviewed and discussed the annual audited financial statements, results announcement and report for the year ended 31 December 2019, the related accounting principles and practices adopted by the Group, the report from the management on the Company's review of the risk management and internal control systems, and recommendation of the re-appointment of the external auditor;
- reviewed of the annual audit plan of Ernst & Young including the nature and scope of the audit, the fee payable to them, their reporting obligations and their work plan; and
- reviewed of the effectiveness and performance of the Company's financial reporting system, risk management and internal control systems and internal audit plan.

CORPORATE GOVERNANCE REPORT

There is no disagreement between the Board and the Audit Committee regarding the appointment of external auditor.

Remuneration Committee

The Remuneration Committee consists of three members, who are all independent non-executive Directors and is delegated with the authority from the Board to review and approve the management's remuneration proposals, make recommendations to the Board on the remuneration package of the Directors and senior management and ensure none of the Directors determine his/her own remuneration. Details of the authority and duties of Remuneration Committee are set out in the Remuneration Committee's terms of reference which are available on the websites of the Stock Exchange and the Company.

Since the Listing Date to 31 December 2019, one Remuneration Committee meeting has been held. Subsequent to 31 December 2019 and up to the date of this annual report, the Remuneration Committee held two meetings. The individual attendance record of each member at the Remuneration Committee meetings is set out below:

Name of Directors	Number of Meetings attended/held
Mr. Chan Shing Jee (<i>Chairman</i>)	3/3
Mr. Chan Ping Yim	3/3
Mr. Choi Chi Leung Danny	3/3

The following is a summary of the work performed by the Remuneration Committee since the Listing Date and up to the date of this annual report:

- reviewed the remuneration of Directors and senior management; and
- made recommendations to the Board on the remuneration of individual Directors and senior management.

Details of the Director's remuneration in the Group and the five highest paid individuals are set out in notes 8 and 9 to the consolidated financial statements.

Pursuant to code provision B.1.5 of the CG Code, the remuneration paid to the members of the senior management (excluding Directors) by band during the year ended 31 December 2019 is set out below:

Remuneration band (HK\$)	Number of person(s)
Nil to 1,000,000	1
1,000,001 to 1,500,000	4
1,500,001 to 2,000,000	1
2,000,001 to 2,500,000	–

CORPORATE GOVERNANCE REPORT

Nomination Committee

The Nomination Committee consists of three members, who are all independent non-executive Directors and is delegated with the authority from the Board to review the structure, size and composition of the Board and select or make recommendations on the selection of individuals nominated for directorships. Details of the authority and duties of Nomination Committee are set out in the Nomination Committee's terms of reference which are available on the websites of the Stock Exchange and the Company.

Since the Listing Date to 31 December 2019, one Nomination Committee meeting has been held. Subsequent to 31 December 2019 and up to the date of this annual report, the Nomination Committee held two meetings. The individual attendance record of each member at the Nomination Committee meetings is set out below:

Name of Directors	Number of Meetings attended/held
Mr. Choi Chi Leung Danny (<i>Chairman</i>)	3/3
Mr. Chan Ping Yim	3/3
Mr. Chan Shing Jee	3/3

The following is a summary of the work performed by the Nomination Committee since the Listing Date and up to the date of this annual report:

- reviewed the board diversity policy; and
- reviewed the independence of the independent non-executive Directors.

The Company has adopted a nomination policy (the "**Nomination Policy**") which sets out the approach and procedures the Board adopts for the nomination and selection of Directors of the Company, including the appointment of additional Directors, replacement of Directors, and re-election of Directors. The Nomination Committee has been delegated with the overall responsibility for implementation, monitoring and periodic review of the policy, and the summary of which is set out below:

Nomination Criteria

In evaluating and selecting any candidate for the directorship, the following criteria would be considered by the Nomination Committee and the Board:

- the candidate's character and integrity;
- the candidate's qualifications including professional qualifications, skills, knowledge and experience, and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy;
- any measurable objectives adopted for achieving diversity on the Board;
- for independent non-executive Directors, whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules;
- any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;

CORPORATE GOVERNANCE REPORT

- willingness and ability of the candidate to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and
- such other perspectives that are appropriate to the Company's business and succession plan and where applicable may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

Nomination Procedures

The Company has put in place the following director nomination procedures:

Appointment of New and Replacement Directors

- (i) If the Board determines that an additional or replacement Director is required, it will deploy multiple channels for identifying suitable Director candidates, including referral from Directors, shareholders, management, advisors of the Company and external executive search firms.
- (ii) Upon compilation and interview of the list of potential candidates, the Nomination Committee will shortlist candidates for consideration by the Nomination Committee and/or the Board based on the selection criteria and such other factors that it considers appropriate. The Board has the final authority on determining suitable Director candidate for appointment.

Re-election of Directors and Nomination from Shareholders

- (i) Where a retiring Director, being eligible, offers himself for re-election, the Nomination Committee and/or the Board shall consider and, if consider appropriate, recommend such retiring Director to stand for re-election at a general meeting. A circular containing the requisite information on such retiring Director will be sent to shareholders prior to a general meeting in accordance with the Listing Rules.
- (ii) Any shareholder of the Company who wishes to nominate a person to stand for election as a Director at a general meeting must lodge with the company secretary of the Company within the lodgement period specified in the relevant shareholder circular (a) a written nomination of the candidate, (b) written confirmation from such nominated candidate of his willingness to stand for election, and (c) biographical details of such nominated candidate as required under the Listing Rules. Particulars of the candidate so proposed will be sent to all shareholders for information by a supplementary circular.

CORPORATE GOVERNANCE REPORT

DIVIDEND POLICY

The Company has adopted a dividend policy (the “**Dividend Policy**”), the summary of which is set out below:

In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, among other things:

- (a) the general financial condition of the Group;
- (b) capital and debt level of the Group;
- (c) future cash requirements and availability for business operations, business strategies and future development needs;
- (d) any restrictions on payment of dividends that may be imposed by the Group’s lenders;
- (e) the general market conditions; and
- (f) any other factors that the Board considers appropriate.

The payment of the dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands and the Articles. Any final dividends declared by the Company must be approved by an ordinary resolution of the shareholders at an annual general meeting and must not exceed the amount recommended by the Board. The Board may from time to time pay to the shareholders such interim and/or special dividends as it considers to be justified by the profits of the Group.

Any declaration and/or payment of future dividends under the Dividend Policy are/is subject to the Board’s determination that the same would be in the best interests of the Group and the shareholders as a whole. The Board endeavours to strike a balance between the shareholders’ interests and prudent capital management with a sustainable dividend policy. The Board will review the Dividend Policy from time to time and may exercise at its sole and absolute discretion to update, amend and/or modify the policy at any time as it deems fit and necessary. The Dividend Policy will continue to be reviewed from time to time and there can be no assurance that a dividend will be proposed or declared in any specific periods.

Details of dividends are disclosed in note 11 to the consolidated financial statements.

COMPANY SECRETARY

The Company has appointed Mr. Chiu Wai Kwong as its company secretary. Mr. Chiu has confirmed that he has taken not less than 15 hours of relevant professional training during the year ended 31 December 2019 and has complied with Rule 3.29 of the Listing Rules. The biography of Mr. Chiu is set out in the section headed “Biographical Details of Directors and Senior Management” of this annual report.

CORPORATE GOVERNANCE REPORT

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities for the Company's financial statements for the year ended 31 December 2019 is set out in the Independent Auditor's Report on pages 62 to 66.

The fees paid/payable to the Company's auditor in respect of audit and non-audit services for the year ended 31 December 2019 are analysed below:

	HK\$'000
Audit services	1,680
Non-audit services	
Services provided in connection with the Listing	4,152
Others	238

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements for each financial year, which give a true and fair view of the financial position of the Company and the Group and of the results and cash flows of the Group for that year and in compliance with relevant law and disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 December 2019, the Directors have selected appropriate accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable, and have prepared disclosure of the financial position of the Group with reasonable accuracy at any time.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems and reviewing the effectiveness of such systems through the Audit Committee on an annual basis. The Audit Committee assists the Board in fulfilling its oversight and corporate roles in the Group's financial, operational, compliance, risk management and internal controls, while senior management designs, implements and monitors the risk management and internal control systems, and provides reports to the Board and the Audit Committee on the effectiveness of these systems. However, systems and internal controls can only provide reasonable but not absolute assurance against material misstatement or loss, as they are designed to manage, rather than to eliminate the risk of failure to achieve the Group's business objectives.

During the year ended 31 December 2019, the Group has conducted an annual review on the effectiveness and efficiency of the Group's risk management and internal control systems in relation to the financial, operational and compliance controls, and the results were summarised and discussed with the Audit Committee and the Board. The Audit Committee and the Board are satisfied with the effectiveness and efficiency of the risk management and internal control systems of the Group.

The Audit Committee assists the Board in the review of the effectiveness of the Group's risk management and internal control systems on an ongoing basis. The Directors through the Audit Committee are kept informed of significant risks that may impact on the Group's performance.

During the year ended 31 December 2019, the Board considered the risk management and internal control systems of the Group to be effective and adequate. The Audit Committee has reviewed and is satisfied with the adequacy of resources, staff qualifications and experience of the Group's accounting and financial reporting function.

CORPORATE GOVERNANCE REPORT

The Group maintained effective risk management and internal control in all material respects, and the Board of Directors was not aware of any significant or material defects in relation to the risk management and internal control. The Board of Directors has conducted a review of the effectiveness of the risk management and internal control systems of the Group and considered them effective and adequate.

Main features of the risk management and internal control systems

The Group has adopted a risk management policy, the main objectives of which is to ensure sustainable business growth with stability and to promote a pro-active approach in reporting, evaluating and resolving risks associated with the business in order to guide decisions on risk related issues.

The specific objectives of the policy are:

1. to ensure that all the current and future material risk exposures of the Group are identified, assessed, quantified, appropriately mitigated, minimized and managed i.e. to ensure adequate systems for risk management.
2. to establish a framework for the Group's risk management process and to ensure its implementation.
3. to enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.
4. to assure business growth with financial stability.

Risk assessment process

Risk identification is based on discussions and interviews with senior management from different departments. Risks are preliminary identified by senior management from the risk universe which is a collection of risks built on environmental analysis and external benchmarking that can impact the Group at the entity or specific business process level. Key risk factors are then identified by integrating the results of the discussions and interviews.

Risk evaluation is the second step to assess the relative impact and likelihood of identified key risk factors. These identified key risk factors are further assessed by a scale rating process by the senior management to evaluate their impact and likelihood.

Risk prioritisation is a mapping exercise. A risk map is used to prioritise the identified key risk factors according to their impact and likelihood.

Handling and dissemination of inside information

The Group is aware of its obligation under relevant sections of the Securities and Futures Ordinance (the "SFO") and the Listing Rules. An Inside Information Policy has been established to lay down guidelines on definition of inside information, compliance and reporting mechanism of inside information. All members of the Board, senior management, and staff who are likely to possess inside information are strictly bound by this policy. Staff who have access to inside information are required to keep such unpublished inside information confidential until relevant announcement is made. Failure to comply with such requirements may result in disciplinary actions.

CORPORATE GOVERNANCE REPORT

Internal audit function

The Group has an internal audit function which is primarily responsible for developing various internal control manuals and procedures, conducting reviews on the key operational processes and the related internal controls to ensure compliance with the Group's risk management and internal control policies and procedures. In addition, the Board conducted an annual review on the effectiveness of risk management and internal control systems, covering all material controls such as financial, operational and compliance controls. In addition, the Board has appointed an internal control consultant to review the internal control systems of the Group on an on-going basis. Such review shall be conducted annually. The Board considered that the risk management and internal control systems of the Group for the year were effective and adequate.

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDER RIGHTS

General Meeting

The general meetings of the Company provide a good opportunity for communication between the shareholders of the Company and the Board. An annual general meeting of the Company shall be held in each year and at such time and place to be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

The first general meeting of the Company after the Listing is scheduled to be held on Thursday, 28 May 2020 ("**2020 AGM**"). A circular and a notice of the 2020 AGM containing, among other matters, further information relating to the 2020 AGM will be despatched to the shareholders of the Company in accordance with the Articles, the Listing Rules and other applicable laws and regulations.

Procedures for shareholders to convene an extraordinary general meeting

Pursuant to Article 64 of the Articles, extraordinary general meetings shall be convened on the requisition of 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 having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for shareholders to put forward proposals at shareholders' meeting

If a shareholder wishes to put forward proposals at a shareholders' meeting, the shareholder, who has satisfied the shareholding requirements set out in the above paragraph headed "Procedures for shareholders to convene an extraordinary general meeting", may follow the same procedures by sending a written requisition to the Board or the company secretary at the principal place of business of the Company in Hong Kong. The shareholder should state his/her proposals in the written requisition and submit the written requisition as early as practicable to enable the company secretary to make necessary arrangement.

Procedures for shareholders to propose a person for election as a Director

Details of the procedures for shareholders to propose a person for election as a Director are set out in the procedures for nomination of directors by shareholders which are available on the websites of the Stock Exchange and the Company.

CORPORATE GOVERNANCE REPORT

If a shareholder wishes to nominate a person (the “**Proposed Candidate**”) to stand for election as a Director at a general meeting of the Company, the following documents must be validly served to the Board or the company secretary of the Company at the Company’s principal place of business in Hong Kong at 10th Floor, Block A, Chung Mei Centre, 15 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong:

- (a) a written notice signed by the shareholder(s), who is/are duly qualified to attend and vote at the meeting, of his/her intention to propose the Proposed Candidate for election as a Director; and
- (b) a written notice signed by the Proposed Candidate of his/her willingness to be elected as a Director.

As stipulated in Article 113 of the Articles, the period for lodgement of such notices required under such Article will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

Procedure for sending enquiries to the Board

Shareholders are welcome to send enquiries to the Board by post to the Company’s principal place of business in Hong Kong at 10th Floor, Block A, Chung Mei Centre, 15 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong or via telephone at (852) 2750 0775.

INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investors’ understanding of the Group’s business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The annual general meeting provides a platform for communication between the Board and the shareholders. The Chairman of the Board as well as the chairmen of the Audit Committee, Remuneration Committee and Nomination Committee or, in their absence, other members of the respective committees, are available to answer questions at shareholders’ meeting.

To promote effective communication, the Company maintains a website at www.townray.com where up-to-date information, financial information and other information are available for public access.

CONSTITUTIONAL DOCUMENTS

The Company adopted an amended and restated Memorandum and Articles of Association on 3 October 2019. The Memorandum and Articles of Association have been published at the websites of the Stock Exchange and the Company. Since the Listing Date and up to the date of this annual report, no changes have been made to the Company’s Memorandum and Articles of Association.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

1. ABOUT THE REPORT

Town Ray Holdings Limited and its subsidiaries (the “**Group**”) are pleased to present the annual Environmental, Social and Governance (“**ESG**”) Report (the “**ESG Report**”) of the Group for the financial year 2019 in accordance with Rule 13.91 of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (“**HKEX**”) (“**Main Board Listing Rules**”) and the “Environmental, Social and Governance Reporting Guide” (the “**ESG Reporting Guide**”) as set out in the Appendix 27 to the Main Board Listing Rules.

As one of the recognized electrothermic household appliances manufacturers in the industry, the Group values sustainable practices in its business operation. The Group believes that taking responsibility for the environment and society is the key to enhance the sustainability of the business and brings long-term value for both shareholders and stakeholders of the Group.

1.1. Scope of Reporting

The management and staff of the Group’s respective major functions have participated in the preparation of this ESG Report to assist the Group in identifying relevant and material ESG issues. With reference to the ESG Reporting Guide, the Group’s business operation and the material ESG issues identified, the scope of the ESG Report covers the environmental and social performances within the major operational boundaries of the Group which includes the production operation at Huizhou of the People’s Republic of China (the “**PRC**”), spanning over the period from 1 January 2019 to 31 December 2019 (the “**Reporting Period**” or “**FY2019**”).

The presentation of this ESG Report divides the relevant aspects and key performance indicators (“**KPIs**”), which are considered to be relevant and material to the Group, into four subject areas: Environmental Protection, Employment and Labour Practices, Operating Practices and Community Investments.

The Group is determined to be a responsible enterprise and is committed to perfecting its business and contributing to the well-being of the community. The Group welcomes and values each of your feedback.

2. ENVIRONMENTAL PROTECTION

2.1. Environmental Policy and Compliance

Climate change has been posing as a threat to over 7 billion people on the planet. The rising sea level, the melting glaciers and the gradual heating of Earth’s Surface can cause devastating consequences for the environment and all species living in it. In an effort to combat global warming, the Group is committed to upholding a high environmental standard in its operation. In the future, the Group will continue to devote operating and financial resources to environmental compliance as required under applicable laws and regulations.

As a company that is principally engaged in the manufacture and sale of electrothermic household appliances, the Group is required to maintain various licenses, certificates and permits for the production facilities under the laws and regulations on environmental protection in the PRC.

The Group regularly follows the latest national and regional environmental protection laws and regulations, thereby focusing on minimizing the impact on the environment and implementing different measures to optimize workplace environment, continuing to address environmental issues in relation to global warming, pollution, and biodiversity of the environment.

With the goal to reduce energy consumption and carbon emissions, the Group has formulated relevant rules and regulations for a sound and effective management of energy consumption, greenhouse gas (“**GHG**”) emission, as well as discharge of domestic waste and sewage and other pollutants. The Group strictly complies with the environmental protection laws and regulations promulgated by the local government.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

During the Reporting Period, the Group complied with relevant laws and regulations relating to air and GHG emissions, discharge into water and land, and generation of hazardous and non-hazardous waste, including “Environmental Protection Law of the PRC” (中華人民共和國環境保護法), “Law of the PRC on the Prevention and Control of Atmospheric Pollution” (中華人民共和國大氣污染防治法), and “Water Pollution Prevention and Control Law of the PRC” (中華人民共和國水污染防治法), etc. The Group did not violate any environmental protection laws or regulations of the region where it operates, nor was it subject to significant fines, non-monetary penalties and litigation relating to environmental protection.

According to the Notice of Guangdong Provincial Department of Ecology and Environment of Stopping Issuing the Pollutant Discharge License of Guangdong Province and Other Related Matters (the “**Stopping Notice**”), the administrative approval of Pollutant Discharge License of Guangdong Province had been cancelled since 13 August 2019, and the Pollutant Discharge License of Guangdong Province will not be issued anymore. Meanwhile the Guangdong Provincial Department of Ecology and Environment will accelerate the issuance of National Pollutant Discharge License and organize pollutant discharge units to apply for National Pollutant Discharge License in a timely manner. During the Reporting Period, the Pollutant Discharge License of Guangdong Province expired on 18 October 2019. As advised by the legal adviser of the Group, basing on the Stopping Notice and the legal adviser’s inquiry to the Huizhou Ecology and Environment Bureau, the Group can continue production after the expiry of the Pollutant Discharge License of Guangdong Province and there is no legal impediment to obtain National Pollutant Discharge License if the Group legally submits the required application materials according to the relevant laws and regulations of the PRC. The status of the application remained in progress at the end of the Reporting Period.

2.2. Emission

2.2.1. Air Pollution

While air pollutants are inevitably produced during the manufacturing process of the Group’s operation, the Group works to ensure they are properly treated in ways that are friendly to the environment and human health before discharging into the air.

In the manufacturing operation, air treatment facilities are installed to filter air emissions leaving the plants. In order to meet the local government’s emission standards of air pollutants, the Group has formulated the pollutant management system and conduct regular assessments to monitor and review the quantities of air pollutants. Equipments and measures were set up to manage exhaust gas emission, including:

- Use water spray and cyclone dust removal system as the dust control system;
- Adopt lye desulfurization method and use bag filter to cleanse the exhaust gas (including dust, SO₂ and NO_x) from curing furnace;
- Use water spray and install organic filters (activated carbon) to control and process the volatile organic compounds (VOCs) released from the paints and organic solvents during the manufacturing operation; and
- Adopt activated carbon absorption method to process non-methane total hydrocarbon discharged from welding process and the injection workshop.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Group also uses vehicles as a means of transportation in the business. The Group has implemented the following policy in order to mitigate the impact of air pollutants discharged from vehicles:

- Inspect and maintain vehicles regularly; and
- Require internal and external vehicles to switch off idling engine.

The emission data from the vehicles used by the Group are set out as follows:

Types of air pollutants (Note 1)	Unit	FY2019 (Note 2)
Nitrogen Oxides (NO _x)	Kg	115.79
Sulphur Oxides (SO ₂)	Kg	0.17
Particulate Matter (PM)	Kg	11.09

Note:

1. The Group has not disclosed annual quantities of air pollutant emissions directly emitted during the manufacturing process. According to the current regulation in the PRC, production facilities are only required to measure air pollutant emission concentrations and rates once a year, but not total volumes emitted in the year. An annual total of air pollutant emissions could only be estimated and might deviate significantly from actual emissions. Such figures would not facilitate an understanding of the environmental performance of the Group.
2. The air pollutant emissions reported in the ESG Report were primarily contributed by the use of vehicles.

2.2.2. Greenhouse Gas Emissions

Due to the business nature of the Group, the Group generates exhaust gas during its operation. In daily operation and office administration, the GHG emissions are generated indirectly through energy consumption. As a manufacturer, electricity serves as an important source of energy for the plant and machinery. To properly manage the GHG emissions, the Group actively adopts energy saving and electricity conservation measures as well as other measures, including:

- Use pellet fuels, which is considered as a renewable fuel, in some of the manufacturing process;
- Encourage employees to switch off IT devices, such as computers and monitors when not in use;
- Maintain indoor temperature at an optimal level for comfort; and
- Check and clean electrical appliances, such as refrigerator, air conditioning, ventilation and paper shredder regularly to ensure they are maintained at an efficient operating state.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The emission data of GHG during the Reporting Period are set out as follows:

GHG Emissions	Unit	FY2019 (Note 1)
Scope 1 — Direct emissions (Note 2)	CO ₂ e (tonne)	138
Scope 2 — Indirect emissions (Note 3)	CO ₂ e (tonne)	10,296
Scope 3 — All other indirect emissions (Note 4)	CO ₂ e (tonne)	59
Total	CO ₂ e (tonne)	10,493

Note:

1. Subject to rounding.
2. Scope 1 refers to the direct emissions from operations that are owned or controlled by the Group.
3. Scope 2 refers to the indirect emissions resulting from the purchased or acquired electricity consumed within the Group.
4. Scope 3 refers to other indirect emissions including paper wastes, electricity used for water processing and business air travel by employees.
5. The intensity of emission is not reported since the Group has only one production unit (i.e. the factory in Huizhou).

2.2.3. Waste Management

The Group adheres to the principles of waste management and is committed to a sound and proper management of all waste generated during the operation.

Hazardous Wastes

The Group's business, by nature, generates hazardous wastes throughout the production process. With reference to the List of National Hazardous Waste announced by Ministry of Ecology and Environment of the People's Republic of China, the identified hazardous wastes include used activated carbon, waste light tubes, surface treatment waste, oily wastewater, waste oil drums and discarded bakelite. During the Reporting Period, approximately 34 tonnes of hazardous wastes was generated.

The Group has implemented stringent policy in place to control the disposal of hazardous wastes. All of them are further processed by licensed environmental service providers in the PRC.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Non-hazardous Waste

In the Group's operation, the non-hazardous wastes generated are mainly corrugated fiberboard. The waste management practice of the Group is compliant with laws and regulations relating to environmental protection in the PRC. During the Reporting Period, approximately 79 tonnes of non-hazardous wastes was generated.

With respect to wastewater management, the Group ensures all domestic sewage is discharged into the urban sewage pipe network for the proper sewage treatment. Wastewater from the canteen will be processed through grease trap and sedimentation before discharging into the urban sewage pipe network.

The Group strives to maintain a high standard of requirement on waste reduction, which includes actively encouraging its employees to appreciate the significance of sustainable development through continuous training.

The Group is committed to promote a paperless office environment, by constantly encouraging all employees to "think before print" and to reduce paper usage through duplex printing, paper recycle and frequent use of electronic information systems for material sharing or internal administrative documents.

2.3. Use of Resources

The Group considers the conservation of natural resources as an indispensable component of its sustainable business. Through actively promoting various environmentally friendly measures, the Group encourages an efficient use of resources, including energy, paper, water and other raw materials. As such, the Group has initiated policies to raise the awareness of electricity conservation and taken energy saving measures throughout its daily operation as elaborated in the **Section 2.2.2 Greenhouse Gas Emissions** and **Section 2.2.3 Waste Management**.

Water Consumption

With respect to water conservation, the Group encourages all employees and customers to develop the habit of conserving water consciously. Pantry and washrooms are posted with environmental messages to remind employees the importance and urgency of water conservation.

Apart from education, the utility facilities are maintained regularly for service, to ensure that water seepage or leaking pipelines are replaced or repaired on a timely basis.

In the production process, water curtain cabins are employed so that wastewater can be recycled for the purpose of controlling air pollution in the spraying procedure.

During the Reporting Period, the total water consumption was approximately 124,767 m³. There is no issue in sourcing water.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Packaging Material

Due to the nature of production, packaging materials such as EPS foam, kraft paper and corrugated fiberboard are needed for the goods produced. During the Reporting Period, approximately 1,743 tonnes of packaging materials were used.

The direct and indirect energy consumption by type are set out as follows:

Energy and Resources Use		
	Unit	FY2019
Purchased Electricity	kWh	11,867,730
Pellet Fuel (<i>Note 1</i>)	kWh	541,111
Petrol (<i>Note 2</i>)	kWh	110,229

Note:

1. Assume the calorific value of pellet fuel was 20 MJ/kg
2. Assume the calorific value of petrol was 33.7 MJ/litre.

The Group is committed to instilling the awareness of resources conservation and environmental protection into the work and life of every employee. The Group seeks business partners who also share with its philosophy and commitment to environment conservation and compliance with the applicable environmental laws and regulations. The Group believes that these initiatives are capable to reflect its commitment to offering the best quality of services while maintaining the least adverse environmental impact on our planet.

2.4. The Environment and Natural Resources

The Group is highly aware of the adverse impact of the Group's operations on the environment and natural resources. The air pollutants, greenhouse gas and hazard wastes generated from the business can be destructive to the ecosystem. Therefore, the Group is committed to integrate the concept of environmental protection into its production management and daily operation.

Through the measures elaborated in **Section 2.2 Emission** and **Section 2.3 Use of Resources**, the Group endeavors to minimize the negative environmental footprint and the potential environmental impacts of the operation on the environment and natural resources.

In the future, the Group will continue its commitment in environmental protection and strive to build a greener and healthier environment to fulfil the responsibilities as a member of the community we all live in.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

3. EMPLOYMENT AND LABOUR PRACTICES

3.1. Employment Policy

The Group fully understands that the business development is largely driven by the continued quality services delivered by experienced and competent workforce. It is therefore of paramount importance to proactively manage the talent pipeline and career development for the employees of the Group. The Group is determined to set itself in a good position to maintain a robust business performance and growth together with the employees.

With an objective to uphold an open, fair, just and reasonable human resource policy, the Group formulated the recruitment policy with respect to equal opportunities, diversity and anti-discrimination.

In the recruitment process, the appointment of employees at all levels of the Group was based on academic qualifications, integrity, abilities, experience and physical fitness required for the position. Recruitment was conducted mainly through job posting. Candidates are vetted by human resources department and reviewed by the heads of the hiring department. All appointments are submitted to general manager for approval to ensure the decisions are fair and reasonable.

