

ANNUAL REPORT 2019

Sky Light Holdings Limited
天彩控股有限公司

Stock Code **3882**

Incorporated in the Cayman Islands with limited liability



ANNUAL REPORT 2019





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Financial Highlights

	2019 HK\$'000	2018 HK\$'000	CHANGE
REVENUE	549,123	989,708	(44.5%)
COST OF SALES	(486,640)	(816,751)	(40.4%)
GROSS PROFIT	62,483	172,957	(63.9%)
GROSS PROFIT MARGIN (%)	11.4%	17.5%	(6.1) p.p.t.
LOSS FOR THE YEAR	(84,476)	(253,728)	(66.7%)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT BASIC AND DILUTED (EXPRESSED IN HK\$ PER SHARE)	HK\$(8.8) cents	HK\$(29.8) cents	(70.5%)
TOTAL EQUITY	273,349	310,067	(11.8%)

Corporate Information

Board of Directors

Executive Directors

Mr. Tang Wing Fong Terry (*Chairman*)
Mr. Lu Yongbin

Non-executive Directors

Ms. Tang Kam Sau
Mr. Wu Yongmou

Independent Non-executive Directors

Mr. Tse Yat Hong
Dr. Cheung Wah Keung
Mr. Chan Tsu Ming Louis

Committees of the Board

Audit Committee

Mr. Tse Yat Hong (*Chairman*)
Dr. Cheung Wah Keung
Mr. Chan Tsu Ming Louis

Remuneration Committee

Mr. Tse Yat Hong (*Chairman*)
Mr. Tang Wing Fong Terry
Mr. Chan Tsu Ming Louis

Nomination Committee

Mr. Tang Wing Fong Terry (*Chairman*)
Mr. Tse Yat Hong
Mr. Chan Tsu Ming Louis

Authorized Representatives

Mr. Tang Wing Fong Terry
Mr. Lu Yongbin

Company Secretary

Mr. Lu Yongbin

Registered Office

Second Floor, Century Yard,
Cricket Square, P.O. Box 902,
Grand Cayman, KY1-1103,
Cayman Islands

Head Office, Headquarters and Principal Place of Business in the People's Republic of China ("China" or the "PRC")

No. 8 & 9 Building
Antuoshan High-tech Industrial Park
Xinsha Road, Shajing, Bao'An
Shenzhen
PRC

Principal Place of Business in Hong Kong

Room 1910 19/F Kwong Sang Hong Centre
151-153 Hoi Bun Road
Kwun Tong
Kowloon
Hong Kong

Auditors

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Hong Kong Legal Adviser

Mayer Brown
16th-19th Floors, Prince's Building
10 Charter Road
Central
Hong Kong

Corporate Information

Cayman Islands Principal Registrar and Transfer Office

Tricor Services (Cayman Islands) Limited
Second Floor, Century Yard, Cricket Square,
P. O. Box 902, Grand Cayman,
KY1-1103, Cayman Islands

Hong Kong Branch Share Registrar

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Hongkong and Shanghai Banking
Corporation Limited
Level 10 HSBC Main Building
1 Queen's Road Central
Hong Kong

Stock Code

3882

Company Website Address

www.sky-light.com.hk

Chairman's Statement

To all shareholders,

First of all, on behalf of the Board of Directors (the "Directors") (the "Board"), thank you for your continued support for Sky Light Holdings Limited ("Sky Light" or the "Company" or "our Company") and its subsidiaries (together, the "Group" or "our Group" or "we").

The Group's total revenue from continuing operations is around HK\$549.1 million (2018: approximately HK\$989.7 million) for the year ended 31 December 2019 ("FY2019"), representing a decrease of approximately 44.5% compared to the year ended 31 December 2018 ("FY2018"). We recorded a loss of approximately HK\$84.5 million in FY2019.

Due to the US tariffs, which have substantial additional cost impact on US based customers, our business of 2019 dropped significantly. For that reason, we conceived and built a new factory in Vietnam, operationally worthy in 6 months by middle of 2019 and started to shift the production for US customers gradually in the second half of 2019. From 2020, all of our production for US markets will be manufactured in Vietnam. We believe that the new factory can help us to save cost and eliminate customers' concern and anxiety on the US tariffs. That would present more opportunities for us to get more business.

In 2020, the aggravation of protectionism and spread of the novel coronavirus ("COVID-19") will damage the worldwide economy. With the production in both Vietnam and China, we hope to avoid the tariff impact caused by protectionism. Further, we will focus on exploring more business in Europe, Japan and China to widen our sales channel.

In addition to our current business of development and manufacture imaging products for home security, police, sport and conference video, we are developing a product for online educational market. This product will be launched in the market targeting early April. With the spread of COVID-19, opportunity of online educational product is huge.

No matter what, we will keep on developing creative products and working hard to improve and optimise our operations in order to turnaround as soon as possible.

Appreciation

On behalf of the Board, I would like to express my sincere gratitude for the support of all the business partners, customers and shareholders, as well as the contributions of the management team and all staff of the Group for the past many years. We believe that, with everybody's dedication and efforts, the Group will be well positioned to achieve further success.

Tang Wing Fong Terry

Chairman

Hong Kong, 27 March 2020

Management Discussion and Analysis

Business review

The Group is principally engaged in the sales, development and manufacture of home surveillance cameras, 360-degree cameras and other digital imaging products such as police cameras, conference video and other imaging products for various purposes. In particular, the Group is one of the leading digital imaging device and solutions providers for the home surveillance camera industry. Leveraging its substantial experience spanning a diverse range of digital imaging products, the Group differentiates itself from other manufacturers by offering design-driven joint design manufacturing (“JDM”) and original design manufacturing (“ODM”) solutions to customers.

In view of the online educational market is growing very fast in China, the Group will develop a new product based on our technical know-how to widen our product lines on this industry. At the same time, the Group will actively explore the market in Japan and Europe in order to reduce the effect on the trade war.

ODM/JDM business

For FY2019, the Group’s turnover from the ODM/JDM business significantly dropped by approximately HK\$440.6 million to approximately HK\$549.1 million from approximately HK\$989.7 million for FY2018. The drop was mainly caused by the US tariffs imposed to our most products for our US customers. Our US customers reduced their orders and halted the project discussions until our new factory in Vietnam was set up at the middle of 2019.

Home surveillance cameras of the Group’s ODM/JDM business was still the major revenue source, and contributed approximately 51.2% of the Group’s total revenue for FY2019. Due to 25% US tariff imposed on the products, the revenue of home surveillance cameras dropped HK\$379.0 million compared to FY2018.

Prospects

The Group considers that worldwide economy in 2020 will be affected by the aggravation of protectionism and spread of the COVID-19. After we set up the factory in Vietnam at the middle of 2019, our US customers don’t need to worry about paying the tariffs. With their consent, we will move all our production for US customers to Vietnam in 2020. We hope that we can save cost and will have more business opportunities. In order to widen our product lines with our technical know-how, we are developing a new product for educational market which is growing very fast in China. In order to improve our financial result and turnaround as soon as possible, we will work hard to increase market share and deliver high-quality products and solutions to our customers by pursuing the following strategies:

- Continue to develop innovative products and explore other potential product lines with our technical know-how;
- Actively explore the market in Japan, Europe and Mainland China;
- Save cost by optimizing and improving the operations both in China and Vietnam factories.

Management Discussion and Analysis

Financial review

Turnover

The Group's products mainly consist of the following three categories: (i) home surveillance cameras, (ii) digital imaging products, and (iii) other products. It generates revenue predominantly from sales of these products, as well as from other income, such as research and development ("R&D") service and tooling fees associated with products that it manufactures for customers. It is expected that the contribution from home surveillance cameras will increase in the next few years. The following table sets out the breakdown of the revenue from sales of major products by product type for the periods indicated:

	2019 HK\$'000	% of total revenue	2018 HK\$'000	% of total revenue	Revenue change
Home surveillance cameras	281,167	51.2%	660,121	66.7%	-57.4%
Digital imaging products	159,548	29.1%	225,343	22.8%	-29.2%
Others products	108,408	19.7%	104,244	10.5%	4.0%
TOTAL	549,123	100.0%	989,708	100.0%	-44.5%

For FY2019, the Group recorded a turnover of approximately HK\$549.1 million from the ODM/JDM business (FY2018: approximately HK\$989.7 million), representing a significant decrease of approximately 44.5% as compared to FY2018. This decrease was mainly attributable to the significant decline of customer orders, which was influenced by the China-US trade war.

The Group sells its products mainly to customers in the US and European Union and it is expected that the US and European Union market will continue to account for majority of the Group's revenue in the foreseeable future. The significant decrease in the sales in the US and European Union was due to the decrease in the sales from home surveillance cameras to the Group's key customers, which are located in the US and European Union. The following table sets out the breakdown of revenue by location of customers for the periods indicated:

	2019 HK\$'000	2018 HK\$'000
United States of America	300,781	554,119
Mainland China	65,891	153,630
European Union	140,670	262,349
Hong Kong	7,814	7,430
Other countries and areas	33,967	12,180
	549,123	989,708

Management Discussion and Analysis

Cost of sales

Cost of sales represents costs and expenses directly attributable to the manufacture of the Group's products which comprise (i) raw materials, components and parts, including, among others, key components such as digital signal processors, lenses and sensors; (ii) direct labour; and (iii) production overhead, mainly including depreciation of production equipment and indirect labour.

For FY2019, cost of sales of the Group amounted to approximately HK\$486.6 million (FY2018: approximately HK\$816.8 million), representing a decrease of approximately 40.4% as compared to FY2018, and amounted to approximately 88.6% (FY2018: approximately 82.5%) of its turnover for FY2019. This decrease was mainly attributable to a substantial decrease in the shipment units of home surveillance cameras and digital imaging products.

Gross profit and gross profit margin

The Group recorded a gross profit of approximately HK\$62.5 million for FY2019 (FY2018: approximately HK\$173.0 million), representing a decrease of approximately 63.9% as compared to FY2018. The gross profit margin decreased from approximately 17.5% for FY2018 to approximately 11.4% for FY2019, mainly due to the provision for inventory increased by approximately HK\$52.6 million as compared to FY2018.

Other income and gains

Other income and gains mainly include (i) bank interest income; (ii) government grants, which mainly consist of rewards and subsidies for research activities granted by the local government with no unfulfilled conditions or contingencies; and (iii) exchange gains arising mainly from fluctuation of Renminbi ("RMB") against US dollar ("US\$") between the invoice and settlement dates of its sales and purchases, and from translation of its US\$-denominated trade payables and receivables.

For FY2019, other income and gains of the Group significantly decreased by approximately HK\$13.3 million to approximately HK\$9.6 million as compared to FY2018, which was primarily attributable to a decrease of approximately HK\$7.0 million in exchange gains and a decrease of approximately HK\$5.7 million in gain on disposal of subsidiaries.

Selling and distribution expenses

Selling and distribution expenses include mainly (i) salaries and benefits of its sales and marketing staff; (ii) transportation costs for delivery of products; (iii) marketing, exhibition and advertising costs; and (iv) entertainment expenses relating to its sales and marketing activities.

For FY2019, selling and distribution expenses of the Group slight decreased approximately 9.0% to approximately HK\$26.8million from approximately HK\$29.5 million for FY2018, mainly due to the decrease of transport expenses approximately HK\$1.8 million for FY2019.

Management Discussion and Analysis

Administrative expenses

Administrative expenses mainly include (i) salaries and benefits of the Group's management, administrative and finance staff; (ii) rental and office expenses; (iii) professional fees; (iv) other taxes and levies payable to government authorities; and (v) entertainment expenses.

For FY2019, administrative expenses of the Group significant decreased by approximately 32.3% to approximately HK\$61.1 million (FY2018: approximately HK\$90.3 million). The decrease was mainly due to the cutting down of the personnel cost as a results of the optimising of the Group.

Research and development costs

Research and development costs include (i) salaries and benefits of the Group's research and development and product planning staff; (ii) raw materials, components and parts used for research and development and product planning; and (iii) other miscellaneous costs and expenses such as rental fees, design service fees, depreciation and certification fees.

For FY2019, the Group recorded research and development costs of approximately HK\$57.9 million, which significantly decreased by approximately 41.4% from approximately HK\$98.9 million for FY2018. This decrease was mainly due to the downsize of Research and development staff to improve the Group's operation efficiency.

Other expenses

Other expenses include principally (i) exchange losses arising mainly from fluctuations in exchange rates between the invoice and settlement dates of its sales and purchases and from translation of its US\$-denominated trade payables and receivables; and (ii) impairment losses of assets.

For FY2019, other expenses of the Group significantly decreased to approximately HK\$7.7 million from approximately HK\$41.4 million for FY2018. The decrease mainly consisted of (i) impairment losses of approximately HK\$2.2 million (FY2018: approximately HK\$26.3 million) in relation to some cooperation partners' default in repayment of deposits; and (ii) net loss on disposal of fixed assets approximately HK\$1.6 million (FY2018: approximately HK\$2.3 million).

Finance costs

For FY2019, the finance costs of the Group increased to approximately HK\$3.0 million (FY2018: approximately HK\$1.3 million), representing an increase by approximately 129.3% as compared to FY2018. This increase was attributable to the adoption of HKFRS 16.

Income tax expense

For FY2019, there was no income tax expense due to the loss for the year.

Net loss

As a result of the foregoing, the Group recorded a loss of approximately HK\$84.5 million for FY2019 (attributable to non-controlling interests is a loss of approximately HK\$2.2 million).

Management Discussion and Analysis

Liquidity and capital resources

The Group's principal cash requirements are to pay for working capital needs, capital expenditures for the expansion and upgrade of production facilities. The Group meets these cash requirements by relying on cash flows generated from operating activities and proceeds from issue of shares as its principal sources of funding. The following table sets out its selected consolidated cash flow for the periods indicated:

	2019 HK\$'000	2018 HK\$'000
Net cash flows from/(used in) operating activities	44,924	(87,681)
Net cash flows used in investing activities	(5,400)	(86)
Net cash flows used in financing activities	(21,028)	(9,561)
Net increase/(decrease) in cash and cash equivalents	18,496	(97,328)
Cash and cash equivalents at beginning of year	95,132	203,129
Effect of foreign exchange rate changes, net	(6,729)	(10,669)
Cash and cash equivalents at end of year	106,899	95,132

Net cash from operating activities for FY2019 was approximately HK\$44.9 million, which primarily reflected (i) the adjusted loss before tax of approximately HK\$26.5 million; (ii) the decrease in trade receivables of approximately HK\$39.2 million; (iii) the decrease in inventory balances of approximately HK\$13.7 million; (iv) the decrease in prepayments and other receivables of approximately HK\$23.4 million; and (v) the decrease in trade payables of approximately HK\$62.5 million.

Net cash used in investing activities for FY2019 was approximately HK\$5.4 million. This mainly consisted of (i) payment of approximately HK\$13.8 million for purchases of property, plant and equipment and intangible assets primarily for the upgrade of certain equipment and software to support the production of high-quality products; (ii) receipt of approximately HK\$7.1 million for disposal of items of property, plant and equipment.

Net cash used in the financing activities for FY2019 was approximately HK\$21.0 million, which was mainly reflected (i) the decrease in the use of interest-bearing bank borrowings to repay trade payable resulting in repayment of bank borrowings of approximately HK\$13.0 million; (ii) the principal portion of lease payments to approximately HK\$14.9 million; and (iii) the capital contribution received from a non-controlling shareholder to approximately HK\$8.2 million.

The Group's cash and cash equivalents were mainly denominated in US\$, HK\$ and RMB as at 31 December 2019.

Management Discussion and Analysis

Borrowing and the pledge of assets

The Group's bank facilities amounting to HK\$23.0 million (FY2018: HK\$33.0 million), of which HK\$16.7 million (FY2018: HK\$29.7 million) had been utilised as at the 31 December 2019.