The Group encourages differences and individuality in employees, with the philosophy that diversity can bring new ideas, dynamics and challenges to the operations; but discourages all forms of discrimination on gender, age, family status, sexual orientation, disability, race and religion. The Group is committed to supporting the employees to maintain a family-friendly work environment and strives to make sure employees and business partners comply with laws and regulations, follow ethical business practices and respect equal opportunity in employment.

During the Reporting Period, the Group continues to strictly observe the applicable laws and regulations and follow the employment policies relating to recruitment and promotion, compensation and dismissal, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare, by providing competitive remuneration package, including internal promotion opportunities and performance-based bonus, so as to recruit and retain experienced employees.

3.2. Employment and Labour

The Group's employees are located in Hong Kong and the PRC. The Group safeguards the rights of the employees by strictly complying with the requirements of the employment laws of Hong Kong, Labour Law of the PRC and employment regulations related to compensation, welfare, working hours, rest periods, anti-child labour and anti-force labour. In 2019, the Group continued to participate in welfare schemes concerning pension insurance, unemployment insurance, maternity insurance, occupational injury insurance and medical insurance in accordance with the local regulations including the Regulations on the Administration of Housing Provident Funds and the Social Insurance Law of the PRC. The Hong Kong office provides medical insurance, disability and invalidity coverage, maternity leave, Mandatory Provident Fund (MPF) Scheme, incentive and bonus to all the applicable full-time employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

3.3. Health and Safety

The Group has been attaching great importance to a comfortable and safe working environment for the employees which protect them from potential occupational hazards and health and safety risks, in order to achieve zero tolerance of accidents and injuries.

As employees' health and safety are of paramount importance to the operation of the Group, the Group has accordingly formulated a series of relevant personnel management policy to provide employees with a healthy, positive and motivative working atmosphere.

The Group maintains the risk management system including identification, prevention and management of risks and hazards throughout the workplaces as well as follow-up actions for accidents or personal injuries. The Group has taken the following measures:

- Maintaining air ventilation system in the workplace regularly;
- Arrange dust prevention measures to protect the well-being of the workers;
- Regularly participating in occupational health and safety related seminars;
- Prohibiting smoking and abuse of alcohol and drugs in the workplace;
- Providing clean and tidy rest area such as corridors and pantry;
- Providing adjustable chairs and monitors for eye protection;
- Setting up posters or warning labels for near areas of potential hazards in the office;
- Conducting fire drills and emergency evacuation simulations to raise employees' awareness of fire prevention and to equip employees with appropriate knowledge and skills in the event of emergency; and
- Providing first aid kits and fire extinguishers in the workplace in response to emergencies.

Additionally, the Group provides induction programs and safety training programs to new employees such that they can be familiar with the corporate policies in relation to health and safety matters upon joining our Group.

During the Reporting Period, the Group complied with the applicable laws and regulations in Hong Kong and the PRC including the Law of the PRC on Work Safety and the Law of the PRC on the Prevention and Control of Occupational Safety in all material aspects.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

3.4. Development and Training

The Group sees each position of the Group to be of unique professional and technical needs. Thus, a comprehensive training scheme is in place to provide support and coaching to the employees.

For every new joiner, the Group provides proper orientation training and mentoring in order to help them adapt to the new working environment quickly. Mentoring and guidance in relation to the operating procedures and technical production requirements will be provided by senior staff or supervisor in each production unit.

The Group acknowledges the importance of continuous training and development of employees and encourages on-the-job training in each production unit. At the end of each year, all production units are required to draw up a training plan for the next year based on the specific need and nature of the production procedures in the unit. Based on the nature and need of job duties, employees of certain positions will receive professional training from external institutes so that they can master the knowledge and skills required in the position. The Group also provides training subsidy to employees attending approved training courses related to the job.

3.5. Labour Standards

Being fully aware that exploitation of child and forced labour violates human rights and international labour conventions, the Group strictly prohibits the employment of any child labour and forced labour. New employees are required to provide true and accurate personal data when they join the Group. Recruiters should strictly review the entry documents including medical examination certificates, academic certificates and identity cards. The Group consciously selects suppliers and contractors in order to avoid the employment of any child labour or forced labour in the supply chain.

During the Reporting Period, no material non-compliance with the relevant laws and regulations, including the Employment Ordinance of Hong Kong (Chapter 57 of the Laws of Hong Kong) and the Labour Law of the PRC, the prevention of child labour or forced labour have been found by the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

4. OPERATING PRACTICES

The Group is determined to disseminate the pursuit of sustainability into the core business which is regarded as part of the responsibility of an accountable corporate citizen. A series of management systems and procedures have been developed in alignment with the Corporate Governance requirements required by the HKEX. Furthermore, the Group encourages all business partners to incorporate those sustainability practices and policies into their operation thoroughly in order to work together in pursuit of sustainable development.

4.1. Supply Chain Management

The Group understands that supply chain management has always been one of the key aspects of the Group's operation. The supply chain management team not only considers economic and commercial benefits during the tendering processes, but also evaluates the suppliers' and contractors' track record relating to legal and regulatory compliance which include safeguarding workers' health and safety, and mitigating environmental impacts.

In addition to purchasing products and services according to the specified standards, the Group has developed a vendor and supplier selection mechanism which requires potential suppliers to comply with all applicable laws and regulations. The Group insists on choosing socially responsible supplier with specific local licenses; for instance, financial service providers in Hong Kong must hold business licenses/certificates of the Hong Kong Securities and Futures Commission or other relevant institutions such as the Hong Kong Monetary Authority. To maintain a good corporate control and governance, the Group has developed a series of management system and procedures in alignment with the Corporate Governance requirements required by the HKEX and is obliged to terminate the cooperation contract with suppliers that may cause or have caused serious legal violation.

The Group believes that the above review process can minimize the potential social risks associated with the supply chain management.

4.2. Product Responsibility

The Group places a high priority on product and service excellence for its customers. To fulfill product responsibility, the Group actively communicates with the suppliers, employees and customers and prevents any product defects through quality assurance and control measures such as safety test, usability and performance tests, reliability tests, etc. In order to mitigate the customers' exposure of product risk, product liability insurance was maintained as well. Further, the warning or caution is legible and placed in a conspicuous position on the product and the package of the goods. The Group strictly complies with the laws and regulations relating to health and safety, advertising, labelling and privacy matters of products and services provided and methods of redress.

During the Reporting Period, there were no material recalls, major complaints against the products, or any material amount of sales return for safety and health reasons.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

4.3. Privacy Protection

The Group is committed to compliance with the privacy laws and regulations. The Group undertakes to strictly comply with the requirements of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong), the Corporate Finance Consultant Code of Conduct and local legislations, to ensure that all data are securely kept in the internal system with access control. The Group has separated the customer data from other ordinary information to protect customers' privacy. Meanwhile, the Group regulates that only authorized personnel can access the personal data collected from the Group's customers. Through the internal training and confidential agreements with employees, the Group emphasizes confidentiality obligations and the legal consequences of the breaches of relevant rules.

4.4. Anti-corruption

Insisting on the honesty, integrity and fairness in all aspects of the business, and upholding a high standard of business ethics and prohibition of any forms of bribery and corrupt practices, the Group has developed a series of policies of anti-fraud and anti-bribery as part of the exercise of Corporate Governance.

The Group observed the related laws and regulations that have significant impact on the Group relating to bribery, extortion, fraud and money laundering, such as the "Prevention of Bribery Ordinance of Hong Kong" (Chapter 201 of the laws of Hong Kong), the Criminal Law of the PRC (《中華人民共和國刑法》), and the Regulations of the PRC for Suppression of Corruption (《中華人民共和國懲治貪污條例》). During the Reporting Period, the Group complied with the relevant laws and regulations relating to bribery, extortion, fraud and money laundering mentioned above, as well as the corporate policy of anti-corruption, and no cases of corruption have been concluded.

Under the Group's whistleblower policy, employees may anonymously report any suspected or actual event of bribery and corruption to their supervisor or management of higher level, including to an appropriate Board committee or member, without the threat of dismissal or retaliation. The supervisors, managers and/or Board members who receive the reports will promptly act to investigate the issue. The whistleblower shall receive a report within five business days of the initial report, regarding the investigation results.

If employees have any concern in relation to accounting controls and audit matters, they may report to the Audit Committee as well. The Audit Committee will review each complaint and decide how the investigation should be conducted. During the Reporting Period, the Group has not received any complaint from employees.

5. COMMUNITY INVESTMENTS

The Group actively strives to contribute to a better society through active involvement in the community, by putting the best effort in helping the employees and local communities through company events and outdoor activities.

During the Reporting Period, the Group organized orientation activities, birthday parties in order to promote love and care among the employees and supported the Community Chest's 50th Anniversary Walk for Millions in January. The Group also values the well-being of the employees and their family. The Group held a trip to Dongguan Songshan Lake for flower viewing in April 2019 and a hiking at Luofu Mountain of Huizhou in November 2019.

The Group believes that a good corporate culture and harmonic working environment will help to achieve the work-life balance of the employees. In the coming future, the Group will continue to attach great importance to the well-being of the staff and community.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

6. ESG REPORT INDEX

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration	Page
A. Environmental			
Aspect A1: Emissions			
General Disclosure	Information on: a) the policies; and b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental Policy and Compliance	33
KPI A1.1	The types of emissions and respective emissions data.	Emission The Group has not disclosed annual quantities of air pollutant emissions directly emitted during the manufacturing process. According to the current regulation in the PRC, production facilities are required to measure air pollutant emission concentrations and rates once a year, but not total volumes emitted in the year. An annual total of air pollutant emissions could only be estimated and might deviate significantly from actual emissions. Such figures would not facilitate an understanding of the environmental performance of the Group.	34
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity.	Emission — Greenhouse Gas Emissions	35
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity.	Emission — Waste Management	36

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Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration	Page
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity.	Emission — Waste Management	36
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Emission	34
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emission — Waste Management	36
Aspect A2: Use of Resources			
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources	37
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Use of Resources	37
KPI A2.2	Water consumption in total and intensity.	Use of Resources — Water Consumption	37
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Use of Resources	37
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Use of Resources — Water Consumption	37
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Use of Resources — Packaging Material	38

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration	Page
Aspect A3: The Environment and Natural Resources			
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	The Environment and Natural Resources	38
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Environment and Natural Resources	38
B. Social			
Aspect B1: Employment			
General Disclosure	Information on: a) the policies; and b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment Policy	39
Aspect B2: Health and Safety			
General Disclosure	Information on: a) the policies; and b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Employment and Labour Health and Safety	39

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration	Page
Aspect B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training	41
Aspect B4: Labour Standards			
General Disclosure	Information on: a) the policies; and b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards	41
Aspect B5: Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management	42
Aspect B6: Product Responsibility			
General Disclosure	Information on: a) the policies; and b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility Privacy Protection	42

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration	Page
Aspect B7: Anti-corruption			
General Disclosure	Information on: a) the policies; and b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	Anti-corruption	43
Aspect B8: Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investments	43

REPORT OF THE DIRECTORS

The Board is pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacture and sale of electrothermic household appliances. Details of the principal activities of the principal subsidiaries are set out in note 1 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year is set out in the section headed “Management Discussion and Analysis” on pages 5 to 10 of this annual report. The business review forms part of this annual report.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 28 September 2017 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Reorganisation was completed on 30 September 2019 in preparation for the Listing of the shares on the Stock Exchange pursuant to which the Company became the holding company of the Group. For further information in relation to the Reorganisation, please refer to the section headed “History, development and Reorganisation” in the Prospectus.

The Company’s shares have been listed on the Stock Exchange since 25 October 2019.

COMPLIANCE WITH THE LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements and the risks of non-compliance with the applicable laws and regulations. From the Listing Date and up to the date of this annual report, the Group in all material aspects has complied with the relevant laws and regulations that have a significant impact on the business and operations of the Group. There was no material breach or non-compliance with the applicable laws and regulations by the Group during the period from the Listing Date to 31 December 2019 and up to the date of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, the Group’s five largest customers in aggregate accounted for approximately 74.1% of the total revenue of the Group and the largest customer of the Group accounted for approximately 45.3% of the total revenue.

For the year ended 31 December 2019, the Group’s five largest suppliers in aggregate accounted for less than 30% of the total purchases of materials of the Group.

None of the Directors, or any of their close associates (as defined under the Listing Rules) or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company’s issued share capital) has any beneficial interest in the Group’s five largest customers or suppliers.

REPORT OF THE DIRECTORS

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2019 and the Group's financial position as at that date are set out in the consolidated financial statements on pages 67 to 127 of this annual report.

The Directors recommended the payment of a final dividend of HK10.6 cents per share, totaling approximately HK\$42.4 million in respect of the year ended 31 December 2019, to shareholders whose names appear on the register of members of the Company (the "**Register of Members**") at the close of business on 5 June 2020 as the record date. This proposed final dividend is subject to the approval of the Company's shareholders at the 2020 AGM.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last four financial years, as extracted from the published audited financial statements, is set out on page 128 of this annual report. This summary does not form part of the audited consolidated financial statements of the Group.

USE OF PROCEEDS

Details of the use of Net Proceeds are set out on page 10 of this annual report.

ANNUAL GENERAL MEETING

The 2020 AGM is scheduled to be held on Thursday, 28 May 2020. A notice convening the 2020 AGM will be issued and dispatched to the shareholders according to the applicable law, the Articles and the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

To ascertain the identity of the shareholders of the Company who will be entitled to attend and vote at the 2020 AGM, the Register of Members will be closed from Monday, 25 May 2020 to Thursday, 28 May 2020, both dates inclusive, the period during which no transfer of shares will be effected. In order to be eligible to attend and vote at the 2020 AGM of the Company, all completed share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at its office at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 22 May 2020.

To ascertain the entitlement of the final dividend of the shareholders of the Company, the Register of Members will be closed from Wednesday, 3 June 2020 to Friday, 5 June 2020, the period during which no transfer of shares will be effected, and, subject to the approval of the shareholders at the 2020 AGM approving the payment of the final dividend. The final dividend is expected to be paid on Tuesday, 30 June 2020. In order to qualify for the final dividend, all completed share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at the above address not later than 4:30 p.m. on Tuesday, 2 June 2020.

REPORT OF THE DIRECTORS

CHARITABLE CONTRIBUTIONS

Charitable contributions made by the Group during the year ended 31 December 2019 amounted to approximately HK\$23,000.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the authorised share capital and issued share capital of the Company during the year ended 31 December 2019 are set out in note 24 to the consolidated financial statements.

SHARE OPTION SCHEME

The Company has a share option scheme (the “**Share Option Scheme**”) which was approved and adopted by the sole shareholder of the Company by way of written resolutions passed on 3 October 2019. No share option has been granted, exercised, expired or lapsed under the Share Option Scheme since its adoption date and up to the date of this annual report.

1. Summary of terms of the Share Option Scheme

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to enable the Group to grant options to the eligible participants as incentives or rewards for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group or any entity in which any member of the Group holds any equity interest (the “**Invested Entity**”).

(b) Who may join

The Directors shall, in accordance with the provisions of the Share Option Scheme and the Listing Rules, be entitled but shall not be bound at any time within a period of 10 years commencing from the date of the adoption of the Share Option Scheme to make an offer to any of the following classes:

- (i) any employee (whether full time or part time, including the Directors) of the Company, any of the subsidiaries (within the meaning of Companies Ordinance) or any Invested Entity (an “**Eligible Employee**”);
- (ii) any supplier of goods or services to any member of the Group or any Invested Entity;
- (iii) any customer of any member of the Group or any Invested Entity;
- (iv) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;
- (v) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

REPORT OF THE DIRECTORS

- (vi) any adviser (professional or otherwise), consultant, individual or entity who in the opinion of the Directors has contributed or will contribute to the growth and development of the Group; and
- (vii) any other groups or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group,

and, for the purpose of the Share Option Scheme, the offer for the grant of an option may be made to any company wholly-owned by one or more eligible participants. Upon acceptance of the option, the eligible person shall pay HK\$1.00 to the Company as the consideration for the grant with 21 days from the date of grant.

For the avoidance of doubt, the grant of any options by the Company for the subscription of shares or other securities of the Group to any person who falls within any of the above classes of eligible participants shall not, by itself, unless the Directors otherwise determine, be construed as a grant of option under the Share Option Scheme. The eligibility of any of the eligible participants to an offer shall be determined by the Directors from time to time on the basis of the Directors' opinion as to such eligible participant's contribution to the development and growth of the Group.

(c) Maximum number of shares

- (i) The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share options schemes of the Group shall not exceed 30% of the share capital of the Company in issue from time to time.
- (ii) The total number of shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of the Group) to be granted under the Share Option Scheme and any other share option schemes of the Group shall not in aggregate exceed 10% of the total number of shares in issue at the time dealings in the shares first commence on the Stock Exchange, being 40,000,000 shares ("**General Scheme Limit**").
- (iii) Subject to (i) above and without prejudice to (iv) below, the Company may seek approval of its shareholders in a general meeting to refresh the General Scheme Limit provided that the total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group shall not exceed 10% of the share in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including options outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of the Group) previously granted under the Share Option Scheme and any other share option scheme of the Group will not be counted.
- (iv) Subject to (i) above and without prejudice to (iii) above, the Company may seek separate shareholders' approval in a general meeting to grant options under the Share Option Scheme beyond the General Scheme Limit or, if applicable, the extended limit referred to in (iii) above to eligible participants identified by the Company before such approval is sought.

REPORT OF THE DIRECTORS

(d) Maximum entitlement of each eligible participant

Subject to (e) below, the total number of shares issued and which may fall to be issued upon exercise of the options under the Share Option Scheme and the option granted under any other share option scheme of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Where any further grant of options under the Share Option Scheme to a grantee under the Share Option Scheme would result in the Shares issued and to be issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the Share Option Scheme and any other share option schemes of the Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the share in issue, such further grant must be separately approved by the shareholders in a general meeting with such grantee and his close associates (or his associates if the participant is a connected person) abstaining from voting. There was no prescribed period for which an option must be held before it can be exercised under the Share Option Scheme, subject to the conditions of grant to be determined by the Board.

(e) Grant of options to core connected persons

- (i) Without prejudice to (ii) below, the making of an offer under the Share Option Scheme to any Director, chief executive or substantial shareholder of the Company, or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of an option under the Share Option Scheme).
- (ii) Without prejudice to (i) above, where any grant of options under the Share Option Scheme to a substantial shareholder or an independent non-executive Director or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options under the Share Option Scheme already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:
 - (1) representing in aggregate over 0.1% of the share in issue; and
 - (2) having an aggregate value, based on the closing price of the shares on the offer date of each grant, in excess of HK\$5 million;

such further grant of options must be approved by the shareholders in a general meeting. The grantee, his associates and all core connected persons of the Company must abstain from voting in favour at such general meeting.

For the purpose of seeking the approval of the shareholders under paragraphs (c), (d) and (e) above, the Company must send a circular to the shareholders containing the information required under the Listing Rules and where the Listing Rules shall so require, the vote at the shareholders' meeting convened to obtain the requisite approval shall be taken on a poll with those persons required under the Listing Rules abstaining from voting.

REPORT OF THE DIRECTORS

(f) Time of acceptance and exercise of an option

An offer under the Share Option Scheme shall remain open for acceptance by the eligible participants concerned (and by no other person) for a period of up to 21 days from the date, which must be a business day, on which the offer is made.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to the grantee thereof, and in the absence of such determination, from the date of acceptance of the offer of such option to the earlier of (i) the date on which such option lapses under the relevant provisions of the Share Option Scheme; and (ii) the date falling 10 years from the offer date of that option.

An offer shall have been accepted by an eligible participant in respect of all shares which are offered to such eligible participant when the duplicate letter comprising acceptance of the offer duly signed by the eligible participant together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.

Any offer may be accepted by an eligible participant in respect of less than the number of shares which are offered provided that it is accepted in respect of a board lot for dealings in the shares on Main Board of the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate letter comprising acceptance of the offer duly signed by such eligible participant and received by the Company together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.

(g) Exercise price for Shares

The exercise price in respect of any option shall, subject to the adjustments, be at the discretion of the Directors, provided that it shall not be less than the highest of:

- (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the offer date;
- (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and
- (iii) the nominal value of a Share.

(h) Remaining life of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

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

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2019 are set out in the consolidated statement of changes in equity.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period between the Listing Date and 31 December 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its shares.

DISCLOSURE OF INTERESTS

(i) Directors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at 31 December 2019, interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Director/ chief executive	Capacity/Nature of interest	Number of Shares held <i>(Note 1)</i>	Approximate percentage of shareholding
Dr. Chan	Interest in a controlled corporation <i>(Note 2)</i> Interest of spouse <i>(Note 3)</i>	213,640,000 (L)	53.41%
Ms. Cheng	Interest in a controlled corporation <i>(Note 2)</i> Interest of spouse <i>(Note 3)</i>	213,640,000 (L)	53.41%
Mr. Chan	Beneficial owner	5,000,000 (L)	1.25%
Mr. Chiu	Beneficial owner	5,000,000 (L)	1.25%
Ms. Tang	Beneficial owner	5,000,000 (L)	1.25%
Mr. Yu	Beneficial owner	5,000,000 (L)	1.25%

Notes:

- (1) The letter "L" denotes a person's "long position" (as defined under Part XV of the SFO) in such Shares.
- (2) 213,640,000 Shares are registered in the name of Modern Expression Limited ("**Modern Expression**"), which is wholly-owned by Dr. Chan and Ms. Cheng jointly. Under the SFO, each of Dr. Chan and Ms. Cheng is deemed to be interested in all the Shares registered in the name of Modern Expression.
- (3) Ms. Cheng is the spouse of Dr. Chan. Each of Dr. Chan and Ms. Cheng is deemed to be interested in all the Shares in which his or her spouse is interested under the SFO.

REPORT OF THE DIRECTORS

(ii) Interest in associated corporations of the Company

As at 31 December 2019, the interests or short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company's associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Director	Name of associated corporation	Capacity/Nature	Number of shares held in associated corporation (Note 1)	Approximate percentage of shareholding in associated corporation
Dr. Chan	Modern Expression	Interest held jointly with another person (Note 2)	1 (L)	100%
Ms. Cheng	Modern Expression	Interest held jointly with another person (Note 2)	1 (L)	100%

Notes:

1. The letter "L" denotes a person's/corporation's "long position" (as defined under Part XV of the SFO) in our Shares.
2. Modern Expression is wholly-owned by Dr. Chan and Ms. Cheng jointly. Dr. Chan and Ms. Cheng are spouses.

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executive of the Company had interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

(iii) Substantial shareholders' and other persons' interests and short positions in shares, underlying shares and debentures

So far as the Directors are aware, as at 31 December 2019, the following persons (other than the Directors and chief executive of the Company) had or deemed or taken to have an interest and/or short position in the shares, underlying shares or debentures of the Company which were required to be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Person/corporation	Capacity/Nature of interest	Number of Shares held (Note 1)	Percentage of interest in the Company
Modern Expression	Beneficial owner	213,640,000 (L)	53.41%

Note:

1. The letter "L" denotes a person's/corporation's "long position" (as defined under Part XV of the SFO) in our Shares.

Save as disclosed above, as at 31 December 2019, the Directors were not aware of any other persons who had or deemed or taken to have any interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of interests required to be kept by the Company under Section 336 of the SFO.

DISTRIBUTABLE RESERVES

As at 31 December 2019, in the opinion of the Directors, the reserves of the Company available for distribution to shareholders under the Companies Law of the Cayman Islands amounted to approximately HK\$148.6 million.

EQUITY-LINKED AGREEMENT

Save for the Share Option Scheme, no equity-linked agreements were entered into by the Company during the year ended 31 December 2019.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2019 and up to the date of this annual report, none of the Directors or their close associates (as defined under the Listing Rules) has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

COMPLIANCE OF NON-COMPETITION UNDERTAKING

The controlling shareholders, namely Dr. Chan Kam Kwong Charles, Ms. Cheng Yuk Sim Connie and Modern Expression (collectively, the "Controlling Shareholder(s)") had entered into the deed of non-competition in favour of the Company on 3 October 2019 (the "Non-competition Undertaking"). The independent non-executive Directors have reviewed that state of compliance of each of the Controlling Shareholder with the undertakings in the Non-competition Undertaking and as far as the independent non-executive Directors can ascertain, there has been no breach of the undertakings given in the Non-competition Undertaking by the Controlling Shareholders from the Listing Date to 31 December 2019.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors of the Company during the year ended 31 December 2019 and up to the date of this annual report were:

Executive Directors

Mr. Chan Wai Ming (*Chief Executive Officer*)
Mr. Chiu Wai Kwong
Ms. Tang Mei Wah
Mr. Yu Kwok Wai

Non-executive Directors

Dr. Chan Kam Kwong Charles (*Chairman*)
Ms. Cheng Yuk Sim Connie
(also known as Ms. Cheng Yuk Yee Connie)

Independent Non-executive Directors

Mr. Chan Ping Yim
Mr. Choi Chi Leung Danny
Mr. Chan Shing Jee

Pursuant to with Article 112 of the Articles, all Directors appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of shareholders after their appointment and be subject to re-election at such meeting and all Directors appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election. As such, all Directors shall retire at the 2020 AGM and shall be eligible to offer themselves for re-election.

Pursuant to Article 108 of the Articles, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. Such retiring Directors may, being eligible, offer themselves for re-election at the annual general meeting.

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed elsewhere in this annual report, there was no transactions, arrangements or contracts of significance in relation to the business of the Group to which the Company, its holding Company, or any of its subsidiaries was a party and in which a Director of the Company or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time from the Listing Date to 31 December 2019.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for an initial fixed term of three years commencing from the Listing Date. The term of service shall be renewed and extended automatically by three years on the expiry of such initial term and on the expiry of every successive period of three years thereafter, unless terminated by either party thereto giving at least six months' written notice before the expiry of the then existing term.

Each of the non-executive Directors and independent non-executive Directors has entered into an appointment letter with the Company for an initial fixed term of one year commencing from the Listing Date. The term of service shall be renewed and extended automatically by one year on the expiry of such initial term and on the expiry of every successive period of one year thereafter, unless terminated by either party thereto giving at least two months' written notice before the expiry of the then existing term.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors and the five highest paid individuals of the Group for the year ended 31 December 2019 are set out in notes 8 and 9 to the consolidated financial statements.

The Directors and senior management receive compensation in the form of salaries and discretionary bonuses related to their performance. The Group also reimburses them for expenses which are necessarily and reasonably incurred in relation to all business and affairs carried out by the Group from time to time or for providing services to the Group or executing their functions in relation to the Group's business and operations. The Group regularly reviews and determines the remuneration and compensation package of the Directors and senior management by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of the Directors and performance of the Group. The Directors and senior management may also receive options to be granted under the Share Option Scheme.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management of the Company are set out in the section of "Biographical Details of Directors and Senior Management" on pages 11 to 17 of this annual report.

RETIREMENT BENEFIT SCHEMES

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

The total retirement benefit scheme contributions made by the Group amounted to approximately HK\$11.0 million for the year ended 31 December 2019.

REPORT OF THE DIRECTORS

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

CONNECTED TRANSACTIONS

The Group has leased two properties from related companies under the tenancy agreements which were entered into prior to the Listing and the transactions thereunder are accounted as one-off in nature under HKFRS 16. These transactions are not be classified as notifiable transactions under Chapter 14 of the Listing Rules or connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules, and are not subject to any of the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14 and 14A of the Listing Rules from the Listing Date and up to 31 December 2019. There was no connected transaction entered into by the Group from the Listing Date and up to 31 December 2019.