As at 31 December 2019, an insurance and a wealth management product purchased from the bank was pledged to secure certain banking facilities for the Group (31 December 2018: a mortgage over the Group's building and an insurance and a wealth management product purchased from the bank were pledged to secure certain banking facilities for the Group).

The Group's bank and other borrowings are all denominated in US\$. As at 31 December 2019, the annual interest rate of bank borrowings ranged from 3.1% to 4.0% (FY2018: 2.6% to 4.3%).

Gearing ratio

Gearing ratio is calculated by dividing total debt (which equals interest-bearing bank borrowings) by total equity as at the end of the each period end. The Group's gearing ratio as at 31 December 2018 and 31 December 2019 was approximately 9.6% and approximately 6.1%, respectively. The decrease in gearing ratio was mainly due to the significant decrease in outstanding interest-bearing bank borrowings and the capitalization of the shareholder loans during FY2019.

Capital expenditure

During FY2019, the Group invested approximately HK\$19.4 million (FY2018: approximately HK\$12.5 million) in fixed assets and intangible assets, which was mainly due to the increase of renovation costs from Shenzhen and Vietnam factory.

Off balance sheet transactions

During FY2019, the Group did not enter into any material off balance sheet transactions.

Foreign exchange exposure and exchange rate risk

The Group has transactional currency exposure, which arises from sales in currencies other than the relevant operating units, that is, functional currencies. Approximately 87.3% and 89.7% of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sales, whilst approximately 47.4% and 50.6% of inventory costs were denominated in their functional currencies for FY2018 and FY2019, respectively.

Events after the reporting period

Since COVID-19 continues to spread throughout the world, certain business operations of the Group, in particular, the supply chain and customer orders were impacted, and the degree of the COVID-19 impact will vary depending on the situation of the epidemic preventive measures and the duration of the epidemic. Given the dynamic nature of these circumstances, the Group will continuously evaluate the impact on the revenue and financial results of the Group for the year 2020 and make timely disclosure of any important matters.

Management Discussion and Analysis

Treasury policies

The Group has implemented its internal treasury investment policies since January 2015 (updated in December 2015), which provide the guidelines, requirements and approval process with respect to its treasury investment activities. It regularly evaluates the risks and returns of its wealth management products.

Under its treasury investment policies, the Group is only allowed to invest in wealth management products with the two lowest risk rating classified by the banks and debentures with ratings above “BBB” or “baa” or similar ratings. All the treasury products must also meet the following criteria: (i) be issued by well-recognised publicly-listed banks, (ii) no default history, and (iii) have a maturity term of less than one year or can be easily converted into cash in the market. Such treasury investment policies also provide that the outstanding balance of the Group’s wealth management products shall not exceed 50% of its total amount of cash and cash equivalents and wealth management products. Any plan to increase this limit must be approved by the Board. No single investment can exceed 35% of the total amount invested.

The Group has an experienced management team and strict procedures in place to ensure the wealth management products are purchased in compliance with its internal policies and requirements under the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). The management, internal auditors and the Board (including the independent non-executive Directors) regularly review its compliance with the treasury investment policies and assess the risks associated with these investments.

During 2019, the Group did not have any investment under its treasury policies.

Employees and emoluments policy

As at 31 December 2019, the Group employed a total of 1,200 employees (31 December 2018: 1,164). The staff costs of the Group, excluding directors’ emoluments were approximately HK\$118.8 million for FY2019 (FY2018: approximately HK\$131.1 million), approximately HK\$2.4 million (FY2018: approximately HK\$0.7 million) of which are expenses for the Group’s share option schemes and share award scheme. All of the Group’s employees are paid a fixed salary and a bonus depending on their performance as determined by quarterly assessments. The Group seeks to provide compensation for its research and development staff at above-market levels to attract and retain talents. It regularly reviews compensation and benefit policies to ensure that its practices are in line with the market and in compliance with relevant labour regulations. To provide its employees, among others, additional incentives to enhance its business performance, the Group has adopted the pre-IPO share option scheme and the share option scheme, under which grantees are entitled to exercise the options to subscribe for shares subject to the terms and conditions of the respective schemes.

Management Discussion and Analysis

Significant investments held

The Group currently held 9.82% equity interest in a start-up company, Kandao Technology Co., Ltd. The investment was acquired by the Group from the period November 2016 to January 2017 at an initial amount of HK\$45.4 million.

Kandao Technology Co., Ltd was established on January 2016, which focuses on the technology and development of software and hardware for imaging electronics products. The main products are included 6-eye 8K resolution three-dimensional professional panoramic camera, 8K resolution consumer panoramic camera and 360-degree smart conference video.

The company's products have won the best innovation award in the Consumer Electronics Show of digital imaging category.

As at 31 December 2019, with reference to a valuation report prepared by an independent professional valuer, the fair value of this investment held by the group was approximately HK\$26.1 million (31 December 2018: approximately HK\$34.0 million) representing 5.2% of the total assets of the Group. No dividend was received from this investment during 2019 (2018: Nil).

The directors believe that imaging products and solutions will be widely used with different applications, especially when the era of 5G is being launched.

The Group will continue to hold this unlisted equity investment for the following reasons:

- (i) This investment still has potential for growth in the future;
- (ii) This investment has synergies with the Group's business and can widen our sales channel.

Saved as disclosed above, there is no investment held by the Group with a value of 5% or more of the Company's total assets as at 31 December 2019.

Commitment

As at 31 December 2019, the Group's capital commitment amounted to approximately HK\$1.1 million (31 December 2018: approximately HK\$16.0 million).

Future plans for material investments or capital assets

In the near term, the Group did not have any plans for material investments or capital assets as at the date of this report.

Material acquisitions and disposals of subsidiaries and associated companies

The Group did not have any material acquisitions and disposals of subsidiaries, associated companies and joint ventures during FY2019.

Management Discussion and Analysis

Contingent liabilities

As at 31 December 2019, the Group had no significant contingent liabilities.

Annual general meeting

The annual general meeting of the Company (the “AGM”) is scheduled to be held on Tuesday, 26 May 2020. A notice convening the AGM will be issued and disseminated to the Shareholders in due course.

Dividends

The Board does not recommend the payment of any final dividend for FY2019 (FY2018: Nil).

Closure of register of members

The register of members of the Company will be closed from Thursday, 21 May 2020 to Tuesday, 26 May 2020 (both days inclusive) during which no transfers of shares shall be effected. In order to determine the entitlement to attend and vote at the forthcoming AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 20 May 2020.

Director and Senior Management

Executive Directors

Mr. Tang Wing Fong Terry (鄧榮芳), aged 61, is the Chairman, an executive Director and the chief executive officer of our Company and the founder of our Group. Mr. Tang is chairman of Nomination Committee and a member of Remuneration Committee of the Company. He was appointed as the Chairman and an executive Director with effect from 18 December 2013. He has been the general manager of our Group and is a director of each of the subsidiaries of our Company. Mr. Tang is primarily responsible for the overall strategic planning and overseeing the general management of our Group. Mr. Tang has over 20 years of experience in the digital imaging, computer peripherals and consumer electronics industry. Mr. Tang and his associate are controlling shareholders which held approximately 61.83% of total issued shares in the Company as at 31 December 2019.

Prior to establishing our predecessor business in 2000, Mr. Tang co-founded Peer Industries Ltd., a company engaged in the trading of materials and production equipment for manufacturing computer diskettes, in 1992.

Mr. Tang received a part-time higher certificate of mechanical engineering from the Hong Kong Polytechnic University in 1982.

Mr. Lu Yongbin (盧勇斌), aged 47, is an executive Director, the chief financial officer and the company secretary of our Company. Mr. Lu joined our Group in 2005 and was appointed as an executive Director with effect from 25 March 2015. He is currently the head of our finance department and is primarily responsible for the management of overall financial and accounting affairs of our Group. Mr. Lu has over 25 years of experience in accounting and related financial management and 15 years of experience in the digital imaging industry.

Mr. Lu graduated from the Hubei Normal University with an associate degree in accounting and finance in 1998. Mr. Lu became as a certified public accountant in the PRC in 2004 and is a fellow member of the Chinese Institute of Certified Public Accountants and the China Certified Tax Agents Association.

Non-Executive Directors

Ms. Tang Kam Sau (鄧錦繡), aged 57, is a non-executive Director of our Company. Ms. Tang joined our Group in 2005 and was appointed as a non-executive Director with effect from 25 March 2015. Ms. Tang has over 10 years of experience in the digital imaging industry.

Ms. Tang is a director of a company which is principally engaged in manufacturing multimedia product packaging materials since 2009.

Ms. Tang is also a director of Sky Light Imaging Limited, Sky Light Shenzhen and Sky Light Digital Limited. Ms. Tang has been appointed as a director of Vupoint Solutions Inc, a member of the Group, with effect from 22 January 2016.

Director and Senior Management

Mr. Wu Yongmou (吳勇謀), aged 41, is a Non-executive Director of our Company. Mr. Wu joined our Group in 2010. He was appointed as an executive director of the Company on 25 March 2015 and was the general manager for Sky Light Technology (Heyuan) Limited (“Sky Light Technology (HY)”) and primarily responsible for its overall management. He is also a director of Sky Light Electronic (Shenzhen) Limited (“Sky Light Shenzhen”). From 2 July 2018, he was re-designated as a non-executive director of the Company. Mr. Wu has more than 10 years of experience in the digital imaging industry and in production management.

Mr. Wu founded Shenzhen Yongyida Electronics Co., Ltd. (深圳市勇藝達電子有限公司), a company engaged in the manufacturing of mobile phone and other communication products, in 2003. In 2007, Mr. Wu established Xinyongyi Science Park (Heyuan) Co., Ltd., a company engaged in the development and operation of science park in Heyuan. Mr. Wu and his associate are substantial shareholders which held approximately 5.65% of total issued shares in the Company as at 31 December 2019.

Mr. Wu graduated from the China University of Petroleum, Beijing with an associate degree in business administration through distance learning in 2006.

Independent Non-Executive Directors

Mr. Tse Yat Hong (謝日康), aged 50, is an independent non-executive Director of our Company. Mr. Tse joined our Group on 5 December 2017 and was appointed as an independent non-executive Director with effect from 5 December 2017. He is chairman of the Audit Committee and Remuneration Committee, and a member of the Nomination Committee of the Company.

From June 2000 to May 2019, Mr. Tse served as the Chief Financial Officer of Shenzhen International Holdings Limited (stock code: 00152), a company listed on the Stock Exchange. Prior to this, Mr. Tse worked in the audit profession in one of the international accounting firms for years. Mr. Tse is currently an independent non-executive director of China Huirong Financial Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 01290). He also served as a non-executive director of Shenzhen Expressway Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 00548) and the Shanghai Stock Exchange (stock code: 600548) during the period from December 2008 to December 2017. Mr. Tse has extensive experience in accounting, finance and corporate governance matters of listed companies and has broad knowledge in accounting and financial rules and regulations in Hong Kong and China.

Mr. Tse is a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of Certified Public Accountants Australia. Mr. Tse graduated from Monash University in Melbourne, Australia in April 1992 with a bachelor’s degree in accounting and computer science.

Director and Senior Management

Dr. Cheung Wah Keung (張華強), aged 58, is an independent non-executive Director of our Company. Dr. Cheung joined our Group on 12 June 2015 and was appointed as an independent non-executive Director with effect from 12 June 2015. Dr. Cheung is a member of Audit Committee of the Company. Dr. Cheung has more than 30 years of experience in trading and manufacturing of consumer electronic products.

Dr. Cheung is currently the chairman of Shinhint Group and Tai Sing Industrial Company Limited. He is an independent non-executive director of Casablanca Group Limited (Stock Code: 2223) since May 2017 and is also an independent non-executive director and an independent non-executive chairman of PanAsialum Holdings Company Limited (Stock Code: 2078) since March 2018 and August 2019 respectively. Also, he is an independent non-executive director of Activation Group Holdings Limited (Stock Code: 9919) since December 2019. All of these companies are listed on the Main Board of the Stock Exchange.

Dr. Cheung obtained a bachelor's degree in business administration, a master's degree in global political economy from the Chinese University of Hong Kong, a master's degree in corporate governance and a doctoral degree in business administration from The Hong Kong Polytechnic University. He was awarded by the Federation of Hong Kong Industries as "Young Industrialist of Hong Kong" in 2005 and "Certificates of Merit in Directorship" by the Hong Kong Institutes of Directors in 2006. He has taken up a variety of roles, including the president of the Hong Kong Young Industrialists Council from 2015 to 2016, the chairman of the Advisory Board for Master of Corporate Governance of The Hong Kong Polytechnic University and a committee member of the Council of The Hang Seng University of Hong Kong.

Mr. Chan Tsu Ming Louis (陳祖明), aged 60, is an independent non-executive Director of our Company. Mr. Chan joined our Group on 12 June 2015 and was appointed as an independent non-executive Director with effect from 12 June 2015. Mr. Chan is a member of Audit Committee, Remuneration Committee and Nomination Committee of the Company.

Mr. Chan has more than 20 years of experience in finance and banking. Between 1982 and 1983, he served as a credit analyst of Banque Nationale de Paris. Between 1983 and 1986, he worked at The Industrial Bank of Japan, Ltd. as a senior marketing officer. He worked at Bankers Trust Company between 1986 and 1995 with his last position as a vice president (capital markets). Mr. Chan joined Standard Chartered Bank in 1995 as a senior manager. Between 2000 and 2001, he was the head of corporate development of Willas-Array Electronics Management Limited, now a wholly-owned subsidiary of Willas-Array Electronics (Holdings) Limited, a company listed on the Stock Exchange (stock code: 854) and the Singapore Stock Exchange. He worked at Standard Bank Asia Limited in 2005 as a director (equity Asia) until 2009. Between 2009 and 2012, he was a senior director (finance and accounting) of Wuhan Admiral Technology Limited, a wholly-owned subsidiary TPV Technology Limited, a wholly-owned subsidiary of TPV Technology Limited (stock code: 903), a company listed on the Stock Exchange which is engaged in the manufacturing, sales and distribution of televisions and computer monitors.

Mr. Chan obtained a master's degree in business administration from the University of Hong Kong in November 1995 and a higher diploma in business studies (banking) from the Hong Kong Polytechnics University in November 1982.

Save as disclosed herein, there were no changes in the information of Directors or the chief executive pursuant to rule 13.51B of the Listing Rules.

Director and Senior Management

Senior Management

Our senior management is responsible for the day-to-day management of our business and comprises each of our executive Directors and the executives described below.

Mr. Gan Weijun (甘衛軍), aged 52, is the head of research and development of our Group. Mr. Gan joined our Group in October 2002. He is primarily responsible for leading the overall research and development activities of our Group. Mr. Gan has approximately 17 years of experience in the digital imaging industry.

Mr. Gan obtained a bachelor's degree in precision instrument from the Shanghai Jiao Tong University in 1989.

Dr. Yum Tsz Yin (任子賢), aged 40, is the director of marketing and strategic sales of our Group. Dr. Yum joined our Group in April 2016. He is primarily responsible for the sales, program and marketing of our Group. Dr. Yum has approximately 18 years of experience in product, business and brand management in the consumer electronics industry.

Prior to joining our Group, Dr. Yum worked at IDT International Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 0167) between August 2005 and September 2013 and Binatone Electronics International Limited ("Binatone") between October 2013 and March 2016, with his last position in Binatone as the global product management director for Motorola baby, smart home, pet monitors and IOT products.

Dr. Yum obtained a bachelor's degree in electronic engineering and doctor's degree in philosophy from the City University of Hong Kong in 2002 and 2005, respectively.

Mr. Tsui Chiu (徐超), aged 41, is the head of product planning of our Group. Mr. Tsui joined our Group in April 2011. He is primarily responsible for leading the product planning activities of our Group. Mr. Tsui has more than 10 years of experience in product planning and management in the consumer electronics industry.