RELATED PARTY TRANSACTIONS

The significant related party transactions entered into by the Group during the year ended 31 December 2019 are set out in note 29 to the consolidated financial statements.

INTERESTS OF THE COMPLIANCE ADVISER

In accordance with Rule 3A.19 of the Listing Rules, the Company has appointed Alliance Capital Partners Limited (“**ACP**”) to be the compliance adviser of the Company. As at 31 December 2019, as notified by ACP, except for the compliance adviser agreement entered into between the Company and ACP dated 15 April 2019, neither ACP nor any of its directors or employees or associates, has or may have, any interest in the securities of the Company or any member of the Group (including options or rights to subscribe for such securities).

CORPORATE GOVERNANCE

Details of the corporate governance practices adopted by the Company are set out in the section headed “Corporate Governance Report” on pages 18 to 32 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float of at least 25% of the issued share capital of the Company under the Listing Rules from the Listing Date to the date of this annual report.

PERMITTED INDEMNITY PROVISION

The Company's Articles provides that every Director is entitled to be indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of duties of his/her office or otherwise in relation thereto provided that such indemnity shall not extend to any matter in respect of fraud or dishonestly which may attach to the Director.

During the year ended 31 December 2019, the Company has arranged appropriate insurance cover for Directors' and officers' liabilities in respect of potential legal actions against the Directors and officers arising out of corporate activities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Details of the environmental, social and governance report are set out in the section headed “Environmental, Social and Governance Report” on pages 33 to 48 of this annual report.

REPORT OF THE DIRECTORS

EVENTS AFTER THE REPORTING PERIOD

Reference is made to the announcements of the Company dated 3 February 2020, 10 February 2020 and 14 February 2020 in relation to the outbreak of the Pandemic, the Group has taken all necessary internal control measures to prevent the spread of the Pandemic among the staff of the Group. The production of the factory of the Group in Huizhou, the PRC was shortly suspended and resumed on 14 February 2020 in compliance with the Pandemic control measures promulgated by the PRC government.

As at the date of this annual report, as the overseas markets of the Group have been affected by the Pandemic, the Group foresaw challenges on its supply chain and sales in 2020. The Group expected that the Pandemic would have impact on the Group's operations but the degree of impact would depend on the development of the Pandemic and the time when the Pandemic prevention and control policies would be lifted. The Group will continue to comply with the relevant laws and regulations and closely monitor the impact of Pandemic among logistics, material supplies as well as overall the economic situation.

Other than those disclosed above, the Group had no material events for disclosure subsequent to 31 December 2019 and up to the date of this annual report.

AUDITOR

The auditor of the Company, Ernst & Young, will retire at the 2020 AGM and a resolution for their reappointment as auditor of the Company will be proposed at the 2020 AGM.

REVIEW BY AUDIT COMMITTEE

The Audit Committee was established on 3 October 2019 with specific written terms of reference which clearly deals with its authority and duties.

The Audit Committee is mainly responsible for (a) making recommendations to the Board on the appointment, reappointment and removal of external auditor; (b) reviewing the financial statements and providing material advice in respect of financial reporting; (c) overseeing the financial reporting process, internal control, risk management systems and audit process of the Group; and (d) overseeing the Company's continuing connected transactions. Details of the authority and duties of Audit Committee are set out in the Audit Committee's terms of reference, which are available on the websites of the Stock Exchange and the Company.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Chan Ping Yim (Chairman), Mr. Choi Chi Leung Danny and Mr. Chan Shing Jee. The composition of the Audit Committee meets the requirements of Rule 3.21 of the Listing Rules.

The consolidated financial statements of the Group for the year ended 31 December 2019 have been reviewed by the Audit Committee.

On behalf of the Board

Town Ray Holdings Limited

Chan Kam Kwong Charles

Chairman and non-executive Director

Hong Kong, 23 March 2020

INDEPENDENT AUDITOR'S REPORT



Independent auditor's report

To the shareholders of Town Ray Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Town Ray Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 67 to 127, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter

How our audit addressed the key audit matter

Impairment assessment of trade receivables

As at 31 December 2019, the carrying amount of trade receivables was HK\$62.9 million which represented 13% of the Group's total assets. Assessment of expected credit losses ("ECLs") of trade receivables is performed by management based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The provision matrix is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The assessment is significant to our audit due to (i) the significance of the carrying amount; and (ii) significant estimates involved in determining the future cash flows that the Group expects to receive from such receivables based on, among others, the correlation among historical observed default rates, forecast economic conditions (i.e. gross domestic products) and ECLs.

The Group's accounting policies, disclosures of accounting estimates on the provision for ECLs on trade receivables and information about the ECLs on trade receivables are included in notes 2.4, 3 and 16 to the consolidated financial statements, respectively.

We assessed management's assessment by (i) sample checking the ageing of the receivable balances, past repayment history and historical credit loss experience against the relevant sales documents and settlement records; (ii) benchmarking the forecast economic conditions (i.e. gross domestic products) against market data; and (iii) reviewing the arithmetic accuracy of the calculation of the ECLs.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, 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 HKSAAs 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.

INDEPENDENT AUDITOR'S REPORT

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- 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.

INDEPENDENT AUDITOR'S REPORT

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wong Tsz Tat.

Ernst & Young

Certified Public Accountants

22/F, CITIC Tower

1 Tim Mei Avenue

Central, Hong Kong

23 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
REVENUE	5	510,198	373,462
Cost of sales		(331,670)	(268,117)
Gross profit		178,528	105,345
Other income and gains, net	5	4,162	8,202
Selling and distribution expenses		(9,621)	(8,691)
General and administrative expenses		(85,967)	(57,176)
Other expenses, net		(2,953)	(865)
Finance costs	6	(3,273)	(885)
PROFIT BEFORE TAX	7	80,876	45,930
Income tax expense	10	(20,066)	(7,891)
PROFIT FOR THE YEAR		60,810	38,039
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic and diluted		HK19.07 cents	HK12.68 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 HK\$'000	2018 HK\$'000
PROFIT FOR THE YEAR	60,810	38,039
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(1,010)	(10,260)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	59,800	27,779

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	29,926	33,290
Right-of-use assets	14(a)	21,906	30,211
Deposits paid for purchases of items of property, plant and equipment		640	593
Rental deposit	17	251	251
Deferred tax assets	23	1,582	2,137
Total non-current assets		54,305	66,482
CURRENT ASSETS			
Inventories	15	67,511	43,113
Trade receivables	16	62,935	79,810
Prepayments, deposits and other receivables	17	39,304	14,872
Due from related companies	18	–	13,765
Cash and cash equivalents	19	245,558	51,857
Total current assets		415,308	203,417
CURRENT LIABILITIES			
Trade payables	20	52,600	39,016
Other payables and accruals	21	31,272	14,248
Due to related companies	18	–	449
Interest-bearing bank borrowings	22	43,471	46,671
Lease liabilities	14(b)	11,565	11,799
Tax payable		11,276	2,398
Total current liabilities		150,184	114,581
NET CURRENT ASSETS		265,124	88,836
TOTAL ASSETS LESS CURRENT LIABILITIES		319,429	155,318
NON-CURRENT LIABILITIES			
Lease liabilities	14(b)	10,947	18,450
Deferred tax liabilities	23	1,927	396
Total non-current liabilities		12,874	18,846
Net assets		306,555	136,472

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
<hr/>			
EQUITY			
Issued capital	24	4,000	–
Reserves	25	302,555	136,472
<hr/>			
Total equity		306,555	136,472
<hr/>			

Chan Wai Ming
Director

Chiu Wai Kwong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Notes	Issued capital HK\$'000	Share premium account HK\$'000	Merger reserve HK\$'000 (note 25(a))	Capital contribution reserve HK\$'000 (note 25(b))	Share-based payment reserve HK\$'000 (note 25(c))	Statutory reserve funds HK\$'000 (note 25(d))	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2018		-	-	174,044	-	10,050	3,896	19,375	64,499	271,864
Profit for the year		-	-	-	-	-	-	-	38,039	38,039
Other comprehensive loss for the year:										
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(10,260)	-	(10,260)
Total comprehensive income for the year		-	-	-	-	-	-	(10,260)	38,039	27,779
Dividend	11	-	-	-	-	-	-	-	(32,229)	(32,229)
Deemed distribution to the controlling shareholder	26	-	-	(164,044)	-	-	(7,477)	(9,265)	(13,156)	(193,942)
Capital contribution from the controlling shareholder	27(a)	-	-	-	63,000	-	-	-	-	63,000
Transfer to statutory reserve funds		-	-	-	-	-	3,581	-	(3,581)	-
At 31 December 2018 and at 1 January 2019		-	-	10,000	63,000	10,050	-	(150)	53,572	136,472
Profit for the year		-	-	-	-	-	-	-	60,810	60,810
Other comprehensive loss for the year:										
Exchange differences on translation of a foreign operation		-	-	-	-	-	-	(1,010)	-	(1,010)
Total comprehensive income for the year		-	-	-	-	-	-	(1,010)	60,810	59,800
Capitalisation issue	24(b)	3,000	(3,000)	-	-	-	-	-	-	-
Issue of shares under initial public offering	24(c)	1,000	129,000	-	-	-	-	-	-	130,000
Share issue expenses		-	(19,717)	-	-	-	-	-	-	(19,717)
At 31 December 2019		4,000	106,283*	10,000*	63,000*	10,050*	-*	(1,160)*	114,382*	306,555

* These reserve accounts comprise the consolidated reserves of HK\$302,555,000 (2018: HK\$136,472,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		80,876	45,930
Adjustments for:			
Finance costs	6	3,273	885
Interest income	5	(1,250)	(1,066)
Fair value gains on structured deposits	5	(8)	(333)
Depreciation of property, plant and equipment	7	8,479	16,073
Depreciation of right-of-use assets	7	11,155	1,362
Loss on disposal of items of property, plant and equipment, net	7	24	87
Write-down/(reversal of write-down) of inventories to net realisable value	7	(643)	44
Impairment of trade receivables, net	7	480	615
		102,386	63,597
Decrease/(increase) in inventories		(24,109)	1,743
Decrease/(increase) in trade receivables		16,393	(11,780)
Increase in prepayments, deposits and other receivables		(25,192)	(4,812)
Decrease in amounts due from related companies		13,765	32,331
Increase/(decrease) in trade payables		14,705	(4,063)
Increase/(decrease) in other payables and accruals		17,238	(4,724)
Increase/(decrease) in amounts due to related companies		(447)	46,752
Cash generated from operations		114,739	119,044
Overseas tax paid		(9,108)	(12,871)
Net cash flows from operating activities		105,631	106,173
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,250	1,066
Purchases of items of property, plant and equipment		(5,869)	(20,581)
Proceeds from disposal of items of property, plant and equipment		-	3,787
Decrease/(increase) in deposits paid for purchases of items of property, plant and equipment		(61)	2,841
Purchases of structured deposits		(8,191)	(103,714)
Proceeds from redemption of structured deposits		8,221	130,710
Increase in pledged deposit		-	(235)
Net cash flows from/(used in) investing activities		(4,650)	13,874

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	24(c)	130,000	–
Share issue expenses		(19,717)	–
New bank borrowings		123,909	49,817
Repayment of bank borrowings		(127,109)	(47,146)
Principal portion of lease payments		(10,574)	(911)
Dividend paid		–	(32,229)
Deemed distribution to the controlling shareholder		–	(61,764)
Interest paid		(3,273)	(885)
		93,236	(93,118)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		51,857	28,287
Effect of foreign exchange rate changes, net		(516)	(3,359)
		245,558	51,857
CASH AND CASH EQUIVALENTS AT END OF YEAR			
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		88,512	51,857
Time deposits with original maturity of less than three months when acquired		157,046	–
		245,558	51,857

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION

Town Ray Holdings Limited is a limited liability company incorporated in the Cayman Islands. The principal place of business of the Company is located at 10/F., Block A, Chung Mei Centre, 15 Hing Yip Street, Kwun Tong, Kowloon.

During the year, the Company and its subsidiaries (collectively referred to as the “Group”) were principally engaged in the manufacture and sale of electrothermic household appliances.

In preparation for the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), a business transfer agreement was entered into between 東保利電業（惠州）有限公司 (“Tunbow (Huizhou)”) and 登輝電器（惠州）有限公司 (“Town Ray (Huizhou)”), pursuant to which the business of manufacture and sale of electrothermic household appliances formerly operated by Tunbow (Huizhou) (the “PRC Manufacture and Sale Business”) was transferred to Town Ray (Huizhou) and the business transfer (the “Business Transfer”) was completed on 31 December 2018. As further explained in note 2.1 to the financial statements, the results and cash flows of the PRC Manufacture and Sale Business are included in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group since the date when the PRC Manufacture and Sale Business first came under the common control of Tunbow Investments (BVI) (as defined in note 2.1 to the financial statements). The assets and liabilities of the PRC Manufacture and Sale Business are included in the consolidated statement of financial position of the Group using the existing book values from Tunbow Investments (BVI)’s perspective. The assets and liabilities which were not transferred, assigned or novated to Town Ray (Huizhou) as at 31 December 2018 were accounted for as a deemed distribution as detailed in note 26 to the financial statements.

The shares of the Company were listed on the Main Board of the Stock Exchange on 25 October 2019 (the “Listing”).

In the opinion of the directors, the immediate holding company and the ultimate holding company of the Company is Modern Expression Limited, a company incorporated in the British Virgin Islands.

Information about subsidiaries

Particulars of the Company’s principal subsidiaries are as follows:

	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2019	2018	
Tunbow Group Limited	Hong Kong	HK\$10,000,000	100	100	Trading of electrothermic household appliances
Town Ray (Huizhou)**	People’s Republic of China (“PRC”)/ Mainland China	HK\$30,000,000	100	100	Manufacture and sale of electrothermic household appliances

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

* The statutory financial statements of this subsidiary are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

This subsidiary is registered as a wholly-foreign-owned enterprise under PRC law.