Prior to joining our Group, Mr. Tsui worked at the Hong Kong office of Radioshack between January 2005 and November 2007 and the China office of Office Depot between December 2007 and June 2010, both of which are well-known chain stores in the United States.

Mr. Tsui obtained a bachelor's degree in engineering and master's degree in philosophy from the Hong Kong Polytechnic University in 2001 and 2004, respectively.

There is no relationship as set out in paragraph 12 of Appendix 16 to the Listing Rules among the Directors and the senior management.

Company Secretary

Mr. Lu Yongbin (盧勇斌), is the company secretary of our Company. Mr. Lu is also an executive Director and the chief financial officer of our Company. Please refer to the paragraph above headed "Executive Directors" in this report for further biographical information about Mr. Lu.

Corporate Governance Report

Corporate Governance Practices

The Company believes that maintaining high standards of corporate governance is the foundation for effective management and successful business growth. The Company is committed to developing and maintaining robust corporate governance practices to safeguard the interests of shareholders of the Company (the “Shareholders”) and to enhance corporate value, accountability and transparency of the Company.

The Company has adopted the principles and code provisions of the Corporate Governance Code and Corporate Governance Report (the “CG Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”) as the basis of the Company’s corporate governance practices. Throughout the year ended 31 December 2019, the Company has complied with all applicable code provisions of the CG Code except for the following:

Non-compliance during FY2019

Pursuant to CG Code provision A.2.1, the role(s) of chairman and chief executive should be separate and should not be performed by the same individual. As the duties of chairman of the Board (“Chairman”) and chief executive of the Company are performed by Mr. Tang Wing Fong Terry, the Company has deviated from the CG Code provision A.2.1. The Board considers that having Mr. Tang Wing Fong Terry acting as both our Chairman and our chief executive officer will provide a strong and consistent leadership to the Company and allow for more effective planning and management for our Group. In view of Mr. Tang’s extensive experience in the industry, personal profile and critical role in our Group and its historical development, the Board considers that it is beneficial to the business prospects of our Group that Mr. Tang continues to act as both our Chairman and our chief executive officer. As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its code of conduct governing its directors’ securities transactions. Specific enquiries have been made with all the Directors and they have confirmed that they have complied with the Model Code throughout the year ended 31 December 2019.

The Company has also established written guidelines on no less exacting terms than the Model Code (the “Employees Written Guidelines”), for securities transactions by relevant 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.

Corporate Governance Report

The Board of Directors

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 and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board shall take decisions objectively in the interests of the Company and its shareholders at all times.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective operation. All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

Delegation of management functions

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management. The Company has adopted a formal schedule of functions reserved to the Board and delegated to the management.

Delegation of corporate governance duties

The Board has delegated the responsibility for performing corporate governance functions set out in the code provision D.3.1 of the CG Code to the audit committee of the Company.

Board Composition

Currently, the Board comprises two executive Directors, two non-executive Directors and three independent non-executive Directors. The Company has complied with rules 3.10 and 3.10A of the Listing Rules. Throughout the year ended 31 December 2019 and save as disclosed above in the paragraph headed "Corporate Governance Practices" in the Corporate Governance Report, the number of independent non-executive Directors represents more than one-third of the Board. As such, there exists a strong independent element in the Board, which can effectively exercise independent judgment.

Corporate Governance Report

The Board comprises the following directors:

Executive Directors

Mr. Tang Wing Fong Terry (*Chairman and Chief Executive Officer*)

Mr. Lu Yongbin (*Chief Financial Officer and Company Secretary*)

Non-executive Directors

Mr. Wu Yongmou

Ms. Tang Kam Sau

Professor Huang Erwin Steve (Retired on 24 May 2019)

Independent non-executive Directors

Mr. Tse Yat Hong

Dr. Cheung Wah Keung

Mr. Chan Tsu Ming Louis

The brief biographic details of the existing Directors are set out under the section headed "Directors and Senior Management" in this annual report. There are no relationship (including financial, business, family or other material/relevant relationship(s)) among members of the Board.

Chairman and Chief Executive Officer

CG Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company has not segregated the roles of chairman and chief executive officer and Mr. Tang Wing Fong Terry currently holds both positions, as explained in the above paragraph headed "Corporate Governance Practices" in the Corporate Governance Report.

Non-executive Directors

The non-executive Directors are expected to participate in the activities of the Board, particularly in the establishment of a selection process to ensure a mix of competent directors and officers; adoption of a system of internal checks and balances; scrutiny of the Company's performance in achieving agreed corporate goals and objectives; and ensuring that the exercise of Board authority is within the powers conferred to the Board under the memorandum and articles of association of the Company and applicable laws, rules and regulations.

Corporate Governance Report

Independent Non-executive Directors

The independent non-executive Directors are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance and business. Their skills, expertise and number in the Board ensure that strong independent views and judgment are brought in the Board's deliberations and that such views and judgment carry weight in the Board's decision-making process. Their presence and participation also enable the Board to maintain high standards of compliance in financial and other mandatory reporting requirements, and provide adequate checks and balances to safeguard the interests of Shareholders and the Company.

Each independent non-executive Director has provided the Company with an annual confirmation of his independence. The Company considers all independent non-executive Directors are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Appointment, Re-Election and Removal of Directors

All Directors are appointed for an initial term of three years. Except for Mr. Tse Yat Hong, an independent non-executive Director of the Company, is under a letter of appointment with the Company commencing from 5 December 2017, each of the executive Directors, non-executive Directors and other two independent non-executive Directors of the Company is under a letter of appointment with the Company commencing from 2 July 2015 and ending on 1 July 2018, which was further extended for a further term of three years to 1 July 2020.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. According to the Company's Articles of Association, all Directors are subject to retirement by rotation at least once every three years and are eligible for re-election at the Company's AGM. Any new director appointed by the Board to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after his/her appointment and any new director appointed by the Board as an addition to the Board shall submit himself/herself for re-election by Shareholders at the next following AGM.

In accordance with the Company's Articles of Association, Ms. Tang Kam Sau, Dr. Cheung Wah Keung and Mr. Tse Yat Hong shall retire at the forthcoming 2020 AGM. All of the retiring Directors, being eligible, will offer themselves for re-election as Directors at the AGM. The Board and the Nomination Committee recommend their reappointment.

The Company's circular, sent together with this annual report, contains detailed information of the above three Directors proposed to be re-elected as required by the Listing Rules.

Continuous Professional Development of Directors

All Directors confirmed that they had complied with CG Code provision A.6.5 during the year ended 31 December 2019, all Directors had participated in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

The existing Directors are continually updated on changes and developments to the Group's business and in 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. Directors are requested to provide their training records to the Company for record.

Corporate Governance Report

During the year ended 31 December 2019, the Directors have participated in continuous professional training as follows:

Name of Directors	Nature of training covered ^(Notes)		
	a	b	c
Executive Directors			
Mr. Tang Wing Fong Terry	✓		✓
Mr. Lu Yongbin	✓	✓	✓
Non-executive Directors			
Mr. Wu Yongmou	✓	✓	✓
Ms. Tang Kam Sau	✓		✓
Independent non-executive Directors			
Mr. Tse Yat Hong	✓	✓	✓
Dr. Cheung Wah Keung	✓	✓	✓
Mr. Chan Tsu Ming Louis	✓		✓

Notes:

- Receiving in-house regular briefings and updates on the Group's business, operations and corporate governance matters.
- Attending seminars/forums, which are relevant to their directors' duties and responsibilities, organized by professional firms/institutions.
- Reading technical bulletins, periodicals and other publications on subjects relevant to the Group and on their directors' responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

Board Meetings

The Board may meet together for the despatch of business, adjourn and otherwise regulate its meetings and proceedings as it thinks fit and may determine the quorum necessary for the transaction of business. Notice of regular Board meetings will be dispatched to all Directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given. A meeting of the Board or any committee of the Board may be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting.

When a Director and the enterprise(s) involved in a proposal of a Board meeting have material interests/conflict of interest, such Director shall not exercise his/her voting rights on such proposal nor shall he/she exercise any voting rights on behalf of other Directors.

Corporate Governance Report

Set out below are details of the attendance record of each Director at the Board and committee meetings of the Company held during the year ended 31 December 2019:

Name of Directors	Attendance/Number of Meetings Held				Annual General Meeting
	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	
Executive Directors					
Mr. Tang Wing Fong Terry	4/4*	N/A	1/1*	1/1	1/1
Mr. Lu Yongbin	4/4	N/A	N/A	N/A	1/1
Non-executive Directors					
Mr. Wu Yongmou	4/4	N/A	N/A	N/A	1/1
Ms. Tang Kam Sau	4/4	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Mr. Tse Yat Hong	4/4	3/3*	1/1	1/1*	1/1
Dr. Cheung Wah Keung	4/4	3/3	N/A	N/A	1/1
Mr. Chan Tsu Ming Louis	4/4	3/3	1/1	1/1	1/1

Remark:

* representing chairman of the Board or the relevant committees

At least four regular board meetings are convened each year.

Apart from the above Board meetings, the Chairman also held a meeting with the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors during the year.

Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report.

Directors' and Officers' Liability Insurance

The Company has taken out liability insurance to indemnify its Directors and senior management for their liabilities arising from the performance of their duties. The insurance coverage is reviewed by the Company on an annual basis. No claim has been made against the Directors and senior management of the Company during the year.

Corporate Governance Report

Board Committees

The Board has established three committees, namely, the audit committee (“Audit Committee”), the remuneration committee (“Remuneration Committee”), and the nomination committee (“Nomination Committee”), for overseeing particular aspects of the Company’s affairs. All committees have been established with defined written terms of reference, which were posted on the Stock Exchange’s (www.hkex.com.hk) and the Company’s websites (www.sky-light.com.hk). All committees should report to the Board on their decisions or recommendations made.

All committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company’s expense.

Audit Committee

The Company established its Audit Committee on 12 June 2015 with its written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial information and reporting process, risk management and internal control systems and effectiveness of internal audit function, to monitor scope of audit and nominate and appoint external auditors and provide advice and comments to the Board on matters related to corporate governance. The Audit Committee consists of three members, being Mr. Tse Yat Hong, Dr. Cheung Wah Keung and Mr. Chan Tsu Ming Louis, all are independent non-executive Directors. Mr. Tse Yat Hong currently serves as the chairman of our Audit Committee.

During the year, the Audit Committee has held three meetings (the attendance records of each Committee member are set out in above paragraph headed “Board Meetings”) for discussion on the following issues arising from the audit and financial reporting matters:

- Review and discussion of the audited consolidated financial statements, results announcement and report for the year ended 31 December 2018; unaudited interim condensed financial statements, results announcement and report for the six months ended 30 June 2019; the related accounting principles and practices adopted by the Group and the relevant audit/review findings, the report from the management on the Company’s internal control and risk management review and processes;
- Recommendation of the re-appointment of the external auditors;
- Review of the Group’s continuing connected transactions;
- Review of and monitoring the Company’s corporate governance policies and practices, the training and continuous professional development of directors and senior management, the Company’s policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Employees Written Guidelines, and the Company’s compliance with the CG Code and disclosure in this Corporate Governance Report;
- Discussion of appointment of external service provider for review of the Group’s financial reporting process, risk management and internal control systems; and
- Review of the risk management and internal control systems and internal control function.

Corporate Governance Report

The external auditors were invited to attend the Audit Committee meetings held during the year to discuss with the Audit Committee members on issues arising from the audit/review and financial reporting matters. The chairman of the Audit Committee provided the Board with a briefing on the significant issues after each Audit Committee meeting.

The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management on the internal control, risk management and financial reporting matters, including the review of the audited annual results and annual report for the year ended 31 December 2018 and the unaudited interim results and interim report for the six months ended 30 June 2019, and the review of the audited annual results and annual report for the year ended 31 December 2019.

The terms of reference of Audit Committee were revised and adopted by the Company on 18 December 2015 pursuant to the amendments to the Corporate Governance Code and Corporate Governance Report as contained in Appendix 14 of the Listing Rules relating to internal control and risk management which would apply to accounting periods beginning on or after 1 January 2016.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditors.

Nomination Committee

The Company established Nomination Committee on 12 June 2015 with its written terms of reference by reference to the code provisions of the CG Code set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to review the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board, procedures for nomination and appointment, to assess the independence of independent non-executive Directors; and to make recommendations to the Board on the selection of candidates for any Director and senior management positions. The Nomination Committee comprises three members, being Mr. Tang Wing Fong Terry (chairman of the Board), Mr. Chan Tsu Ming Louis (independent non-executive Director) and Mr. Tse Yat Hong (independent non-executive Director). Mr. Tang Wing Fong Terry currently serves as the chairman of the Nomination Committee.

The Board would follow a set of formal, considered and transparent procedures for the appointment of new directors to the Board. In selecting candidates for directorship of the Company, the Nomination Committee may make reference to certain criteria such as the Company's needs, board diversity, the integrity, experience, skills and professional knowledge of the candidate and the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities. External recruitment professionals might be engaged to carry out selection process when necessary.

According to the board diversity policy adopted by the Company, the Nomination Committee is also responsible for reviewing the policy, developing and reviewing measurable objectives (including but not limited to gender, age, cultural and educational background, or professional experience) for implementing the policy, and monitoring the progress on achieving the measurable objectives set to ensure the continued effectiveness of the Board.

Corporate Governance Report

During the year, the Nomination Committee has held one meeting (the attendance records of each Committee member are set out in above section headed “Board Meetings”) and performed the following major works:

- Review of the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Group;
- Assessment of the independence of all the Company’s independent non-executive Directors; and
- Review of the composition of the senior management.

Remuneration Committee

The Company established Remuneration Committee on 12 June 2015 with its written terms of reference in compliance with the Listing Rules. The primary duties of the Remuneration Committee are to review and make recommendations to the Board on the remuneration of the Directors and senior management, remuneration policy and structure for all Directors and senior management, and establish transparent procedures for developing such remuneration policy and structure. The Remuneration Committee consists of three members, being Mr. Tse Yat Hong (independent non-executive Director), Mr. Tang Wing Fong Terry (chairman of the Board) and Mr. Chan Tsu Ming Louis (independent non-executive Director). Mr. Tse Yat Hong currently serves as the chairman of the Remuneration Committee.

During the year, the Remuneration Committee has held one meeting (the attendance records of each Committee member are set out in above paragraph headed “Board Meetings”) to review and made recommendations on the remuneration packages of certain Directors and senior management and other related matters.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management, including those members of senior management who are also executive Directors, by band for the year ended 31 December 2019 is set out below:

Remuneration band (HK\$)	Number of individual
500,001–<1,000,000	3
1,000,001–1,500,000	4

Details of the remuneration of each director of the Company and compensation of key management personnel of the Group for the year ended 31 December 2019 are set out in note 8, note 9 and note 37, respectively, to the financial statements contained in this annual report.

Corporate Governance Report

The Company has adopted the model that the Remuneration Committee make recommendations to the Board on the remuneration package of individual executive Directors and senior management under the code provision B.1.2(c) of the CG Code. In order to determine the level of remuneration and fees paid to members of the Board, market rates and factors such as each Director's workload, responsibility and job complexity are taken into account. The following factors are considered when determining the remuneration packages of directors and senior management of the Company:

- business requirements;
- individual performance and contribution;
- company performance and profitability;
- retention considerations and the potential of individuals;
- corporate goals and objectives;
- changes in relevant markets, including supply and demand fluctuations and changes in competitive conditions; and
- general economic situation.

During the review process, no individual director is involved in decisions relating to his/her own remuneration.

Corporate Governance Function

The Board does not have a Corporate Governance Committee. The functions that would be carried out by a Corporate Governance Committee are performed by the Audit Committee and are as follows:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
- to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The corporate governance policy is formulated with an emphasis on the Board's quality, effective internal control, stringent disclosure practices and transparency and accountability to all shareholders of the Company. The Board strives to comply with the code provisions and reviews its corporate governance policy regularly in order to maintain high standards of business ethics and corporate governance, and to ensure the full compliance of our operations with applicable laws and regulations.