The above subsidiaries are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PRESENTATION

Pursuant to the reorganisation of the Company in connection with the Listing (the “Reorganisation”), the Company became the holding company of the companies now comprising the Group. The companies now comprising the Group and the PRC Manufacture and Sale Business were under the common control of the controlling shareholder, Tunbow Investments (BVI) Limited (“Tunbow Investments (BVI)”), before and after the Reorganisation. Accordingly, these financial statements have been prepared by applying the principles of merger accounting as if the Reorganisation and the Business Transfer had been completed at the beginning of the earliest period presented.

The consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the year ended 31 December 2018 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of Tunbow Investments (BVI), where this is a shorter period. The consolidated statement of financial position of the Group as at 31 December 2018 has been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from Tunbow Investments (BVI)’s perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

2.2 BASIS OF PREPARATION

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.2 BASIS OF PREPARATION (Continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	<i>Definition of a Business</i> ¹
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
HKFRS 17	<i>Insurance Contracts</i> ²
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ¹

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

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

³ No mandatory effective date yet determined but available for adoption

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Impairment of non-financial assets

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

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

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.5%
Leasehold improvements	Over the shorter of the lease terms and 4.5%
Plant and machinery	9%
Furniture, fixtures and equipment	18% to 20%
Moulds	18% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. At inception or on reassessment of a contract that contains a lease component and non-lease components, the Group adopts the practical expedient not to separate non-lease components and to account for the lease component and the associated non-lease components as a single lease component.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease terms.

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets

Initial recognition and measurement

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

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

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows. Financial assets which are not held within the aforementioned business model are classified and measured at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Subsequent measurement (Continued)

Financial assets at fair value through profit or loss

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

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

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

Derecognition of financial assets

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

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

General approach

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

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

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

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

- Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Simplified approach

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

Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

Subsequent measurement of financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue from contracts with customers

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

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

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

(a) *Sale of electrothermic household appliances and tooling*

Revenue from the sale of electrothermic household appliances and tooling is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the electrothermic household appliances and acceptance of the tooling.

(b) *Consultancy income*

Revenue from consultancy services is recognised over time as consultancy services are rendered.

Other income

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

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract costs

Other than the costs which are capitalised as inventories and property, plant and equipment, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company’s memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Income taxes

The Group has exposure to income taxes in different jurisdictions. Significant judgement is involved in determining the provision for income taxes. Determining income tax provisions involves judgement on the future tax treatment of certain transactions and interpretation of tax rules. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation, interpretations and practices in respect thereof.

Estimation uncertainty

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

Impairment of non-financial assets

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the electrothermic household appliance manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 16 to the financial statements.

Net realisable value of inventories

The Group performs regular review of the carrying amounts of inventories with reference to aged analyses of the Group's inventories, projections of expected future saleability of goods and management experience and judgement. Based on this review, write-down of inventories will be made when the estimated net realisable value of inventories declines below their carrying amount. Due to changes in technological, market and economic environment and customers' preference, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation. As at 31 December 2019, the carrying amount of inventories was HK\$67,511,000 (2018: HK\$43,113,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2019

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of electrothermic household appliances. Information reported to the Group's chief operating decision maker for the purpose of making decisions about resource allocation and performance assessment is focused on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Geographical information

(a) Revenue from external customers

	2019 HK\$'000	2018 HK\$'000
Europe	443,200	308,373
Asia	36,539	32,148
United States	28,172	28,802
Others	2,287	4,139
	510,198	373,462

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

(b) Non-current assets

	2019 HK\$'000	2018 HK\$'000
Hong Kong	2,096	1,958
Mainland China	50,376	62,136
	52,472	64,094

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

4. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers

Revenue from external customers contributing over 10% of the total revenue of the Group is as follows:

	2019 HK\$'000	2018 HK\$'000
Customer A	230,907	55,191
Customer B	60,203	37,859
Customer C	N/A*	57,899
Customer D	N/A*	45,803

* Nil or less than 10% of revenue

5. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2019 HK\$'000	2018 HK\$'000
Revenue from contracts with customers	510,198	373,462

Revenue from contracts with customers

(a) Disaggregated revenue information

	2019 HK\$'000	2018 HK\$'000
Type of goods		
Sale of electrothermic household appliances	508,260	362,321
Sale of tooling	1,938	11,141
Total revenue from contracts with customers	510,198	373,462
Timing of revenue recognition		
Goods transferred at a point in time	510,198	373,462

NOTES TO FINANCIAL STATEMENTS

31 December 2019

5. REVENUE, OTHER INCOME AND GAINS, NET (Continued)

Revenue from contracts with customers (Continued)

(b) Performance obligations

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

Sale of electrothermic household appliances

The performance obligation is satisfied upon delivery of the electrothermic household appliances and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

Sale of tooling

The performance obligation is satisfied upon transfer of control of the tooling and payment is generally due upon achievement of milestone and customer acceptance.

As a practical expedient, the transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) are not disclosed in the notes to the financial statements because all the remaining performance obligations in relation to the sale of goods are a part of contracts that have an original expected duration of one year or less.

An analysis of other income and gains, net is as follows:

	2019 HK\$'000	2018 HK\$'000
Other income		
Bank interest income	1,250	1,066
Consultancy income	849	1,243
Others	2,055	1,228
	4,154	3,537
Gains, net		
Fair value gains on structured deposits	8	333
Foreign exchange differences, net	–	4,332
	8	4,665
	4,162	8,202

NOTES TO FINANCIAL STATEMENTS

31 December 2019

6. FINANCE COSTS

	2019 HK\$'000	2018 HK\$'000
Interest on bank loans	1,789	791
Interest on lease liabilities	1,484	94
	3,273	885

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2019 HK\$'000	2018 HK\$'000
Cost of inventories sold		331,670	268,117
Depreciation of property, plant and equipment*	13	8,479	16,073
Depreciation of right-of-use assets*	14	11,155	1,362
Rental expenses from leases of low-value assets		19	18
Auditor's remuneration		1,680	773
Employee benefit expense (including directors' remuneration (note 8))*:			
Wages, salaries, bonuses and allowances		75,530	78,446
Pension scheme contributions (defined contribution schemes)		10,971	9,091
		86,501	87,537
Foreign exchange differences, net		2,449 [^]	(4,332)
Write-down/(reversal of write-down) of inventories to net realisable value*		(643)	44
Impairment of trade receivables, net [^]	16	480	615
Loss on disposal of items of property, plant and equipment, net [^]		24	87
Listing expenses		19,568	–

* The cost of inventories sold for the year included depreciation charge of property, plant and equipment of HK\$8,263,000 (2018: HK\$14,101,000), depreciation charge of right-of-use assets of HK\$9,230,000 (2018: HK\$373,000), employee benefit expense of HK\$36,717,000 (2018: HK\$47,538,000) and reversal of write-down of inventories to net realisable value of HK\$643,000 (2018: write-down of inventories to net realisable value of HK\$44,000).

[^] Included in "Other expenses, net" in the consolidated statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2019 HK\$'000	2018 HK\$'000
Fees	–	240
Other emoluments:		
Salaries, bonuses and allowances	9,515	5,250
Pension scheme contributions	119	108
	9,634	5,358
	9,634	5,598

(a) Independent non-executive directors

	Fees HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2019			
Mr. Chan Ping Yim*	44	–	44
Mr. Choi Chi Leung Danny*	44	–	44
Mr. Chan Shing Jee*	44	2	46
	132	2	134

* Mr. Chan Ping Yim, Mr. Choi Chi Leung Danny and Mr. Chan Shing Jee were appointed as independent non-executive directors of the Company on 3 October 2019.

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2019

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors and non-executive directors

	Fees HK\$'000	Salaries, bonuses and allowances HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2019				
Executive directors:				
Mr. Chan Wai Ming*	–	2,080	19	2,099
Mr. Chiu Wai Kwong*	–	2,051	20	2,071
Ms. Tang Mei Wah*	–	1,371	20	1,391
Mr. Yu Kwok Wai*	–	1,315	19	1,334
Non-executive directors:				
Dr. Chan Kam Kwong Charles [^]	–	1,328	20	1,348
Ms. Cheng Yuk Sim Connie [^]	–	1,238	19	1,257
	–	9,383	117	9,500
2018				
Directors:				
Mr. Chan Wai Ming	–	1,207	18	1,225
Mr. Chiu Wai Kwong	–	1,380	18	1,398
Ms. Tang Mei Wah	120	639	18	777
Mr. Yu Kwok Wai	120	584	18	722
Dr. Chan Kam Kwong Charles	–	720	18	738
Ms. Cheng Yuk Sim Connie	–	720	18	738
	240	5,250	108	5,598

* Mr. Chan Wai Ming, Mr. Chiu Wai Kwong, Ms. Tang Mei Wah and Mr. Yu Kwok Wai were re-designated as executive directors of the Company on 28 February 2019.

[^] Dr. Chan Kam Kwong Charles and Ms. Cheng Yuk Sim Connie were re-designated as non-executive directors of the Company on 28 February 2019.

During the year, no remuneration was paid or payable by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2018: Nil).

There was no arrangement under which a director or a chief executive waived or agreed to waive any remuneration during the year (2018: Nil).

NOTES TO FINANCIAL STATEMENTS

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2018: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2018: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 HK\$'000	2018 HK\$'000
Salaries, bonuses and allowances	2,967	3,337
Pension scheme contributions (defined contribution scheme)	36	54
	3,003	3,391

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2019	2018
HK\$1,000,001 to HK\$1,500,000	1	3
HK\$1,500,001 to HK\$2,000,000	1	–
	2	3

NOTES TO FINANCIAL STATEMENTS

31 December 2019

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK\$2,000,000 (2018: Nil) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. No provision for Hong Kong profits tax was made in the prior year as the Group had available tax losses brought forward from prior years to offset the assessable profits generated during that year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2019 HK\$'000	2018 HK\$'000
Current — Hong Kong		
Charge for the year	9,452	–
Current — Mainland China		
Charge for the year	8,483	4,880
Underprovision in prior years	20	–
Deferred (<i>note 23</i>)	2,111	3,011
Total tax charge for the year	20,066	7,891

A reconciliation of the tax expense applicable to profit before tax at the Hong Kong statutory tax rate to the tax charge at the Group's effective tax rate is as follows:

	2019 HK\$'000	2018 HK\$'000
Profit before tax	80,876	45,930
Tax at the Hong Kong statutory tax rate of 16.5% (2018: 16.5%)	13,345	7,578
Lower tax rate under two-tiered profits tax rates regime	(165)	–
Difference in tax rates applied for specific provinces or local authority	3,573	2,391
Adjustments in respect of current tax of previous periods	20	–
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	1,568	(565)
Effect of super deduction on eligible research and development expenses of the Group's PRC subsidiaries	(2,389)	(1,607)
Income not subject to tax	(200)	(49)
Expenses not deductible for tax	4,187	156
Others	127	(13)
Tax charge at the Group's effective tax rate	20,066	7,891

NOTES TO FINANCIAL STATEMENTS

31 December 2019

11. DIVIDENDS

A dividend of HK\$32,229,000 was declared by Tunbow (Huizhou) to the then shareholder during the year ended 31 December 2018.

	2019 HK\$'000	2018 HK\$'000
Dividend proposed after the end of the reporting period:		
Proposed final — HK10.6 cents (2018: Nil) per ordinary share	42,400	—

The proposed final dividend of HK10.6 cents per ordinary share for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK\$60,810,000 (2018: HK\$38,039,000), and the weighted average number of ordinary shares of 318,904,110 (2018: 300,000,000) in issue during the year, on the assumption that the Reorganisation and the capitalisation issue, as further explained in note 24 to the financial statements, had been completed on 1 January 2018.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

NOTES TO FINANCIAL STATEMENTS

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13. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Moulds HK\$'000	Total HK\$'000
31 December 2019						
At 31 December 2018 and at 1 January 2019:						
Cost	-	1,075	18,442	1,585	13,865	34,967
Accumulated depreciation	-	(12)	(776)	(111)	(778)	(1,677)
Net carrying amount	-	1,063	17,666	1,474	13,087	33,290
At 1 January 2019, net of accumulated depreciation	-	1,063	17,666	1,474	13,087	33,290
Additions	-	676	968	1,506	2,719	5,869
Disposals	-	-	(24)	-	-	(24)
Depreciation provided during the year	-	(80)	(3,624)	(443)	(4,332)	(8,479)
Exchange realignment	-	(16)	(415)	(51)	(248)	(730)
At 31 December 2019, net of accumulated depreciation	-	1,643	14,571	2,486	11,226	29,926
At 31 December 2019:						
Cost	-	1,733	18,864	3,032	16,251	39,880
Accumulated depreciation	-	(90)	(4,293)	(546)	(5,025)	(9,954)
Net carrying amount	-	1,643	14,571	2,486	11,226	29,926
31 December 2018						
At 1 January 2018:						
Cost	127,796	34,686	41,641	8,924	20,203	233,250
Accumulated depreciation	(37,728)	(19,060)	(19,289)	(6,331)	(7,457)	(89,865)
Net carrying amount	90,068	15,626	22,352	2,593	12,746	143,385
At 1 January 2018, net of accumulated depreciation	90,068	15,626	22,352	2,593	12,746	143,385
Additions	7,117	3,019	1,766	475	8,204	20,581
Disposals	-	(128)	(83)	(456)	(3,207)	(3,874)
Depreciation provided during the year	(5,853)	(1,850)	(3,231)	(921)	(4,218)	(16,073)
Deemed distribution to Tunbow Investments (BVI) (note 26)	(87,390)	(14,978)	(2,009)	(128)	-	(104,505)
Exchange realignment	(3,942)	(626)	(1,129)	(89)	(438)	(6,224)
At 31 December 2018, net of accumulated depreciation	-	1,063	17,666	1,474	13,087	33,290
At 31 December 2018:						
Cost	-	1,075	18,442	1,585	13,865	34,967
Accumulated depreciation	-	(12)	(776)	(111)	(778)	(1,677)
Net carrying amount	-	1,063	17,666	1,474	13,087	33,290