Corporate Governance Report

During the year under review, the Audit Committee has reviewed and monitored the Company's corporate governance policies and practices, the training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Employee Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

External Auditors' Remuneration

The Company engaged Ernst & Young as its external auditors for the year ended 31 December 2019. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors. The statement of external auditors of the Company about his reporting responsibilities on the Company's consolidated financial statements for the year is set out in the section headed "Independent Auditor's Report" in this annual report.

The fees paid/payable to Ernst & Young, the Company's auditors, in respect of audit services for the year ended 31 December 2019 was HK\$2.4 million. The audit fee was approved by the Board. During the year, the total remuneration in respect of the non-audit services, mainly included the Group's internal control system and risk management, provided by the external professional firms of the Company was HK\$0.3 million.

The Board has proposed to re-appoint Ernst & Young as the auditors of the Company, which is subject to the approval by Shareholders at the forthcoming AGM.

Risk Management and Internal Control

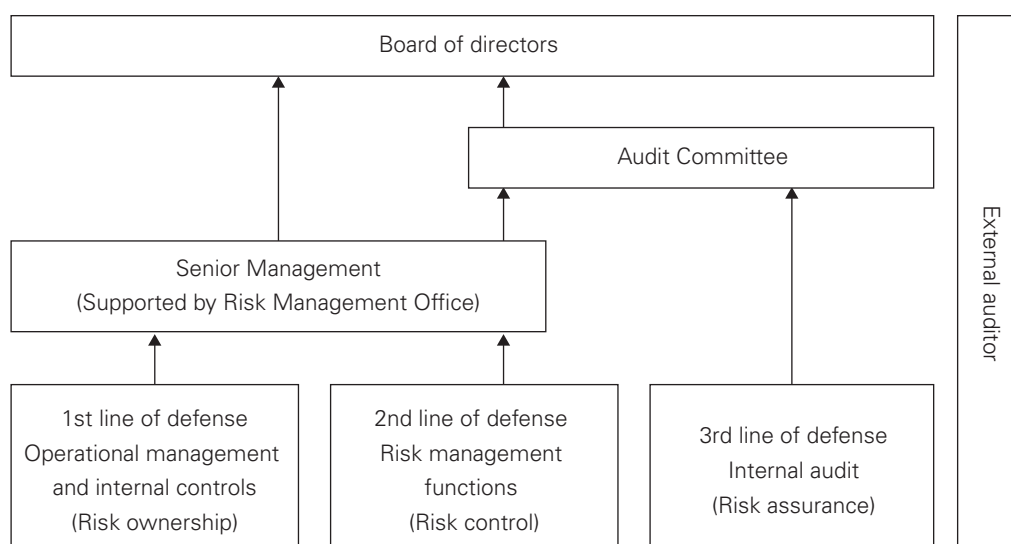
The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems and reviewing their effectiveness at least annually through the Audit Committee. The Audit Committee assists the Board in fulfilling its oversight and corporate governance roles in the Group's financial, operational, compliance, risk management and internal control, and the resourcing of the finance and internal audit functions.

The Company has established an organizational structure with defined levels of responsibility and reporting procedures. The risk management office of the Group ("Risk Management Office") and internal audit functions of the Group ("Group Internal Audit") assist the Board and/or the Audit Committee in the review of the effectiveness of the Group's risk management and internal control systems on an ongoing basis. The directors through these committees are kept regularly apprised of significant risks that may impact on the Group's performance.

Appropriate policies and control have been designed and established to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed. The systems and internal control can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

Corporate Governance Report

The Group's risk management framework is guided by the "Three Lines of Defense" model as shown below:



The Risk Management Office, which co-ordinates enterprise risk management activities and reviews significant aspects of risk management for the Group, reports to the Audit Committee at each regularly scheduled meeting, including amongst other things, significant risks of the Group and the appropriate mitigation and/or transfer of identified risks. The operating units of the Group, as risk owners, identify, evaluate, mitigate and monitor their own risks, and report such risk management activities to Risk Management Office at each regularly scheduled meeting.

Group Internal Audit reports to the Audit Committee at each regularly scheduled meeting throughout the year, the results of their activities during the preceding period pertaining to the adequacy and effectiveness of internal control, including but not limited to, any indications of failings or material weaknesses in those control.

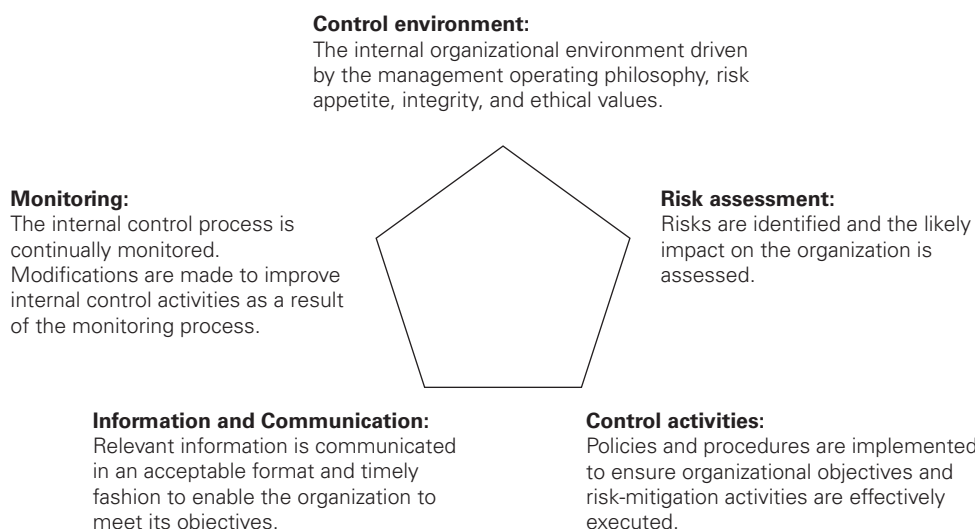
Group Internal Audit adopts a risk-and-control-based audit approach. The annual work plan of Group Internal Audit covers major activities and processes of the Group's operations, businesses and service units. Special reviews are also performed at management's request. The results of these audit activities are communicated to the Audit Committee and key members of executive and senior management of the Group. Audit issues are tracked, followed up for proper implementation, and their progress are reported to the Audit Committee and chief executive officer of the Group periodically.

Group Internal Audit provides independent assurance and report to the Board, the Audit Committee and the chief executive officer of the Group, who is also the chairman of the Board, on the adequacy and effectiveness of internal control for the Group.

The senior management of the Group, supported by the Risk Management Office and monitored by the Group Internal Audit, is responsible for the design, implementation and monitoring of the risk management and internal control systems, and for providing regular reports to the Board and/or the Audit Committee on the effectiveness of these systems.

Corporate Governance Report

For many years, the Company has had an integrated approach for internal control which is consistent with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework.



Within this framework, management is responsible for setting the appropriate tone from the top, performing risk assessments, and owning the design, implementation and maintenance of internal control. Other teams such as finance, legal, and human resources provide assistance and expertise to management to assist it in undertaking its responsibilities. The Board and Audit Committee oversee the actions of management and monitor the effectiveness of the established controls, assisted by assurance provided by the external and internal auditors. The Group's internal control framework is designed to manage rather than eliminate the risk of failure to achieve business objectives, and as such, provides reasonable (rather than absolute) assurance against material misstatement or loss.

The Company has adopted policies and procedures for assessing and, where prudent, improving the effectiveness of its risk management and internal control systems, including requiring the executive management of the Group to regularly assess and, at least annually, to personally certify that such matters are appropriate and functioning effectively in the belief that this will enhance the corporate governance of the Company and its business practices in the future.

The Company has embedded its risk management systems into the core operating practices of the business. On an ongoing basis, the respective operating units of the Company will review and assess the status of potential risks which may impact on their ability to achieve their business objectives and/or those of the Company. This review process includes assessment as to whether the existing system of internal control continues to remain relevant, adequately addresses potential risks, and/or should be supplemented. The results of these reviews are recorded in the operating units risk registers for monitoring and incorporated into the Group's consolidated risk register for analysis of potential strategic implications and for regular reporting to the senior management and directors of the Company.

Corporate Governance Report

The Audit Committee has established and oversees a whistleblower policy and a set of comprehensive procedures whereby employees, customers, suppliers and other concerned parties can report any actual or suspected occurrence of improper conduct involving the Company, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Audit Committee has designated the head of Group Internal Audit to receive on its behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations for action resulting from investigation into complaints.

The Company regulates the handling and dissemination of inside information as set out in the Corporate Responsibility Policy and various subsidiary procedures to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made. During the year ended 31 December 2019, the Risk Management Office has worked closely with the operating units, senior management, and the Directors to enhance the risk management systems. Such activities have included, amongst other matters, increasing the number of training sessions and risk workshops; further standardization of risk reporting language, classification, and quantification; more closely aligning the assessment of internal control with their potential risks; and increasing the depth and frequency of interaction with the designated directors on the Company's risk management system's design, operation, and findings. The Risk Management Office has presented update reports to the Board and the Audit Committee on the monitoring of the risk management and assisted the Directors in the review of the effectiveness of the risk management and internal control systems of the Group during the year.

During the year ended 31 December 2019, Group Internal Audit conducted selective reviews of the effectiveness of the systems of risk management and internal controls of the Group over financial, operational and compliance controls with emphasis on information technology and security, data privacy and protection, business continuity management and procurement. Additionally, the heads of major business and corporate functions were required to undertake control self-assessments of their key controls. These results were assessed by Group Internal Audit and reported to the Audit Committee, which then reviewed and reported the same to the Board and appropriate actions are taken.

During the year ended 31 December 2019, the Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Group's financial position or results of operations and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions. The Board considered that the Group's internal control system is adequate and effective and the Company has complied with the code provision on risk management and internal control of the CG code.

In addition to the review of risk management and internal control undertaken within the Group, the external auditors also assessed the adequacy and effectiveness of certain key risk management and internal control as part of their statutory audits. Where appropriate, the external auditors' recommendations are adopted and enhancements to the risk management and internal control will be made.

Corporate Governance Report

Company Secretary

The company secretary of the Company is Mr. Lu Yongbin. His biographical details are set out under “Directors and Senior Management” section in this annual report.

During the year ended 31 December 2019, Mr. Lu Yongbin has taken not less than 15 hours of relevant professional training.

Shareholders' Rights

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An AGM of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an AGM, shall be called an extraordinary general meeting. An AGM shall be called by notice of not less than 21 clear days and not less than 20 clear business days. All other general meetings (including an extraordinary general meeting) must be called by notice of not less than 14 clear days and not less than 10 clear business days.

Shareholders to Convene an Extraordinary General Meeting

Pursuant to article 58 of the Company's Articles of Association, extraordinary general meetings shall be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company 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 2 months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisition(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.

Putting Enquiries by Shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the company secretary at the Company's principal place of business in Hong Kong.

Procedures for Putting Forward Proposals by Shareholders at Shareholders' Meetings

Shareholders of the Company are requested to follow article 58 of the Company's Articles of Association for including a resolution at an extraordinary general meeting. The requirements and procedures are set out above in the paragraph headed “Shareholders to convene an extraordinary general meeting”.

Pursuant to article 85 of the Company's Articles of Association, no person (other than a retiring Director) shall be eligible for election to the office of Director at any general meeting unless a notice signed by a shareholder (other than the person to be proposed) in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office of the Company or at the Hong Kong branch share registrar and transfer office of the Company no earlier than the day after the dispatch 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.

Corporate Governance Report

The procedures for shareholders of the Company to propose a person for election as a Director is posted on the website of the Company. Shareholders or the Company may refer to the above procedures for putting forward any other proposals at general meetings.

Voting by Poll

Pursuant to Rule 13.39(4) of the Listing Rules and article 66(1) of the Company's Articles of Association, any vote of shareholders at a general meeting must be taken by poll except where the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, all the resolutions to be set out in the notice of AGM will be voted by poll.

Investor Relations

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders. Information of the Company is disseminated to the Shareholders in the following manner:

- Delivery of annual and interim results and reports to all shareholders;
- Publication of announcements on the annual and interim results on the Stock Exchange's and the Company's websites, and issuance of other announcements and circulars in accordance with the continuing disclosure obligations under the Listing Rules; and
- The general meeting of the Company is also an effective communication channel between the Board and shareholders.

Constitutional Documents

During the year, the Company has not made any changes to its Memorandum and Articles of Association.

Directors' Report

The Directors are pleased to present to the Shareholders this annual report and the audited financial statements for the year ended 31 December 2019.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 1 to the financial statements.

Results and Dividends

The results of the Group for the year ended 31 December 2019 and the state of affairs of the Company and of the Group as at 31 December 2019 are set out in the financial statements on pages 60 to 151. The Board does not recommend any final dividend (2018: Nil) for the year ended 31 December 2019.

Closure of Register of Members

The register of members of the Company will be closed from Thursday, 21 May 2020 to Tuesday, 26 May 2020, both days inclusive, during which period no transfers of shares shall be effected. In order to determine the entitlement to attend and vote at the forthcoming AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 20 May 2020.

Financial Summary

A summary of the Group's results, assets and liabilities for the last five financial years is set out on page 152 of this report. The summary does not form part of the audited financial statements.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group for the year ended 31 December 2019 are set out in note 14 to the financial statements.

Bank Borrowings

Particulars of the bank borrowings of the Group as at 31 December 2019 are set out in note 24 to the financial statements.

Share Capital

Details of the movements in share capital of the Company during the year ended 31 December 2019 are set out in note 29 to the financial statements.

Pre-Emptive Rights

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

Reserves

Details of the movement in reserves of the Company and the Group during the year under review are set out in note 32 to the financial statements and the consolidated statement of changes in equity respectively.

Directors' Report

Distributable Reserves

As at 31 December 2019, the Company's reserves available for distribution as calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately HK\$89.2 million (2018: approximately HK\$118.7 million) including share premium of approximately HK\$752.9 million and accumulated losses of approximately HK\$663.7 million.

Charitable Donations

The Group has no charitable donations for the year ended 31 December 2019 (2018: Nil).

Major Suppliers and Customers

For the year ended 31 December 2019, purchases from the single largest supplier of the Group and the five largest suppliers of the Group in aggregate accounted for approximately 9.9% (2018: approximately 13.8%) and approximately 28.0% (2018: approximately 34.1%) of the Group's total purchases respectively. For the year ended 31 December 2019, sales to the single top customer of the Group and the five top customers of the Group in aggregate accounted for approximately 17.9% (2018: approximately 37.3%) and approximately 61.0% (2018: approximately 72.7%) of the Group's total turnover respectively.

At all-time during the year ended 31 December 2019, none of the Directors or any of their close associates or any shareholders of the Company who, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital had an interest in any of the five largest suppliers or customers.

Business Review and Financial Key Performance

The business review of the Group for the year ended 31 December 2019 is set out in the Management Discussion and Analysis of this annual report, which form part of this Directors' Report. An analysis of the Group's performance during the year ended 31 December 2019 using financial key performance indicators is provided in the section headed "Financial Highlights" on page 2 of this annual report.

Environmental Policies and Performance

The Group is highly aware of the importance of environment protection and has not noted any material incompliance with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment. The Group has implemented environmental protection measures and has also encouraged staff to be environmental friendly at work by consuming the electricity and paper according to actual needs, so as to reduce energy consumption and minimize unnecessary waste.

We have completed our Environmental, Social and Governance ("ESG") report which contains our ESG information in 2019 and the requirements under the Environmental, Social and Governance Reporting Guide of the Listing Rules. The ESG report of the Company for 2019 will be published no later than 3 months after the publication of this annual report on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and of the Company (www.sky-light.com.hk).