NOTES TO FINANCIAL STATEMENTS

31 December 2019

14. LEASES

The Group as a lessee

The Group leases its workshop, ancillary office, factory, warehouse and staff quarters from related companies under operating lease arrangements. The leases are negotiated for terms ranging from two to three years. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 49 to 50 years, and no ongoing payments would be made under the terms of these land leases. The office equipment leased by the Group are of low value.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments HK\$'000	Leased properties HK\$'000	Total HK\$'000
At 1 January 2018	16,125	–	16,125
Additions	–	31,160	31,160
Depreciation charge during the year	(413)	(949)	(1,362)
Deemed distribution to Tunbow Investments (BVI) (<i>note 26</i>)	(14,985)	–	(14,985)
Exchange realignment	(727)	–	(727)
At 31 December 2018 and at 1 January 2019	–	30,211	30,211
Additions	–	3,388	3,388
Depreciation charge during the year	–	(11,155)	(11,155)
Exchange realignment	–	(538)	(538)
At 31 December 2019	–	21,906	21,906

NOTES TO FINANCIAL STATEMENTS

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14. LEASES (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

The carrying amounts of lease liabilities and the movements during the year are as follows:

	2019 HK\$'000	2018 HK\$'000
At 1 January	30,249	–
New leases	3,388	31,160
Accretion of interest recognised during the year	1,484	94
Payments during the year	(12,058)	(1,005)
Exchange realignment	(551)	–
At 31 December	22,512	30,249
Analysed into:		
Current portion	11,565	11,799
Non-current portion	10,947	18,450

The maturity analysis of lease liabilities is disclosed in note 32 to the financial statements.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 HK\$'000	2018 HK\$'000
Interest on lease liabilities	1,484	94
Depreciation charge of right-of-use assets	11,155	1,362
Expense relating to leases of low-value assets (included in administrative expenses)	19	18
Total amount recognised in profit or loss	12,658	1,474

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15. INVENTORIES

	2019 HK\$'000	2018 HK\$'000
Raw materials	26,226	21,786
Work in progress	20,385	9,757
Finished goods	20,900	11,570
	67,511	43,113

16. TRADE RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Trade receivables	63,959	80,572
Impairment	(1,024)	(762)
	62,935	79,810

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months for major customers. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2019 HK\$'000	2018 HK\$'000
Within 30 days	28,621	47,998
31 to 90 days	29,135	28,830
Over 90 days	5,179	2,982
	62,935	79,810

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16. TRADE RECEIVABLES (Continued)

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

	2019 HK\$'000	2018 HK\$'000
At beginning of year	762	172
Impairment losses, net (<i>note 7</i>)	480	615
Amount written off as uncollectible	(218)	(25)
At end of year	1,024	762

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than 120 days and are not subject to enforcement activity.

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

As at 31 December 2019

	Current	Past due			Total
		Less than 30 days	31 to 90 days	Over 90 days	
Expected credit loss rate	0.80%	1.43%	14.04%	93.69%	1.60%
Gross carrying amount (HK\$'000)	49,952	11,202	2,718	87	63,959
Expected credit loss (HK\$'000)	401	160	382	81	1,024

As at 31 December 2018

	Current	Past due			Total
		Less than 30 days	31 to 90 days	Over 90 days	
Expected credit loss rate	0.71%	0.73%	0.93%	20.31%	0.95%
Gross carrying amount (HK\$'000)	73,510	5,521	586	955	80,572
Expected credit loss (HK\$'000)	523	40	5	194	762

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17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Prepayments	7,380	1,396
Deposits	295	295
Other receivables	31,880	13,432
	39,555	15,123
Less: Portion classified as non-current assets	(251)	(251)
	39,304	14,872

The financial assets included in the above balances relate to deposits and receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

18. BALANCES WITH RELATED COMPANIES

The balances with related companies were unsecured, interest-free and repayable on demand.

An analysis of the amounts due from related companies is as follows:

	2019 HK\$'000	2018 HK\$'000
Tunbow Investments (BVI) [#]	–	13,691
東保利電業(深圳)有限公司 (Dongbaoli Electrical (Shenzhen) Co., Ltd.) ^{*#}	–	74
	–	13,765

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18. BALANCES WITH RELATED COMPANIES (Continued)

An analysis of the amounts due to related companies is as follows:

	2019 HK\$'000	2018 HK\$'000
東保達電子(惠州)有限公司 (Tunbow Electronics (Huizhou) Limited)**	-	447
Tunbow (Huizhou)**^	-	2
	-	449

* These related companies are controlled by Tunbow Investments (EVI).

^ The balance was trade-related.

These balances were non-trade-related.

19. CASH AND CASH EQUIVALENTS

	2019 HK\$'000	2018 HK\$'000
Cash and bank balances	88,512	51,857
Time deposits	157,046	-
Cash and cash equivalents	245,558	51,857

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK\$20,878,000 (2018: HK\$10,296,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO FINANCIAL STATEMENTS

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20. TRADE PAYABLES

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

	2019 HK\$'000	2018 HK\$'000
Within 30 days	19,750	14,997
31 to 90 days	31,457	22,155
Over 90 days	1,393	1,864
	52,600	39,016

The trade payables are non-interest-bearing and are normally settled on terms ranging from 30 to 60 days.

21. OTHER PAYABLES AND ACCRUALS

	Notes	2019 HK\$'000	2018 HK\$'000
Contract liabilities	(a)	9,222	1,338
Other payables	(b)	228	137
Accruals		21,822	12,773
		31,272	14,248

Notes:

(a) Details of contract liabilities are as follows:

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
Short-term advances received from customers for the sale of goods	9,222	1,338	5,848

The increase in contract liabilities in 2019 was mainly due to the increase in short-term advances received from customers for the sale of goods at the end of the year.

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

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22. INTEREST-BEARING BANK BORROWINGS

	2019			2018		
	Contractual interest rate (%)	Maturity	HK\$'000	Contractual interest rate (%)	Maturity	HK\$'000
Portions of bank loans due for repayment within one year or on demand — secured	London Interbank Offered Rate+1.2 to Hong Kong Interbank Offered Rate+1.75	2020	34,471	LIBOR+1.2 to HIBOR+1.75	2019	33,671
Portions of bank loans due for repayment after one year which contain repayment on demand clause (<i>note</i>) — secured	HIBOR+1.75	2021-2023	9,000	HIBOR+1.75	2020-2023	13,000
			43,471			46,671

Note:

Certain term loans of the Group containing repayable on demand clauses as at 31 December 2019 with a carrying amount of HK\$13,000,000 (2018: HK\$17,000,000) have been classified in total as current liabilities. Accordingly, portions of the bank loans due for repayment after one year as at 31 December 2019 with a carrying amount of HK\$9,000,000 (2018: HK\$13,000,000) have been classified as current liabilities. For the purpose of the above analysis, the loans are included within current interest-bearing bank borrowings and analysed into bank loans repayable within one year or on demand.

Ignoring the effect of any repayment on demand clause and based on the maturity terms of these term loans, the Group's bank borrowings are repayable:

	2019 HK\$'000	2018 HK\$'000
Within one year	34,471	33,671
In the second year	4,000	4,000
In the third to fifth years, inclusive	5,000	9,000
	43,471	46,671

(a) The Group's bank borrowings are secured by:

- (i) the pledge of investment properties of Tunbow Properties Limited, a related company controlled by Tunbow Investments (BVI), as at 31 December 2019 and 2018; and
- (ii) the pledge of time deposit of Tunbow (Huizhou) amounting to HK\$37,891,000 as at 31 December 2018, which was released during the year.

Subsequent to the end of the reporting period, the pledge of investment properties was released on 13 March 2020.

(b) The Group's bank borrowings are guaranteed by:

- (i) Tunbow Investments (BVI) up to HK\$105,000,000 (2018: HK\$105,000,000); and
- (ii) Dr. Chan Kam Kwong Charles and Ms. Cheng Yuk Sim Connie, directors of the Company, up to HK\$50,000,000 (2018: HK\$50,000,000).

Subsequent to the end of the reporting period, the above guarantees were released on 13 March 2020.

(c) Except for bank borrowings of HK\$22,897,000 (2018: HK\$29,671,000) as at 31 December 2019, which are denominated in United States dollars ("USD"), the remaining bank borrowings are denominated in Hong Kong dollars.

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23. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK\$'000	Withholding tax HK\$'000	Total HK\$'000
At 1 January 2018	–	1,674	1,674
Deferred tax credited to the consolidated statement of profit or loss during the year (<i>note 10</i>)	–	(565)	(565)
Deemed distribution to Tunbow Investments (BVI) (<i>note 26</i>)	–	(656)	(656)
Exchange realignment	–	(57)	(57)
At 31 December 2018 and at 1 January 2019	–	396	396
Deferred tax charged to the consolidated statement of profit or loss during the year (<i>note 10</i>)	34	1,568	1,602
Exchange realignment	–	(37)	(37)
At 31 December 2019	34	1,927	1,961

NOTES TO FINANCIAL STATEMENTS

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23. DEFERRED TAX (Continued)

Deferred tax assets

	Depreciation in excess of related depreciation allowance HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2018	1,575	3,858	1,321	6,754
Deferred tax charged to the consolidated statement of profit or loss during the year (<i>note 10</i>)	(467)	(3,076)	(33)	(3,576)
Deemed distribution to Tunbow Investments (BVI) (<i>note 26</i>)	–	–	(987)	(987)
Exchange realignment	–	–	(54)	(54)
At 31 December 2018 and at 1 January 2019	1,108	782	247	2,137
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (<i>note 10</i>)	(278)	(782)	551	(509)
Exchange realignment	–	–	(12)	(12)
At 31 December 2019	830	–	786	1,616

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

	2019 HK\$'000	2018 HK\$'000
Net deferred tax assets recognised in the consolidated statement of financial position	1,582	2,137
Net deferred tax liabilities recognised in the consolidated statement of financial position	(1,927)	(396)
Net deferred tax assets/(liabilities)	(345)	1,741

NOTES TO FINANCIAL STATEMENTS

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23. DEFERRED TAX (Continued)

At 31 December 2018, the Group had tax losses arising in Hong Kong of HK\$4,742,000, subject to the agreement by the Hong Kong Inland Revenue Department, that are available indefinitely for offsetting against the future taxable profits of the companies in which the losses arose.

Deferred tax assets have been recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised based on management's forecasted future taxable profits, which are based on (i) the availability of taxable temporary differences relating to the same taxation authority and the same taxable entity; (ii) whether the unused tax losses resulted from identifiable causes which are unlikely to recur; and (iii) the likely timing and level of future taxable profits together with future tax planning strategies.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

24. SHARE CAPITAL

	2019 HK\$'000	2018 HK\$'000
Authorised: 4,000,000,000 (2018: 38,000,000) ordinary shares of HK\$0.01 each	40,000	380
Issued and fully paid: 400,000,000 (2018: 11,178) ordinary shares of HK\$0.01 each	4,000	–

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24. SHARE CAPITAL (Continued)

A summary of movements in the Company's authorised and issued share capital is as follows:

	<i>Notes</i>	Number of ordinary shares	Nominal value of ordinary shares HK\$'000
Authorised:			
At 1 January 2018, at 31 December 2018 and at 1 January 2019		38,000,000	380
Increase in authorised share capital	<i>(a)</i>	3,962,000,000	39,620
At 31 December 2019		4,000,000,000	40,000
Issued and fully paid:			
At 1 January 2018, at 31 December 2018 and at 1 January 2019		11,178	–
Capitalisation issue	<i>(b)</i>	299,988,822	3,000
Issue of shares under initial public offering	<i>(c)</i>	100,000,000	1,000
At 31 December 2019		400,000,000	4,000

- (a) On 3 October 2019, the authorised share capital of the Company was increased by HK\$39,620,000 by the creation of 3,962,000,000 additional ordinary shares of HK\$0.01 each, ranking pari passu in all respects with the existing shares of the Company.
- (b) Pursuant to the written resolution of the shareholders of the Company passed on 3 October 2019, 299,988,822 ordinary shares of HK\$0.01 each were allotted and issued, credited as fully paid at par, by way of capitalisation from the share premium account to the then shareholders on a pro-rata basis. The allotment and capitalisation issue were conditional upon the share premium account being credited as a result of the issue of shares in connection with the Company's initial public offering as detailed in note (c) below.
- (c) In connection with the Company's initial public offering, 100,000,000 ordinary shares of HK\$0.01 each were issued at a price of HK\$1.30 per share for a total cash consideration, before expenses, of approximately HK\$130,000,000. Dealing in the shares of the Company on the Stock Exchange commenced on 25 October 2019.

NOTES TO FINANCIAL STATEMENTS

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25. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 71 of the financial statements.

(a) Merger reserve

The merger reserve represents the nominal value of the paid-up capital of the subsidiaries acquired by the Company pursuant to the Reorganisation set out in note 2.1 to the financial statements. The movement in merger reserve represented the deemed distribution of the nominal value of the paid-up capital of Tunbow (Huizhou) during the year ended 31 December 2018.

(b) Capital contribution reserve

Capital contribution reserve represents capital contribution of HK\$63,000,000 from Tunbow Investments (BVI) during the year ended 31 December 2018.

(c) Share-based payment reserve

The share-based payment reserve represents the fair value of the 1,003 ordinary shares of the Company awarded to certain key management personnel of the Group in 2017 in exchange for services rendered by them.