Directors' Report

Directors

The Directors of the Company who have held office during the year and up to the date of this report are:

Executive Directors

Mr. Tang Wing Fong Terry (*Chairman and Chief Executive Officer*)

Mr. Lu Yongbin

Non-executive Directors

Ms. Tang Kam Sau

Mr. Wu Yongmou

Professor Huang Erwin Steve (Retired on 24 May 2019)

Independent Non-executive Directors

Mr. Tse Yat Hong

Dr. Cheung Wah Keung

Mr. Chan Tsu Ming Louis

Every Director shall retire from office once every three years and for this purpose, at each AGM one-third (1/3) of the Directors for the time being, or, if their number is not a multiple of three (3), then the number nearest to one-third (1/3) but not less than one-third (1/3) shall retire from office by rotation. The directors to retire in every year will be those who have been longest in office since their last election but as between persons who became directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. Subject to the Company's Articles of Association, a retiring Director shall be eligible for re-election at the AGM at which he/she retires. For avoidance of doubt, each Director shall retire at least once every three (3) years.

In accordance with the Company's Articles of Association, Ms. Tang Kam Sau, Dr. Cheung Wah Keung and Mr. Tse Yat Hong shall retire at the forthcoming 2020 AGM. All of the retiring Directors, being eligible, will offer themselves for re-election as Directors at the AGM.

Directors' Remuneration and the Five Highest Paid Individuals

Details of directors' remuneration and those of the five highest paid individuals in the Group are set out in note 8 and note 9 to the financial statements.

Emolument Policy

The Directors and senior management receive compensation in the form of fees, salaries, benefits in kind and discretionary bonuses relating to the performance of the Company. The Company also reimburses them for expenses which are necessarily and reasonably incurred for providing services to the Group or executing their functions in relation to the Group's operations.

The Company reviews and determines the remuneration and compensation package of its Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective duties and responsibilities of its Directors and senior management and the performance of the Company. The Directors and employees of the Group may also receive options which may be granted under the Scheme.

Directors' Report

Relationships with Stakeholders

The Group recognises that employees are its valuable assets. Thus, the Group recognises the accomplishment of its employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market level. Further, the Group provides a healthy and safe workplace for all employees during the year under review.

The Group also understands that it is important to maintain good relationship with business partners and bank enterprises to achieve its long-term goals. During the year under review, there was no material or significant dispute between the Group and its business partners or bank enterprises.

Directors' Service Contract

Each of the executive Directors has entered into a service contract with our Company for a term of three years commencing from 2 July 2015 and ending on 1 July 2018, which was further extended for a further term of three years to 1 July 2020, unless and until terminated by either party giving not less than three months' written notice to the other.

Each of the non-executive Director and the independent non-executive Director, except for Mr. Tse Yat Hong, has been appointed for an initial term of three years commencing from 2 July 2015 and ending on 1 July 2018, which was further extended for a further term of three years to 1 July 2020, unless and until terminated by either party giving not less than three months' written notice to the other.

Mr. Tse Yat Hong has been appointed for an initial term of three years commencing from the 5 December 2017 until terminated by either party giving not less than three months' written notice to the other expiring at the end of the initial term of their appointment or any time thereafter.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

Management Contracts

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or subsisted during the year.

Permitted Indemnity

According to the articles of association of the Company and subject to the provisions of the Hong Kong Companies Ordinance, every director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities to the fullest extent permitted by the Hong Kong Companies Ordinance which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The relevant provision of the articles of association of the Company was in force during the FY2019 and as at the date of this report. In addition, the Company has maintained appropriate directors and officers liability insurance cover for the directors and officers of the Company and its subsidiaries in respect of potential legal actions against them.

Directors' Report

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2019, the interests or short positions of the Directors and chief executive of the Company in the shares of the Company ("Shares"), underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Capacity	Number of shares or underlying shares ⁽¹⁾			Total interests	Approximate percentage of total issued shares in the Company ⁽⁷⁾
		Personal interests	Corporate interests	Other interests		
Tang Wing Fong Terry	Founder of a discretionary trust and beneficial owner	171,347,957 shares (L)	-	417,717,600 ⁽²⁾ shares (L)	589,065,557 shares (L)	61.83%
Wu Yongmou	Founder of a discretionary trust and beneficial owner	42,905,000 shares (L)	-	10,931,000 ⁽³⁾ shares (L)	53,836,000 shares (L)	5.65%
Tang Kam Sau	Interest in a controlled corporation	-	39,192,000 ⁽⁴⁾ shares (L)	-	39,192,000 shares (L)	4.11%
Lu Yongbin	Beneficial owner	4,607,800 ⁽⁵⁾ shares (L)	-	-	4,607,800 shares (L)	0.48%
Cheung Wah Keung	Beneficial owner	1,500,000 ⁽⁶⁾ shares (L)	-	-	1,500,000 shares (L)	0.16%
Chan Tsu Ming Louis	Beneficial owner	1,500,000 ⁽⁶⁾ shares (L)	-	-	1,500,000 shares (L)	0.16%
Tse Yat Hong	Beneficial owner	1,500,000 ⁽⁶⁾ shares (L)	-	-	1,500,000 shares (L)	0.16%

Directors' Report

Notes:

- (1) The letter “L” denotes the Directors’ long position in the shares of the Company.
- (2) The disclosed interest represents the interest in 417,717,600 Shares held by Fortune Six Investment Limited, which is wholly-owned by Wing Lung Bank (Trustee) Limited as trustee for the Tang’s Family Trust (i.e. The Trust 168) through Antopex Limited and Best One International Limited (as nominees for Wing Lung Bank (Trustee) Limited).
- (3) The disclosed interest represents the interest in 10,931,000 Shares held by YongWeiDa Investment Limited, which is wholly owned by Wing Lung Bank (Trustee) Limited as trustee of the Wu’s Family Trust (i.e. The Ling Shui Family Trust) through Antopex Limited and YongDingDa Investment Limited (as nominees for Wing Lung Bank (Trustee) Limited).
- (4) Ms. Tang Kam Sau is the sole shareholder of Uphigh Global Limited, which holds 39,192,000 Shares. By virtue of the SFO, she is deemed to be interested in Uphigh Global Limited’s interest in the Company by virtue of the SFO.
- (5) The disclosed interest represents Mr. Lu Yongbin’s (i) personal interest in 3,851,800 Shares and (ii) 756,000 underlying Shares in respect of the share options granted under the share option scheme adopted by the Company on 12 June 2015.
- (6) These represent the share options of the Company granted to the respective directors under the Company’s share option scheme adopted by the Company on 12 June 2015. For details, please refer to the section headed “Pre-IPO share option scheme and share option scheme — Share Option Scheme”.
- (7) Based on a total of 952,739,455 Shares in issue as at 31 December 2019.

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

Directors' Report

Substantial Shareholders' and Others' Interests and Short Positions in Shares and Underlying Shares

To the best knowledge of the Directors, as at 31 December 2019, the following persons (other than the Directors or chief executive of the Company), were directly or indirectly, interested in 5% or more of the shares or short positions in the shares and the underlying shares of the Company, which are required to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO, or which will be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

Name of shareholder	Capacity/nature of interest	Number of shares ⁽¹⁾	Approximate percentage of total issued shares in the Company ⁽⁴⁾
Wing Lung Bank (Trustee) Limited ⁽²⁾	Trustee	428,648,600 shares (L)	44.99%
Antopex Limited ⁽²⁾	Nominee for another person	428,648,600 shares (L)	44.99%
Best One International Ltd ⁽²⁾⁽³⁾	Interest of controlled corporation	417,717,600 shares (L)	43.84%
Fortune Six Investment Limited ⁽²⁾⁽³⁾	Beneficial owner	417,717,600 shares (L)	43.84%

Notes:

- (1) The letter "L" denotes a person's long position in the shares of the Company.
- (2) Wing Lung Bank (Trustee) Limited as trustee holds 428,648,600 Shares by virtue of the SFO as follows: (i) 417,717,600 Shares held by Fortune Six Investment Limited, which is wholly-owned by Wing Lung Bank (Trustee) Limited as trustee for the Tang's Family Trust (i.e. The Trust 168) through Antopex Limited and Best One International Limited (as nominees for Wing Lung Bank (Trustee) Limited); (ii) 10,931,000 Shares held by YongWeiDa Investment Limited, which is wholly-owned by Wing Lung Bank (Trustee) Limited as trustee for the Wu's Family Trust (i.e. The Ling Shui Family Trust) through Antopex Limited and YongDingDa Investment Limited (as nominees for Wing Lung Bank (Trustee) Limited) .
- (3) The interest of Best One International Limited and Fortune Six Investment Limited was also disclosed as the interest of Mr. Tang Wing Fong Terry in the above section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures".
- (4) Based on a total of 952,739,455 Shares in issue as at 31 December 2019.

Save as disclosed above, as at 31 December 2019, the Directors are not aware of any other corporation or individual (other than the Directors or chief executive of the Company) who had an interest or a short positions in the shares or underlying shares of the Company as recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

Save as disclosed above, as at 31 December 2019, none of the Director is a director or employee of a company which had an interest in the shares and underlying shares 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.

Directors' Report

Directors' Interests in Contracts of Significance

Save as disclosed in the section headed "Continuing Connected Transactions" in this report and note 37 to the financial statements, no Director or an entity connected with the Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, any of its Controlling Shareholders (as defined in the Listing Rules), holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year under review.

Directors' Interest in Competing Business

During the year ended 31 December 2019, none of the Directors has any interest in a business apart from the business which competes or is likely to compete, either directly or indirectly, with the Group's business.

Deed of Non-Competition

Fortune Six Investment Limited and Mr. Tang Wing Fong Terry (collectively the "Controlling Shareholders") have entered into a deed of non-competition on 12 June 2015 (the "Deed") with our Company. Pursuant to the Deed, each of the Controlling Shareholders shall and shall procure that its associates (other than members of the Group) not be engaged, on its own account or with each other or in conjunction with or on behalf of any person, firm or company, carry on or be engaged in, concerned with or interested in, directly or indirectly, whether as a shareholder, partner, agent or otherwise, in the existing business activities of our Group or in any other business that may compete, directly or indirectly with such business.

The Company has received confirmations from the Controlling Shareholders of their compliance with the terms of the Deed. The Controlling Shareholders declared that they have fully complied with the Deed for the year ended 31 December 2019. The independent non-executive directors have reviewed on the confirmations from the Controlling Shareholders and concluded that the Deed has been complied with and has been effectively enforced.

Directors' rights to acquire shares or debenture

Save as disclosed herein, at no time during the year ended 31 December 2019 was the Group a party to any arrangements to enable the Directors of the Group to acquire by means of acquisition of shares in, or debt securities, and including debentures, of the Group or any other body corporate.

Purchase, Sale or Redemption of Listed Securities

The Company is empowered by the applicable Companies Law, Cap 22 of the Cayman Islands and the articles of association of the Company to repurchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company for the year ended 31 December 2019.

Directors' Report

Issue of Equity Securities

On 15 January 2019, the Company issued and allotted 95,605,455 new shares at the issue price of HK\$0.55 per share for the capitalisation of the outstanding loans in the total amount of HK\$52,583,000.

Date of announcement	Event	Reasons for issue	Net proceeds raised	Intended use of proceeds
15 January 2019, the closing market price of this date was HK\$0.45 per share	Issue 95,605,455 ordinary shares at the issue price HK\$0.55 per share under the Specific Mandate	Capitalisation of outstanding loans	HK\$52,583,000 which were utilized	Full repayment of shareholders' loan

The details are set out under the section headed "Connected Transaction" of this Directors' Report.

Pre-IPO Share Option Scheme and Share Option Scheme

Pre-IPO Share Option Scheme

A Pre-IPO Share Option Scheme was conditionally adopted on 29 May 2015 prior to the listing of the Shares and has expired on 2 July 2019. The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of certain of our employees, executives and officers made or may have made to the growth of the Group and/or the listing of Shares on the Stock Exchange. The eligible participant under the Pre-IPO Share Option Scheme are the full-time employees, executives or officers of our Company or the full-time employees of any of the subsidiaries of the level of manager or above and other full-time employees of our Company or any of the subsidiaries who, in the sole opinion of the Board, have contributed or will contribute to our Company and/or any of the subsidiaries.

The total number of Shares subject to the Pre-IPO Share Option Scheme is 21,024,000 Shares, representing approximately 2.21% of the issued shares as at the date of this report. No further options will be offered or granted under the Pre-IPO Share Option Scheme, as the right to do so will terminate upon the listing of the Shares on the Stock Exchange. A total of 43 eligible participants were granted options under the Pre-IPO Share Option Scheme on 29 May 2015 ("Pre-IPO SOS Grant Date"). The top participant was granted 3,600,000 shares under the scheme.

HK\$1.00 was payable by each Grantee as consideration for grant of the options. The exercise price in respect of each option granted under the Pre-IPO Share Option Scheme is HK\$0.83. The board of directors of the Company determined the exercise price of the Pre-IPO Share Options by taking into account of, among other matters, (i) the contribution of the grantees, being employees of the Group, made or likely to make to the growth of the business of the Group; and (ii) the impact of the Pre-IPO Share Options on the financial results of the Group.

Directors' Report

The Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme of the Company may be exercised by each grantee in the following manner:

- (a) approximately 33% of the option shall become vested and exercisable on the 1st anniversary date of the Listing Date (the "1st Vesting Date"), and the exercise period in respect thereof shall commence on the 1st Vesting Date and end on the day immediately before the 1st anniversary date of the 1st Vesting Date (both dates inclusive);
- (b) approximately 33% of the option shall become vested and exercisable on the 2nd anniversary date of the Listing Date (the "2nd Vesting Date"), and the exercise period in respect thereof shall commence on the 2nd Vesting Date and end on the 1st anniversary date of the 2nd Vesting Date (both dates inclusive); and
- (c) approximately 34% of the option shall become vested and exercisable on the 3rd anniversary date of the Listing Date (the "3rd Vesting Date"), and the exercise period in respect thereof shall commence on the 3rd Vesting Date and end on the 1st anniversary date of the 3rd Vesting Date (both dates inclusive).

The following table discloses details of the Company's share options under the Pre-IPO Share Option Scheme held by senior management and other employees and movements in such holding during the year ended 31 December 2019:

Name	As at 1 January 2019	Exercised	Cancelled	Lapsed	As at 31 December 2019	Approximate percentage of the total number of Shares in issue as at the date of this report
Senior management	428,000	–	–	428,000	–	0%
Other employees	2,770,000	–	–	2,770,000	–	0%
Total	3,198,000	–	–	3,198,000	–	0%

The valuation of options granted under the Pre-IPO Share Option Scheme was conducted based on the binomial model with the following assumptions:

	At grant date
(i) Expected volatility	39.79–47.04% per year
(ii) Expected life of options	2.1–4.1
(iii) Average risk-free interest rate	0.44–0.87% per year
(iv) Expected dividend yield	3.3% per year
(v) Estimated rate of leaving service	0% per year

Directors' Report

The expected suboptimal early exercise multiple for the grantees is assumed to be 220% times the exercise price. The postvesting exit rate for the grantees is assumed to be nil per year.

The variables and assumptions used in computing the fair values of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The Group did not have any share option expenses (FY2018: reversed expense of approximately HK\$2.8 million) during FY2019 in relation to Pre-IPO Share Option Scheme granted by the Company.

Share Option Scheme

A Share Option Scheme was conditionally adopted on 12 June 2015, which became effective on the Listing Date. The key terms of the scheme are set out below:

- (1) The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined below) have had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:
 - (i) motivating the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and
 - (ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

Eligible Participants refers to:

- (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;
- (ii) any Directors (including non-executive Directors and independent non-executive Directors) of our Company or any of its subsidiaries;
- (iii) any advisers, consultants, suppliers, customers and agents to our Company or any of its subsidiaries; and
- (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to our Group, the assessment criteria of which are:
 - (a) contribution to the development and performance of our Group;
 - (b) quality of work performed for our Group;
 - (c) initiative and commitment in performing his/her duties; and
 - (d) length of service or contribution to our Group.

Directors' Report

- (2) The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date, being 80,000,000 Shares (the "Scheme Limit"), excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time.
- (3) The maximum entitlement of each Eligible Participant in any 12-month period up to the date of offer to grant shall not exceed 1% of the shares in issue as at the date of offer to grant.
- (4) An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the options duly signed by the grantee, 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 on or before the relevant acceptance date.
- (5) An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date.
- (6) Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period ending 12 June 2025.
- (7) The exercise price is determined by the directors of the Company at their discretion and will not be lower than the higher of: (a) the closing price of the ordinary shares on the Stock Exchange at the offer date, which must be a trading day; (b) the average closing price of the ordinary shares on the Stock Exchange for the 5 business days immediately preceding the offer date; (c) the nominal value of the Company's share.

As at the date of this report, the total number of Shares available for issue under the Share Option Scheme is 37,203,000 Shares, representing approximately 3.9% of the total number of Shares in issue.

Directors' Report

A summary of the movements of the share options under the Share Option Scheme during the year ended 31 December 2019 are as follows:

Date of grant	27 July 2015 (Note 1)	15 September 2016 (Note 2)	1 December 2016 (Note 3)	18 May 2017 (Note 4)	26 April 2018 (Note 5)	16 May 2019 (Note 6)
(i) Share Options granted as at the date of grant or 1 January 2019	2,000,000	9,411,000	4,600,000	10,281,000	12,522,000	13,110,000
Share Options exercised during the year	-	-	-	-	-	-
Share Options cancelled during the year	-	-	-	-	-	-
Share Options lapsed during the year	2,000,000	1,086,000	600,000	1,638,000	3,399,000	414,000
(ii) Share Options outstanding as at 31 December 2019	-	8,325,000	4,000,000	8,643,000	9,123,000	12,696,000
Approximate percentage of the total number of Shares in issue as at the date of this report	0.00%	0.87%	0.42%	0.91%	0.96%	1.33%
(iii) Exercise price of the Share Options:	HK\$3.46	HK\$1.70	HK\$1.986	HK\$2.206	HK\$0.94	HK\$0.42
(iv) Closing price immediately before the date of grant	HK\$3.46	HK\$1.56	HK\$2.04	HK\$2.18	HK\$0.93	HK\$0.40

Notes:

- (1) On 27 July 2015, share options to subscribe for a total of 2,000,000 Shares were granted to Professor Huang Erwin Steve, a non-executive Director, pursuant to the Share Option Scheme. Maximum of 50% of the share options of the Company ("Share Options") shall become vested and exercisable from 27 July 2016 to 26 July 2019 (both dates inclusive). The remaining 50% of the Share Options shall become vested and exercisable from 27 July 2017 to 26 July 2020 (both dates inclusive). As Professor Huang Erwin Steve retired on 24 May 2019, the above Share Options lapsed on the same day.
- (2) On 15 September 2016, 12,942,000 Share Options were granted to certain eligible participants pursuant to the Share Option Scheme based on the terms set out in the Company's announcement dated 15 September 2016. Among the Share Options granted on 15 September 2016, 2,250,000 Share Options were granted to the following Directors of the Company. Professor Huang Erwin Steve retired as director on 24 May 2019, so his share options lapsed on the same day. Details of which are as follows:

Name of Directors	Position	Share Options as at 1 January 2019	Share Options exercised during the Year	Share Options cancelled during the year	Share Options lapsed during the year	Share Options Outstanding as at 31 December 2019	Approximate percentage of shareholding upon full exercise of Share Options granted
Huang Erwin Steve	Non-executive director and external consultant	750,000	-	-	750,000	-	0.00%
Chan Tsu Ming Louis	Independent non-executive director	750,000	-	-	-	750,000	0.08%
Cheung Wah Keung	Independent non-executive director	750,000	-	-	-	750,000	0.08%

Directors' Report

- (3) On 1 December 2016, 9,900,000 Share Options were granted to certain employees of the Group as "Employee Options" and 10,000,000 Share Options were granted to certain parties who contribute or have contributed to the Group, including an agent developing the Group's sales channels and members of a supplier of the Group as "Contributor Options" based on the terms set out in the Company's announcement dated 1 December 2016.
- (4) On 18 May 2017, share options to subscribe for a total of 15,000,000 Shares were granted to employees of the Group pursuant to the Share Option Scheme based on the terms set out in the Company's announcement dated 18 May 2017. Among the said Share Options granted, 210,000 Shares were granted to Mr. Lu Yongbin, an executive Director and chief financial officer and the company secretary of the Company.
- (5) On 26 April 2018, share options to subscribe for a total of 12,522,000 Shares were granted to employees of the Group pursuant to the Share Option Scheme based on the terms set out in the Company's announcement dated 26 April 2018. Among the said Share Options granted, 252,000 Shares were granted to Mr. Lu Yongbin, an executive Director and chief financial officer and the company secretary of the Company. 750,000 Shares were granted to Mr. Tse Yat Hong, an Independent non-executive director of the Company.
- (6) On 16 May 2019, 13,110,000 share options were granted to certain eligible employees pursuant to the Share Option Scheme based on the terms set out in the Company's announcement dated 16 May 2019. Among the said Share Options granted, 294,000 Shares were granted to Mr. Lu Yongbin, an executive Director and chief financial officer and the company secretary of the Company, 750,000 Shares were granted to Mr. Tse Yat Hong, an Independent non-executive director of the Company ; 750,000 Shares were granted to Dr. Cheung Wah Keung, an Independent non-executive director of the Company and 750,000 Shares were granted to Mr. Chan Tsu Ming Louis, an Independent non-executive director of the Company.
- (7) For the information with regard to the exercise period and the vesting period of the option granted, please refer to note 30 to the financial statements of this annual report.

The valuation of options granted under the Share Option Scheme was conducted based on the binomial model with the following assumptions:

At grant date	15 September 2016 &				
	27 July 2015	1 December 2016	18 May 2017	26 April 2018	16 May 2019
(i) Expected volatility (per year)	45.69%–46.80%	45.69%–65.81%	57.63%–61.27%	59.03%–62.75%	59.67%–61.87%
(ii) Expected life of options (year)	4.0–5.0	6.0–8.17	6.0–8.0	6.0–8.0	2.0–4.0
(iii) Average risk-free interest rate (per year)	1.47%–1.66%	1.44%–2.09%	1.16%–1.22%	2.11%–2.13%	1.56%–1.69%
(iv) Expected dividend yield (per year)	3.93%	3.93%–5.32%	5.32%	5.74%	5.32%
(v) Estimated rate of leaving service (per year)	0%	0%–25%	25%	27.5%	27.5%

The variables and assumptions used in computing the fair values of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The Group recognised share option expense of approximately HK\$4.9 million (FY2018: recognised expense of approximately HK\$2.2 million) during FY2019 in relation to Share Option Scheme granted by the Company.

Directors' Report

Share Award Scheme

On 20 September 2016, the Company adopted a share award scheme ("Share Award Scheme") with major terms and details set out below. Unless otherwise stated, terms defined in the Company's announcement shall have the same meaning herein:

(1) Purpose

The purposes of the Scheme are:

- (i) to recognise the contributions by certain Employees and to provide them with incentives in order to retain them for the continual operation and development of the Group; and
- (ii) to attract suitable personnel for further development of the Group.

(2) Duration

Subject to any early termination as may be determined by the Board pursuant to the Scheme Rules, the Scheme shall be valid and effective from 20 September 2016 to the date the last of the Awarded Shares has been vested and transferred to the relevant Selected Employee or has lapsed in accordance with the Scheme Rules provided that no Award shall be made on or after the 10th anniversary date of 20 September 2016.

(3) Administration

- (i) The Scheme shall be subject to the administration of the Board in accordance with the Scheme Rules and the terms of the Trust Deed.
- (ii) The Trustee shall during the trust period hold the Trust Shares, the Awarded Shares, the related income, the returned shares and the residual cash in accordance with the terms of the Trust Deed.
- (iii) The Board may from time to time issue implementation and operation manual for the Scheme.

(4) Scheme Limit

- (i) The Board shall not make any further award of Awarded Shares which will result in the number of Shares awarded by the Board under the Scheme exceeding 10 per cent (10%) of the issued share capital of the Company as at 20 September 2016.
- (ii) The maximum number of Shares which may be awarded to a Selected Employee under the Scheme shall not exceed 2.5 per cent (2.5%) of the issued share capital of the Company as at 20 September 2016.

Directors' Report

(5) Operation of Scheme

Subject to the Scheme Rules, the Board may, from time to time, at its absolute discretion select any Employee for participation in the Scheme as a Selected Employee and determine the number of the Awarded Shares for each of them and notify the Trustee of its decision. In determining the number of Awarded Shares for a Selected Employee, the Board may take into consideration matters including without limitation, the general financial condition of the Group and the rank and performance of the relevant Selected Employee.

The Board is entitled to impose any conditions (including without limitation, the performance, operating and financial targets and other criteria, if any, to be satisfied by the Selected Employee) as it deems appropriate in its sole and absolute discretion before the Awarded Shares can vest. In addition, Awarded Shares held by the Trustee upon Trust and which are referable to a Selected Employee shall vest to that Selected Employee in accordance with a vesting schedule determined at the discretion of the Board, provided that the Selected Employee shall remain at all times after the grant of the Award and on each relevant Vesting Date(s) as Employee.

Subject to the Scheme Rules and compliance with the Listing Rules, the articles of association of the Company, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and any other applicable laws and regulations, the Board may, at any time and from time to time at its absolute discretion having regards to, inter alia, the financial position of the Company, the cash position of the Company and the market price of the Shares at the relevant time, either before or after identification of the Selected Employee(s) (i) cause the Company to issue and allot such number of new Shares to the Trustee as Trust Shares, or (ii) cause the Trustee to purchase the Shares on the market as Trust Shares from the Company's funds.

In the event that the grant of an Award to any connected person of the Company constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, the Company will comply with the applicable reporting, announcement and/or independent shareholders' approval requirements.

(6) Lapse

Save as provided in the Scheme Rules, in the event that prior to or on the Vesting Date in respect of a Selected Employee, (i) the relevant Selected Employee died, (ii) the relevant Selected Employee ceases to be an Employee, (iii) the relevant subsidiary of the Company by which a Selected Employee is employed ceases to be a subsidiary of the Company (or of a member of the Group), or (iv) an order for the winding-up of the Company is made or a resolution is passed for the voluntary winding-up of the Company, the Award shall, unless the Board otherwise agrees, lapse forthwith.

In the event that prior to or on the Vesting Date (i) a Selected Employee is found to be an Excluded Employee, or (ii) a Selected Employee fails to return duly executed transfer documents prescribed by the Trustee for the relevant Awarded Shares within the stipulated period, the relevant part of the Award made to such Selected Employee shall, unless the Board otherwise agrees, lapse forthwith.

Directors' Report

(7) Restrictions

No Award shall be made by the Board and no Shares or payment (as the case may be) shall be delivered or made to the Trustee and no instructions to acquire Shares and allot new Shares shall be given to the Trustee under the Scheme where any Director is in possession of inside information in relation to the Group or where dealings in Shares by Directors are prohibited under any code or requirement of the Listing Rules and all applicable laws from time to time.

The Company shall comply with the relevant Listing Rules when granting the Awarded Shares. If awards are made to the directors or substantial shareholders of the Group, such awards shall constitute connected transaction under Chapter 14A of the Listing Rules and the Company shall comply with the relevant requirements under the Listing Rules.

According to the rules of the Share Award Scheme, the Board may exercise its discretion to instruct the Trustee to subscribe for new Shares from the Company pursuant the general mandate or a specific mandate to be approved by shareholders in general meeting, in particular, at a time when the Board is of the view that the purchase of old Shares may have a significant impact to the secondary market and may not be in the interest of the shareholders as far as the trading prices and trading volume are concerned before or after identification of the Selected Employees to be allocated with Awarded Shares under the Scheme Rules.

Given that there is no outstanding Award granted under the Share Award Scheme and the Company does not intend to grant further Award prior to its expiry on 19 September 2026, the board of directors resolved to terminate the Share Award Scheme with effect from 12 September 2019.

Connected Transaction

On 15 January 2019, the Company and Mr. Tang Wing Fong Terry ("Mr. Tang") entered into a loan capitalisation agreement (the "Loan Capitalisation Agreement") whereby Mr. Tang conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, 95,605,455 new Shares (the "Capitalisation Shares"), all of which are ordinary shares, at the issue price of HK\$0.55 per share for the capitalisation (the "Loan Capitalisation") of the outstanding principal amount of the fixed term loans in the total principal amount of HK\$52,583,000 provided by Mr. Tang to the Company (the "Shareholder Loan"). The Capitalisation Shares ranked *pari passu* in all respects with the existing Shares in issue at the date of allotment and issue of the Capitalisation Shares. The aggregate nominal value of the Capitalisation Shares (with a par value of HK\$0.01 each) was approximately HK\$956,055. The issue price of HK\$0.55 per Capitalisation Share represented a premium of approximately 22.22% to the closing price per Share of HK\$0.45 as quoted on the Stock Exchange on 15 January 2019, being the date of the Loan Capitalisation Agreement. The aggregate consideration for the allotment and issue of the Capitalisation Shares of HK\$52,583,000 was settled by way of setting off against the outstanding principal amount of HK\$52,583,000 under the Shareholder Loan. As at 31 December 2019, there is no outstanding loan under the Loan Capitalisation Agreement.

As Mr. Tang is the chairman of the Board, the chief officer, an executive Director and the ultimate controlling shareholder of the Company, he is a connected person of the Company. Accordingly, the Loan Capitalisation constitutes a non-exempt connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The Loan Capitalisation was obtained the approval by the independent shareholders' at the extraordinary general meeting of the Company held on 7 March 2019.

Directors' Report

Related Party Transactions

The details of the related party transactions are set out in note 37 to the financial statements. The Company confirms that in relation to the related party transactions for the year ended 31 December 2019, it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Continuing Connected Transactions

Certain related party transactions as disclosed in note 37 to the financial statements constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The Company confirms that the following disclosure with respect to the continuing connected transactions has complied with the disclosure requirement in accordance with Chapter 14A of the Listing Rules.

On 27 December 2017, the Group entered into property leasing with 新勇藝科技園(河源)有限公司 (“Xinyongyi”) which constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Xinyongyi is a company controlled as to 84% by Mr. Wu Yongmou, a non-executive Director and therefore Xinyongyi is an associate of a connected person of the Company under the Listing Rules.

A property leasing framework agreement dated 27 December 2017 (the “Property Leasing Framework Agreement”) was entered into between Xinyongyi as landlord and Sky Light Technology (HY) as tenant in respect of the premises located at (i) 1/F, 2/F and 4/F of the Research and Development Building; (ii) 3/F to 7/F of the Staff Dormitory Building; (iii) Block No. 2 of the Manufacturing Plant; and (iv) Block No. 4 of the Management Dormitory Building, Xinyongyi Science Park, Ke Shi Er Road, Hitech Development Zone, Heyuan, Guangdong, the PRC (the “Xinyongyi Premises”) with a gross floor area of approximately 25,000 square meters. subject to adjustment as required by our business needs, for a term of three years commenced on 1 January 2018 and expiring on 31 December 2020. The Xinyongyi Premises consist of the entire premises of our Heyuan production facility and certain other premises used by us as management and staff dormitories. At any time during the term of the Property Leasing Framework Agreement, either Xinyongyi or Sky Light Technology (HY) may terminate the Property Leasing Framework Agreement by paying a penalty equivalent to six months’ rent to the other party.