(d) Statutory reserve funds

Pursuant to the relevant laws and regulations in Mainland China, a portion of the profits of the Company's subsidiaries in Mainland China has been transferred to the statutory reserve funds which are restricted as to use.

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26. DEEMED DISTRIBUTION TO TUNBOW INVESTMENTS (BVI)

Pursuant to the business transfer agreement entered into between Tunbow (Huizhou) and Town Ray (Huizhou) on 21 August 2018, as part of the Reorganisation, the PRC Manufacture and Sale Business formerly operated by Tunbow (Huizhou) was transferred to Town Ray (Huizhou) at a consideration of RMB1 and the transfer was completed on 31 December 2018. The assets and liabilities of Tunbow (Huizhou) set out below were not transferred, assigned or novated to Town Ray (Huizhou) as at 31 December 2018 and were treated as a deemed distribution to Tunbow Investments (BVI) in connection with the Reorganisation.

	<i>Notes</i>	2018 HK\$'000
Net assets distributed:		
Property, plant and equipment	13	104,505
Right-of-use assets	14(a)	14,985
Deferred tax assets	23	987
Prepayments, deposits and other receivables		829
Due from related companies		81,080
Tax recoverable		1,455
Pledged deposit		37,891
Cash and cash equivalents		61,764
Trade payables		(2,091)
Other payables and accruals		(8,406)
Due to related companies		(98,401)
Deferred tax liabilities	23	(656)
		<hr/> 193,942

NOTES TO FINANCIAL STATEMENTS

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27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transaction

During the year ended 31 December 2018, Tunbow Investments (BVI) made a capital contribution of HK\$63,000,000 to the Group, which was settled through current account with Tunbow Investments (BVI).

(b) Changes in liabilities arising from financing activities

2019

	Interest-bearing bank borrowings HK\$'000	Lease liabilities HK\$'000
At 1 January 2019	46,671	30,249
Changes from financing cash flows	(3,200)	(10,574)
Non-cash changes:		
New leases	–	3,388
Foreign exchange movement	–	(551)
At 31 December 2019	43,471	22,512

2018

	Interest-bearing bank borrowings HK\$'000	Lease liabilities HK\$'000
At 1 January 2018	44,000	–
Changes from financing cash flows	2,671	(911)
Non-cash changes:		
New leases	–	31,160
At 31 December 2018	46,671	30,249

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28. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2019 HK\$'000	2018 HK\$'000
Contracted, but not provided for:		
Plant and machinery	–	342
Furniture, fixtures and equipment	13	–
Moulds	1,350	650
	1,363	992

29. RELATED PARTY TRANSACTIONS

(a) In addition to the balances, arrangements and transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2019 HK\$'000	2018 HK\$'000
東保達電子（惠州）有限公司 (Tunbow Electronics (Huizhou) Limited)*:			
Purchases of items of property, plant and equipment	(i)	–	447
Tunbow Properties Limited*:			
Lease payments	(ii)	1,005	1,005
Tunbow (Huizhou)*:			
Lease payments	(ii)	11,053	–

* These related companies are controlled by Tunbow Investments (BVI).

Notes:

- (i) The purchases of items of property, plant and equipment from the related company were made at the net carrying amount at the date of purchase.
- (ii) The lease payments were charged by the related companies at monthly fixed amounts as detailed in notes 29(b)(i) and 29(b)(ii).

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29. RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties:

- (i) On 22 December 2017, the Group entered into a tenancy agreement with Tunbow Properties Limited, a related company controlled by Tunbow Investments (BVI), for the lease of premises for a term of 3 years ending 31 December 2020 at a monthly rent of HK\$83,790. On 1 April 2019, the tenancy agreement was renewed for another term ending 31 December 2021 at a monthly rent of HK\$83,790.
- (ii) On 1 October 2018, the Group entered into a tenancy agreement with Tunbow (Huizhou) for the lease of premises for a term of 3 years ending 30 September 2021 at a monthly rent of RMB810,150. On 1 April 2019, the tenancy agreement was renewed for another term ending 31 December 2021 at a monthly rent of RMB810,150.

(c) Compensation of key management personnel of the Group

Remuneration for key management personnel of the Group, including directors' and chief executive's remuneration as disclosed in note 8 to the financial statements, is as follows:

	2019 HK\$'000	2018 HK\$'000
Short term employee benefits	16,559	11,057
Post-employment benefits	225	215
Total compensation paid to key management personnel	16,784	11,272

NOTES TO FINANCIAL STATEMENTS

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30. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

	2019 HK\$'000	2018 HK\$'000
Financial assets at amortised cost:		
Trade receivables	62,935	79,810
Financial assets included in prepayments, deposits and other receivables	27,578	1,795
Due from related companies	–	13,765
Cash and cash equivalents	245,558	51,857
	336,071	147,227

Financial liabilities

	2019 HK\$'000	2018 HK\$'000
Financial liabilities at amortised cost:		
Trade payables	52,600	39,016
Financial liabilities included in other payables and accruals	7,079	4,476
Due to related companies	–	449
Interest-bearing bank borrowings	43,471	46,671
Lease liabilities	22,512	30,249
	125,662	120,861

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade receivables, the current portion of financial assets included in prepayments, deposits and other receivables, balances with related companies, trade payables, financial liabilities included in other payables and accruals, and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portions of financial assets included in prepayments, deposits and other receivables have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents and interest-bearing bank borrowings. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, financial assets included in prepayments, deposits and other receivables, balances with related companies, trade payables, financial liabilities included in other payables and accruals, and lease liabilities, which mainly arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with floating interest rates. The Group does not use derivative financial instruments to hedge its interest rate risk. The Group mitigates this risk by closely monitoring the movements in interest rates and reviewing its available credit facilities and their utilisation regularly.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK\$'000
2019		
Hong Kong dollar	25	(51)
Hong Kong dollar	(25)	51
United States dollar	25	(57)
United States dollar	(25)	57
2018		
Hong Kong dollar	25	(43)
Hong Kong dollar	(25)	43
United States dollar	25	(74)
United States dollar	(25)	74

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures mainly arise from sales or purchases by operating units in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB and USD exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities).

	Increase/ (decrease) in RMB/USD rate %	Increase/ (decrease) in profit before tax HK\$'000
2019		
If the Hong Kong dollar weakens against the RMB	5.0	5,589
If the Hong Kong dollar strengthens against the RMB	(5.0)	(5,589)
If the Hong Kong dollar weakens against the USD	5.0	9,273
If the Hong Kong dollar strengthens against the USD	(5.0)	(9,273)
2018		
If the Hong Kong dollar weakens against the RMB	5.0	(434)
If the Hong Kong dollar strengthens against the RMB	(5.0)	434
If the Hong Kong dollar weakens against the USD	5.0	2,379
If the Hong Kong dollar strengthens against the USD	(5.0)	(2,379)

Credit risk

The Group mainly transacts with recognised and creditworthy third parties. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging

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

As at 31 December 2019

	12-month	Lifetime ECLs			Total
	ECLs	ECLs			
	Stage 1	Stage 2	Stage 3	Simplified	
	HK\$'000	HK\$'000	HK\$'000	approach	HK\$'000
				HK\$'000	HK\$'000
Trade receivables*	-	-	-	63,959	63,959
Financial assets included in prepayments, deposits and other receivables					
— Normal**	27,578	-	-	-	27,578
Cash and cash equivalents					
— Not yet past due	245,558	-	-	-	245,558
	273,136	-	-	63,959	337,095

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

As at 31 December 2018

	12-month	Lifetime ECLs			Total HK\$'000
	ECLs			Simplified	
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	approach HK\$'000	
Trade receivables*	–	–	–	80,572	80,572
Financial assets included in prepayments, deposits and other receivables					
– Normal**	1,795	–	–	–	1,795
Due from related companies					
– Not yet past due	13,765	–	–	–	13,765
Cash and cash equivalents					
– Not yet past due	51,857	–	–	–	51,857
	67,417	–	–	80,572	147,989

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 16 to the financial statements.

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 16 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty. At the end of the reporting period, the Group had certain concentrations of credit risk as 33% (2018: 23%) and 82% (2018: 77%) of the Group's trade receivables were due from the Group's largest customer and five largest customers, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group monitors its risk to a shortage of funds by considering the maturities of both its financial liabilities and financial assets.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Group aims to maintain sufficient cash and cash equivalents to meet its liquidity requirements.

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

	2019			
	On demand HK\$'000	Less than 1 year HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
Trade payables	–	52,600	–	52,600
Financial liabilities included in other payables and accruals	–	7,079	–	7,079
Interest-bearing bank borrowings (<i>note</i>)	43,471	–	–	43,471
Lease liabilities	–	11,858	11,858	23,716
	43,471	71,537	11,858	126,866
	2018			
	On demand HK\$'000	Less than 1 year HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
Trade payables	–	39,016	–	39,016
Financial liabilities included in other payables and accruals	–	4,476	–	4,476
Due to related companies	449	–	–	449
Interest-bearing bank borrowings (<i>note</i>)	46,671	–	–	46,671
Lease liabilities	–	12,101	20,422	32,523
	47,120	55,593	20,422	123,135

Note:

Included in the above interest-bearing bank borrowings of the Group as at 31 December 2019 are term loans with a carrying amount of HK\$13,000,000 (2018: HK\$17,000,000). The loan agreements contain a repayment on demand clause giving the bank the unconditional right to call in the loans at any time and therefore, for the purpose of the above maturity profile, the total amount is classified as "on demand".

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31 December 2019

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

Notwithstanding the above clause, the directors do not believe that the loans will be called in their entirety within 12 months from the end of the reporting period, and they consider that the loans will be repaid in accordance with the maturity dates as set out in the loan agreements. This evaluation was made considering: the financial position of the Group at the date of approval of the financial statements; the lack of events of default; and the fact that the Group has made all previously scheduled repayments on time.

In accordance with the terms of the loans which contain repayment on-demand clauses, the maturity profile of those loans as at the end of the reporting period, based on the contractual undiscounted payments and ignoring the effect of any repayment on demand clause, is as follows:

	Less than 1 year HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
As at 31 December 2019	4,419	9,429	13,848
As at 31 December 2018	4,522	13,757	18,279

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

Capital of the Group comprises all components of shareholders' equity.

33. EVENTS AFTER THE REPORTING PERIOD

As disclosed in the announcements of the Company dated 3 February 2020, 10 February 2020 and 14 February 2020 in relation to the outbreak of the coronavirus pandemic (the "Pandemic"), the Group has taken all necessary internal control measures to prevent the spread of the Pandemic among the staff of the Group. The production of the factory of the Group in Huizhou, the PRC was shortly suspended and resumed on 14 February 2020 in compliance with the pandemic control measures promulgated by the PRC government.

At the date of approval of these financial statements, as the overseas markets of the Group have been affected by the Pandemic, the Group foresaw challenges on its supply chain and sales in 2020. The Group expected that the Pandemic would have impact on the Group's operations but the degree of impact would depend on the development of the Pandemic and the time when the Pandemic prevention and control policies would be lifted. The Group will continue to comply with the relevant laws and regulations and closely monitor the impact of Pandemic among logistics, material supplies as well as overall the economic situation.

NOTES TO FINANCIAL STATEMENTS

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34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 HK\$'000	2018 HK\$'000
NON-CURRENT ASSET		
Investment in a subsidiary	–	–
CURRENT ASSETS		
Prepayments	366	31
Due from a subsidiary	152,370	62,870
Cash and cash equivalents	1,453	54
Total current assets	154,189	62,955
CURRENT LIABILITIES		
Accruals	128	–
Due to a subsidiary	1,500	–
Total current liabilities	1,628	–
NET CURRENT ASSETS	152,561	62,955
Net assets	152,561	62,955
EQUITY		
Issued capital	4,000	–
Reserves (<i>note</i>)	148,561	62,955
Total equity	152,561	62,955

NOTES TO FINANCIAL STATEMENTS

31 December 2019

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account	Capital contribution reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2018	–	–	–	–
Loss and total comprehensive loss for the year	–	–	(45)	(45)
Capital contribution from the controlling shareholder	–	63,000	–	63,000
At 31 December 2018 and at 1 January 2019	–	63,000	(45)	62,955
Loss and total comprehensive loss for the year	–	–	(20,677)	(20,677)
Capitalisation issue	(3,000)	–	–	(3,000)
Issue of shares under initial public offering	129,000	–	–	129,000
Share issue expenses	(19,717)	–	–	(19,717)
At 31 December 2019	106,283	63,000	(20,722)	148,561

The Company's capital contribution reserve represents capital contribution of HK\$63,000,000 from Tunbow Investments (BVI) during the year ended 31 December 2018.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2020.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years, as extracted from the published audited financial statements, is set out below:

	Results for the year ended 31 December			
	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
REVENUE	510,198	373,462	358,801	361,071
Cost of sales	(331,670)	(268,117)	(253,210)	(253,916)
Gross profit	178,528	105,345	105,591	107,155
Other income and gains, net	4,162	8,202	32,605	4,888
Selling and distribution expenses	(9,621)	(8,691)	(7,711)	(10,121)
General and administrative expenses	(85,967)	(57,176)	(65,746)	(58,424)
Other expenses, net	(2,953)	(865)	(5,430)	(8,394)
Finance costs	(3,273)	(885)	(294)	(1,046)
PROFIT BEFORE TAX	80,876	45,930	59,015	34,058
Income tax expense	(20,066)	(7,891)	(9,551)	(11,091)
PROFIT FOR THE YEAR	60,810	38,039	49,464	22,967
PROFIT FOR THE YEAR	60,810	38,039	49,464	22,967
OTHER COMPREHENSIVE INCOME/(LOSS)				
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations	(1,010)	(10,260)	14,023	(12,955)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	59,800	27,779	63,487	10,012
	As at 31 December			
	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Total assets	469,613	269,899	495,967	425,763
Total liabilities	163,058	133,427	224,103	175,696
Total equity	306,555	136,472	271,864	250,067