The actual amount in FY2019 in respect of the above leasing was HK\$2,857,000 (FY2018: HK\$4,257,000), which is within the annual cap of HK\$6,240,000 (FY2018: HK\$5,200,000).

The Group has followed the internal policies and guidelines when determining the price and terms of above transactions.

The independent non-executive directors of the Company have, for the purpose of Rule 14A.55 of the Listing Rules, reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions have been entered into by the Group (i) in the ordinary and usual course of its business; (ii) on normal commercial terms or better; and (iii) according to the agreements governing such transactions that are fair and reasonable and in the interests of the Company’s shareholders as a whole.

Directors' Report

Pursuant to Rule 14A.56 of the Listing Rules, the Company's auditors were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules and has confirmed that nothing has come to their attention that causes them to believe that the continuing connected transactions set out above (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the relevant agreement governing such transactions; and have exceeded their respective caps. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Sufficiency of Public Float

Based on the publicly available information and to the best of the Directors' knowledge, information and belief, the Company had maintained sufficient public float of not less than 25% of its total issued shares as required under the Listing Rules from 1 January 2019 up to the date of this report.

Auditors

Ernst & Young, the auditors of the Company, will retire at the conclusion of the forthcoming AGM of the Company and be eligible to offer themselves for re-appointment.

By the order of the Board

Tang Wing Fong Terry

Chairman

Hong Kong

27 March 2020

Independent Auditor's Report



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To the members of Sky Light Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Sky Light Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 60 to 151, 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 of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HSAs") 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

At 31 December 2019, the carrying amount of trade receivables was HK\$81,135,000 (net of allowance for doubtful debts of HK\$3,229,000) as disclosed in note 19 to the consolidated financial statements. Assessment of the recoverability of trade receivables involves a high level of management judgement. Management used a provision matrix to calculate expected credit losses ("ECL") for trade receivables. The calculation of ECL is based on the Group's historical default rates, forward-looking information, and specific factors that management considered in the estimation of ECL including the type of customers, ageing of the balances, recent historical payment patterns and forecast economic conditions.

The accounting policies and disclosures in respect of impairment assessment of trade receivables are included in notes 2.4, 3 and 19 to the consolidated financial statements.

We evaluated the design and implementation of internal controls which govern credit control, debt collection and estimates of ECL.

We tested the ageing analysis of the trade receivables, on a sample basis, to the source documents, including sales invoices and goods delivery notes.

We assessed the ECL provision by: (i) evaluating management's assumptions used in establishing the ECL provision matrix; (ii) examining the information used by management to form such judgements, including testing the accuracy of historical default data and ageing of trade receivables, and evaluating the adjustments made on the historical loss rates based on the forward-looking information; and (iii) examining the actual losses recorded during the current year.

We inspected the cash receipts from customers after the year end relating to the trade receivable balances as at 31 December 2019, on a sample basis.

Independent Auditor's Report

Key audit matters *(Continued)*

Key audit matter

How our audit addressed the key audit matter

Property, plant and equipment impairment review

As at 31 December 2019, the Group's property, plant and equipment amounted to HK\$59,531,000. The impairment test and assessment of property, plant and equipment are largely based on management's expectations and estimates of future operating results of the Group's cash-generating units. This assessment involves significant judgements and estimates made by management.

The accounting policies, significant accounting judgements and estimates and disclosures are included in notes 2.4, 3 and 14 to the consolidated financial statements.

We discussed with management and assessed whether any indicator of impairment exists.

For the property, plant and equipment with an impairment indicator, we examined the Group's forecasted cash flows which underpin management's impairment review. We tested the basis of preparing those forecasts taking into consideration the accuracy of previous forecasts and the historic data supporting the underlying assumptions.

We examined future cash flow assumptions through comparison of current business performance, seeking corroborative evidences and enquiry with management in respect of key growth and business assumptions.

We involved our internal expert to assist us in assessing the methodology on impairment assessment and the parameters such as the discount rate used by management.

Inventory provision

The Group's principal activities are the manufacture and distribution of home surveillance cameras, digital imaging products and other related products. The Group's inventories are subject to the significant risk of obsolescence accompanied with the rapid technology development of digital products. Significant management judgement was accordingly involved when determining the extent of write-down of inventories to net realizable value. Management is required to estimate the respective future selling prices and selling costs to determine if any provision should be made or should be reversed.

The significant accounting judgements and estimates and disclosures for inventories are included in notes 2.4, 3 and 17 to the consolidated financial statements.

We evaluated the process, methods and assumptions used by management to determine the provision for inventories against slow-moving, excess and/or obsolete items.

We considered the historical sales and sales orders placed by the Group's customers when evaluating management's estimation of the future usage of the Group's inventories.

We tested the underlying data used by management to calculate the inventory obsolescence provision, typically an aged analysis of inventories showing last movements, and by re-performing the ageing calculation.

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 HKASs 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 HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

Ernst & Young

Certified Public Accountants

Hong Kong

27 March 2020

Consolidated Statement of Profit or Loss

Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
CONTINUING OPERATIONS			
REVENUE	5	549,123	989,708
Cost of sales		(486,640)	(816,751)
Gross profit		62,483	172,957
Other income and gains	5	9,558	22,824
Selling and distribution expenses		(26,817)	(29,458)
Administrative expenses		(61,116)	(90,268)
Research and development expenses	6	(57,935)	(98,858)
Other expenses		(7,664)	(41,357)
Finance costs	7	(2,985)	(1,302)
Share of losses of associates	18	–	(2,198)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	6	(84,476)	(67,660)
Income tax expense	10	–	(3,116)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(84,476)	(70,776)
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation	11	–	(182,952)
LOSS FOR THE YEAR		(84,476)	(253,728)
Attributable to:			
Owners of the parent		(82,310)	(253,728)
Non-controlling interests		(2,166)	–
		(84,476)	(253,728)

Consolidated Statement of Profit or Loss

Year ended 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
	13		
Basic			
— For loss for the year		HK(8.8) cents	HK(29.8) cents
— For loss from continuing operations		HK(8.8) cents	HK(8.3) cents
Diluted			
— For loss for the year		HK(8.8) cents	HK(29.8) cents
— For loss from continuing operations		HK(8.8) cents	HK(8.3) cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000
LOSS FOR THE YEAR		(84,476)	(253,728)
OTHER COMPREHENSIVE (LOSS)/INCOME			
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:			
Financial assets at fair value through profit or loss:			
Reclassification adjustments for losses included in the consolidated statement of profit or loss	21	–	105
Exchange differences on translation of foreign operations		(7,275)	(12,372)
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:			
Changes in fair value of equity investments designated at fair value through other comprehensive income		(7,959)	2,996
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		(15,234)	(9,271)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(99,710)	(262,999)
Attributable to:			
Owners of the parent		(97,544)	(262,999)
Non-controlling interests		(2,166)	–
		(99,710)	(262,999)

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	59,531	76,741
Right-of-use assets	16(b)	47,559	–
Prepaid land lease payments	16(a)	–	2,610
Intangible assets	15	9,910	10,795
Equity investments designated at fair value through other comprehensive income	20	26,076	34,035
Prepayments and other receivables	22	4,379	9,959
Total non-current assets		147,455	134,140
CURRENT ASSETS			
Inventories	17	134,410	206,852
Trade receivables	19	81,135	122,602
Financial assets at fair value through profit or loss	21	2,646	2,635
Due from a related party	37	398	589
Prepayments and other receivables	22	25,875	49,343
Pledged deposits	23	893	–
Cash and cash equivalents	23	106,899	95,132
Total current assets		352,256	477,153
CURRENT LIABILITIES			
Interest-bearing bank borrowings	24	16,678	29,717
Trade and bills payables	25	106,531	169,046
Other payables and accruals	26	62,819	43,993
Tax payable		6,275	6,275
Due to related parties	37	46	84
Total current liabilities		192,349	249,115
NET CURRENT ASSETS		159,907	228,038
TOTAL ASSETS LESS CURRENT LIABILITIES		307,362	362,178

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		307,362	362,178
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	871	871
Other long term payables	28	33,142	–
Due to a related party	37	–	51,240
Total non-current liabilities		34,013	52,111
Net assets		273,349	310,067
EQUITY			
Equity attributable to owners of the parent			
Share capital	29	9,528	8,572
Shares held for Share Award Scheme	31	–	(9,333)
Reserves	32	257,836	310,828
		267,364	310,067
Non-controlling interests		5,985	–
Total equity		273,349	310,067

Tang Wing Fong Terry
Director

Lu Yongbin
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

Notes	Attributable to owners of the parent												Total equity	
	Share capital	Shares held for Share Award Scheme	Share premium account	Fair value reserve of financial assets at fair value through other comprehensive income	Capital reserve	Share award reserve	Share option reserve	Reserve fund	Accumulated losses	Exchange fluctuation reserve	Total	Non-controlling interests		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2019	8,572	(9,333)	700,113	2,996	148,807	7,112	24,791	37,050	(581,434)	(28,607)	310,067	-	310,067	
Loss for the year	-	-	-	-	-	-	-	-	(82,310)	-	(82,310)	(2,166)	(84,476)	
Other comprehensive loss for the year:														
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	-	-	-	(7,959)	-	-	-	-	-	-	(7,959)	-	(7,959)	
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	(7,275)	(7,275)	-	(7,275)	
Total comprehensive loss for the year	-	-	-	(7,959)	-	-	-	-	(82,310)	(7,275)	(97,544)	(2,166)	(99,710)	
Issue of shares	29	956	51,627	-	-	-	-	-	-	-	52,583	-	52,583	
Share issue expense	29	-	(470)	-	-	-	-	-	-	-	(470)	-	(470)	
Capital contribution by a non-controlling shareholder		-	-	-	-	-	-	-	-	-	-	8,151	8,151	
Reclassification of lapsed share options	30	-	-	5,976	-	-	(5,976)	-	-	-	-	-	-	
Equity-settled share option arrangements	30	-	-	-	-	-	4,900	-	-	-	4,900	-	4,900	
Reclassification of vested awarded shares	31	-	9,333	(4,393)	-	(4,864)	-	-	-	-	76	-	76	
Equity-settled share award scheme arrangements	31	-	-	-	-	(2,248)	-	-	-	-	(2,248)	-	(2,248)	
At 31 December 2019		9,528	-	752,853*	(4,963)*	148,807*	-	23,715*	37,050*	(663,744)*	(35,882)*	267,364	5,985	273,349

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Attributable to owners of the parent										
	Share capital HK\$'000	Shares held for Share Award Scheme HK\$'000	Share premium account HK\$'000	Fair value reserve of financial assets at fair value through other comprehensive income HK\$'000	Capital reserve HK\$'000	Share award reserve HK\$'000	Share option reserve HK\$'000	Reserve fund HK\$'000	Accumulated losses HK\$'000	Exchange fluctuation reserve HK\$'000	Total equity HK\$'000
At 1 January 2018	8,571	(9,333)	699,995	2,996	148,702	3,789	25,431	37,050	(327,706)	(16,235)	570,264
Loss for the year	-	-	-	-	-	-	-	-	(253,728)	-	(253,728)
Other comprehensive loss for the year:											
Changes in financial assets at fair value through profit or loss, net of tax	-	-	-	-	105	-	-	-	-	-	105
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	-	-	-	2,996	-	-	-	-	-	-	2,996
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	(12,372)	(12,372)
Total comprehensive loss for the year	-	-	-	2,996	105	-	-	-	(253,728)	(12,372)	(262,999)
Issue of shares by exercise of share options	1	-	118	-	-	-	(70)	-	-	-	49
Equity-settled share option arrangements	-	-	-	-	-	-	(570)	-	-	-	(570)
Equity-settled Share Award Scheme arrangement	-	-	-	-	-	3,323	-	-	-	-	3,323
At 31 December 2018	8,572	(9,333)	700,113	2,996	148,807	7,112	24,791	37,050	(581,434)	(28,607)	310,067

* These reserve accounts comprise the consolidated reserves of HK\$257,836,000 (2018: HK\$310,828,000) 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			
Loss before tax:			
From continuing operations		(84,476)	(67,660)
From a discontinued operation		–	(182,952)
Adjustments for:			
Finance costs	7	2,985	1,302
Share of losses of associates		–	2,198
Interest income	5	(1,341)	(1,257)
Write-down of inventories to net realisable value	17	61,145	156,832
Depreciation of property, plant and equipment	6	26,122	32,313
Depreciation of right-of-use assets	6	14,707	–
Amortisation of prepaid land lease payments	6	–	95
Amortisation of intangible assets	6	1,094	812
Gain on disposal of an associate	6	–	(404)
Gain on disposal of subsidiaries	6	–	(5,693)
Gain on disposal of right-of-use assets	6	(140)	–
Fair value (gain)/loss of financial assets at fair value through profit or loss	6	(11)	178
Impairment of prepayments and other receivables	6	–	16,142
Impairment of trade receivables	19	2,244	8,758
Impairment of investments in associates	6	–	1,798
Loss on disposal of items of property, plant and equipment	6	1,550	2,297
Equity-settled share option expense	30	4,900	(570)
Equity-settled Share Award Scheme expense	31	(2,248)	3,323
		26,531	(32,488)
Decrease in inventories		13,722	54,683
Decrease/(increase) in trade receivables		39,223	(16,967)
Decrease in amounts due from a related party		191	246
Decrease in prepayments and other receivables		23,373	3,199
Increase in pledged deposits		(893)	–
Decrease in trade and bills payables		(62,515)	(59,377)
Decrease in amounts due to related parties		(38)	(212)
Increase/(decrease) in other payables and accruals		5,330	(25,890)
Cash generated from/(used in) operations		44,924	(76,806)
Tax paid		–	(10,875)
Net cash flows from/(used in) operating activities		44,924	(87,681)

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Net cash flows from/(used in) operating activities		44,924	(87,681)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and intangible assets		(13,846)	(16,173)
Disposal of equity investments designated at fair value through other comprehensive income		–	3,495
Disposal of financial assets at fair value through profit or loss		–	7,992
Disposal of subsidiaries		–	(95)
Interest received	5	1,341	1,257
Gross proceeds from disposal of items of property, plant and equipment		7,105	3,438
Net cash flows used in investing activities		(5,400)	(86)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		65,523	100,553
Loans from a related party		–	51,240
Repayments of bank loans		(78,562)	(160,101)
Interest paid	7	(822)	(1,302)
Principal portion of lease payments	16(c)	(14,924)	–
Share issue expenses		(470)	–
Capital contribution from a non-controlling shareholder		8,151	–
Cash received from termination of Share Award Scheme		76	–
Issuance of new shares by exercise of share options		–	49
Net cash flows used in financing activities		(21,028)	(9,561)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		95,132	203,129
Effect of foreign exchange rate changes, net		(6,729)	(10,669)
CASH AND CASH EQUIVALENTS AT END OF YEAR		106,899	95,132
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	106,899	95,132
Cash and cash equivalents as stated in the statement of financial position		106,899	95,132
Cash and cash equivalents as stated in the statement of cash flows		106,899	95,132

Notes to Financial Statements

31 December 2019

1. Corporate and Group Information

Sky Light Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 18 December 2013. The Company's registered office address is second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman KY1-1103, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 July 2015.

The Company is an investment holding company. During the year, the Company's subsidiaries were principally engaged in:

- Manufacture and distribution of home surveillance cameras
- Manufacture and distribution of digital imaging products
- Manufacture and distribution of other electronic products

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Fortune Six Investment Limited, which is incorporated in the British Virgin Islands.

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Sky Light Electronic Limited ("SLE")	Hong Kong 22 August 2006	HK\$22,000,000	100%	–	Investment holding
Sky Light Electronic (Shenzhen) Limited ("Sky Light Shenzhen")* * 天彩電子(深圳)有限公司	People's Republic of China (the "PRC")/ Mainland China 23 January 2008	HK\$52,469,338	–	100%	Manufacture and sale of camera products and related accessories
Sky Light Imaging Limited ("Sky Light Imaging")	Hong Kong 22 August 2006	HK\$5,000,000	–	100%	Distribution of camera products and related accessories
Sky Light Technology (Heyuan) Limited ("Sky Light Technology (HY)")*** 河源市新天彩科技有限公司	PRC/Mainland China 2 March 2010	RMB20,000,000	–	100%	Manufacture and sale of camera products and related accessories
Sky Light Electronic Joint Stock Company ("SLJSC")***	Vietnam 14 February 2019	USD3,000,000	–	65%	Manufacture and sale of camera products and related accessories

Notes to Financial Statements

31 December 2019

1. Corporate and Group Information *(Continued)*

Information about subsidiaries (Continued)

- # The English names of the Company's subsidiaries registered in Mainland China represent the translated names of these companies as no English names have been registered.
- * Sky Light Shenzhen is registered as a wholly-foreign-owned enterprise under PRC law.
- ** Sky Light Technology (HY) is registered as a limited liability company under PRC law.
- *** Sky Light Electronic Joint Stock Company is registered as a non-wholly-owned subsidiary under Vietnam law.

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

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 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.

Notes to Financial Statements

31 December 2019

2.1 Basis of Presentation *(Continued)*

Basis of consolidation (Continued)

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. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

2.2 Changes in Accounting Policies and Disclosures

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

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendments, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements 2015–2017 Cycle</i>	<i>Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23</i>

Except for the amendments to HKFRS 9, HKAS 19 and HKAS 28, and *Annual Improvements to HKFRSs 2015–2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

- (a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

Notes to Financial Statements

31 December 2019

2.2 Changes in Accounting Policies and Disclosures *(Continued)*

(a) (Continued)

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations. Since the Group recognised the right-of-use assets in relation to the operating lease that were under HKAS 17 at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments on transition date, there was no impact on the retained profit.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of land, buildings and other equipment. Before the adoption of HKFRS 16, the Group classified each of its leases (as lessee) at the inception date as operating leases. The lease payments were recognised as expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under prepayments and other payables, respectively. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less (“short-term leases”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Notes to Financial Statements

31 December 2019

2.2 Changes in Accounting Policies and Disclosures *(Continued)*

(a) (Continued)

As a lessee — Leases previously classified as operating leases *(Continued)*

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in other payables and other long term payables. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. The current and non-current portions of prepaid lease payments, which represent medium-term leasehold lands in Hong Kong, amounting to HK\$95,000 and HK\$2,610,000 respectively were reclassified to right-of-use assets at 1 January 2019.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) HK\$'000
Assets	
Increase in right-of-use assets	67,856
Decrease in prepaid land lease payments	(2,610)
Decrease in prepayments and other receivables	(95)
Increase in total assets	65,151
Liabilities	
Increase in other payables	14,536
Increase in other long term payables	50,615
Increase in total liabilities	65,151

Notes to Financial Statements

31 December 2019

2.2 Changes in Accounting Policies and Disclosures *(Continued)*

(a) (Continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	HK\$'000
Operating lease commitments as at 31 December 2018	80,009
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	47
Commitments relating to leases of low-value assets	44
Add: Payments in optional extension periods not recognised as at 31 December 2018	2,618
	82,536
Weighted average incremental borrowing rate as at 1 January 2019	4.85%
	65,151
Discounted operating lease commitments as at 1 January 2019	65,151
Lease liabilities as at 1 January 2019	65,151

- (b)* HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

Notes to Financial Statements

31 December 2019

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

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

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

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Notes to Financial Statements

31 December 2019

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards *(Continued)*

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

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

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Notes to Financial Statements

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2.4 Summary of Significant Accounting Policies *(Continued)*

Business combinations and goodwill

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

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

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

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

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

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

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

Notes to Financial Statements

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2.4 Summary of Significant Accounting Policies *(Continued)*

Business combinations and goodwill (Continued)

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

Fair value measurement

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

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

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

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

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Notes to Financial Statements

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2.4 Summary of Significant Accounting Policies *(Continued)*

Impairment of non-financial assets

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

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

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

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

Notes to Financial Statements

31 December 2019

2.4 Summary of Significant Accounting Policies *(Continued)*

Related parties (Continued)

- (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; and the sponsoring employers of the post-employment benefit plan;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, 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 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.

Notes to Financial Statements

31 December 2019

2.4 Summary of Significant Accounting Policies *(Continued)*

Property, plant and equipment and depreciation (Continued)

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	18%
Machinery	9%–18%
Motor vehicles	18%–33%
Office and other equipment	18%–50%

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.

Construction in progress represents plant and machinery under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Notes to Financial Statements

31 December 2019

2.4 Summary of Significant Accounting Policies *(Continued)*

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software and trademarks

Software and purchased trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 3 to 10 years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases (applicable from 1 January 2019)

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 (e.g., property management services for leases of properties) as a single lease component.

Notes to Financial Statements

31 December 2019

2.4 Summary of Significant Accounting Policies *(Continued)*

Leases (applicable from 1 January 2019) (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 shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	35 years
Buildings	3–5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(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.

The Group's lease liabilities are included in other payables and accruals and other long term payables.

Notes to Financial Statements

31 December 2019

2.4 Summary of Significant Accounting Policies *(Continued)*

Leases (applicable from 1 January 2019) (Continued)

Group as a lessee *(Continued)*

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

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (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 and laptop computers that are considered to be of low value.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis.

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.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Notes to Financial Statements

31 December 2019

2.4 Summary of Significant Accounting Policies *(Continued)*

Leases (applicable before 1 January 2019) (Continued)

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

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

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

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

Notes to Financial Statements

31 December 2019

2.4 Summary of Significant Accounting Policies *(Continued)*

Investments and other financial assets (Continued)

Initial recognition and measurement *(Continued)*

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, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models 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.

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

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

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

Notes to Financial Statements

31 December 2019

2.4 Summary of Significant Accounting Policies *(Continued)*

Investments and other financial assets (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.

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

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss and loans and borrowings, or payables, as appropriate.

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

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, interest-bearing bank borrowings, amounts due to related parties and other long term payables.

Subsequent measurement

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

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 method amortisation process.

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

Notes to Financial Statements

31 December 2019

2.4 Summary of Significant Accounting Policies *(Continued)*

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average 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 statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

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

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

The Group provides for warranties in relation to the sale of certain industrial products and the provision of construction services for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Notes to Financial Statements

31 December 2019

2.4 Summary of Significant Accounting Policies *(Continued)*

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 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.

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

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

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

Notes to Financial Statements

31 December 2019

2.4 Summary of Significant Accounting Policies *(Continued)*

Income tax (Continued)

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 each 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.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

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 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.

Notes to Financial Statements

31 December 2019

2.4 Summary of Significant Accounting Policies *(Continued)*

Revenue recognition (Continued)

Revenue from contracts with customers *(Continued)*

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 industrial products

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

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

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 to the customer).

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the binomial model, further details of which are given in notes 30 and 31 to the financial statements.

Notes to Financial Statements

31 December 2019

2.4 Summary of Significant Accounting Policies *(Continued)*

Share-based payments (Continued)

The cost of equity-settled transactions is recognised in employee benefit expenses, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Notes to Financial Statements

31 December 2019

2.4 Summary of Significant Accounting Policies *(Continued)*

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme in Hong Kong. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the consolidated 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 certain 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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

The functional currencies of 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 the presentation currency of the Company which is the Hong Kong dollar at the exchange rates prevailing at the end of each 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.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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 Judgement 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.

Judgement

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

Income taxes

Significant judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Company carefully evaluates tax implications of transactions and tax provisions are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Significant judgement in determining the lease term of contracts with renewal options

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

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.

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end based on changes in circumstances. The carrying amounts of property, plant and equipment at 31 December 2019 and 2018 were HK\$59,531,000 and HK\$76,741,000, respectively. Further details are given in note 14.

Notes to Financial Statements

31 December 2019

3. Significant Accounting Judgement and Estimates *(Continued)*

Estimation uncertainty (Continued)

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate (“IBR”) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group “would have to pay”, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary’s functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary’s stand-alone credit rating).

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, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

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 product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the 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 19 to the financial statements. The changes in ECLs resulted from the changes in the historical observed default rates and forecast economic conditions as at 31 December 2019 have no significant impact on the profit or loss.

Notes to Financial Statements

31 December 2019

3. Significant Accounting Judgement and Estimates *(Continued)*

Estimation uncertainty (Continued)

Impairment of non-financial assets (other than goodwill)

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

Provision for inventory write-down

The Group performs regular reviews of the carrying amounts of inventories with reference to ageing analysis of 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 carrying amounts of inventories decline below their estimated net realisable value. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

Withholding taxes arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes from the distribution of dividends from a subsidiary in the PRC according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends. Withholding taxes are provided for the profits of the subsidiary in the PRC which the Group considers that it is probable to be distributed in the foreseeable future.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2019 was Nil (2018: Nil). The amount of unrecognised tax losses at 31 December 2019 was HK\$333,501,000 (2018: HK\$250,861,000). Further details are contained in note 27 to the financial statements.

A deferred tax liability is recognised for withholding tax levied on dividends declared to foreign investors from the foreign investment enterprise established in Mainland China. Significant management judgement is required to determine the amount of deferred tax liabilities that can be recognised, based upon the likely dividends declared.

Notes to Financial Statements

31 December 2019

3. Significant Accounting Judgement and Estimates *(Continued)*

Estimation uncertainty (Continued)

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a discounted cash flow valuation model. The valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2019 was HK\$26,076,000 (2018: HK\$34,035,000). Further details are included in note 20 to the financial statements.

4. Operating Segment Information

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

- (a) the ODM/JDM business segment focuses on the sale, development and manufacture of imaging products which mainly comprise home surveillance cameras, digital imaging products and other products; and
- (b) the ION360 business segment engages in the sale, development of cameras under its own brands.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment loss, which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

All of the revenue in the ODM/JDM business segment and ION360 business segment is derived from the sale of goods, which is recognised when the goods are transferred at a point in time.

During the year ended 31 December 2018, the Group has disposed of its ION360 business which has been loss making for some years. The disposal was in line with the developing strategy of the Group (note 11). The ION360 business was classified as a discontinued operation and no longer included in the note for operating segment information.

Notes to Financial Statements

31 December 2019

4. Operating Segment Information *(Continued)*

Geographical information

(a) Revenue from external customers

	2019 HK\$'000	2018 HK\$'000
United States of America	300,781	554,119
Mainland China	65,891	153,630
European Union	140,670	262,349
Hong Kong	7,814	7,430
Other countries and areas	33,967	12,180
	549,123	989,708

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

(b) Non-current assets

	2019 HK\$'000	2018 HK\$'000
Mainland China	93,983	94,009
Hong Kong	6,392	5,251
Other countries and areas	21,004	845
	121,379	100,105

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

Information about major customers

Revenue derived from sales to individual customers, which accounted for 10% or more of the total revenue, is set out below:

	2019 HK\$'000
Customer A	98,404
Customer B	87,209
Customer C	60,865

Notes to Financial Statements

31 December 2019

5. Revenue, Other Income and Gains

An analysis of revenue is as follows:

	2019 HK\$'000	2018 HK\$'000
Revenue from contracts with customers		
Type of goods or services		
Sale of industrial products	549,123	989,708
Timing of revenue recognition		
Goods transferred at a point in time	549,123	989,708

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

	2019 HK\$'000	2018 HK\$'000
Other income and gains		
Bank interest income	1,341	1,257
Government grants:		
Related to income*	6,371	6,401
Exchange gains	230	7,264
Gain on disposal of subsidiaries	–	5,693
Gain on disposal of an associate	–	404
Others	1,616	1,805
	9,558	22,824

* The amount mainly represents rewards or subsidies for research activities received from the local government. There are no unfulfilled conditions or contingencies relating to these grants.

Notes to Financial Statements

31 December 2019

6. Loss Before Tax

The Group's loss before tax from continuing operations is arrived at after charging/(crediting):

	Notes	2019 HK\$'000	2018 HK\$'000
Cost of inventories sold		425,495	808,236
Depreciation of property, plant and equipment	14	26,122	32,313
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	16(a),16(b)	14,707	95
Amortisation of intangible assets*	15	1,094	812
Research and development expenses		57,935	98,858
Minimum lease payments under operating leases		–	24,700
Lease payments not included in the measurement of lease liabilities	16(d)	91	–
Auditors' remuneration		2,448	2,599
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		106,586	116,646
Pension scheme contributions		9,833	13,825
Equity-settled share option expense		4,698	665
Equity-settled Share Award Scheme expense		(2,326)	–
		118,791	131,136
Exchange gains, net		(230)	(7,264)
Write-down of inventories to net realisable value	17	61,145	8,515
Loss on disposal of items of property, plant and equipment		1,550	2,297
Impairment of trade receivables**	19	2,244	8,409
Impairment of prepayments and other receivables**		–	16,142
Impairment of investments in associates**		–	1,798
Gain on disposal of subsidiaries		–	(5,693)
Gain on disposal of an associate		–	(404)
Gain on disposal of right-of-use assets		(140)	–
Bank interest income	5	(1,341)	(1,257)
Fair value (gain)/loss, net:			
Financial assets at fair value through profit or loss		(11)	178

* The amortisation of software is included in "Research and development expenses" and the amortisation of other intangible assets is included in "Selling and distribution expenses" in the consolidated statement of profit or loss.

** The impairment of trade receivables, the impairment of prepayments and other receivables, and the impairment of investments in associates are included in "Other expenses" in the consolidated statement of profit or loss.

Notes to Financial Statements

31 December 2019

7. Finance Costs

An analysis of finance costs from continuing operations is as follows:

	2019 HK\$'000	2018 HK\$'000
Interest on:		
Bank loans	822	1,302
Lease liabilities	2,163	–
	2,985	1,302

8. Directors' and Chief Executive's Remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, 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	883	960
Other emoluments:		
Salaries, allowances and benefits in kind	1,331	1,370
Equity-settled share option expense	280	543
Pension scheme contributions	96	96
	1,707	2,009
	2,590	2,969

During the year, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

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8. Directors' and Chief Executive's Remuneration (Continued)

(a) Independent non-executive directors

	2019		2018	
	Fees HK\$'000	Equity-settled share option expense HK\$'000	Fees HK\$'000	Equity-settled share option expense HK\$'000
Mr. Chan Tsu Ming Louis	240	67	240	116
Dr. Cheung Wah Keung	240	67	240	116
Mr. Tse Yat Hong	240	124	240	101
	720	258	720	333

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

(b) Executive directors and non-executive directors

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Equity-settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2019					
Executive directors:					
Mr. Tang Wing Fong Terry	68	816	–	18	902
Mr. Lu Yongbin	–	515	149	78	742
	68	1,331	149	96	1,644
Non-executive directors:					
Mr. Wu Yongmou	–	–	–	–	–
Professor Huang Erwin Steve*	95	–	(127)	–	(32)
Ms. Tang Kam Sau	–	–	–	–	–
	95	–	(127)	–	(32)
	163	1,331	22	96	1,612

* Professor Huang Erwin Steve was appointed as a non-executive director of the Company from 25 March 2015 and retired on 24 May 2019.

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8. Directors' and Chief Executive's Remuneration (Continued) (b) Executive directors and non-executive directors (Continued)

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Performance related bonuses HK\$'000	Equity-settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2018						
Executive directors:						
Mr. Tang Wing Fong Terry	-	884	-	-	18	902
Mr. Lu Yongbin	-	486	-	94	78	658
	-	1,370	-	94	96	1,560
Non-executive directors:						
Mr. Wu Yongmou*	-	-	-	-	-	-
Professor Huang Erwin Steve	240	-	-	116	-	356
Ms. Tang Kam Sau	-	-	-	-	-	-
	240	-	-	116	-	356
	240	1,370	-	210	96	1,916

* Mr. Wu Yongmou was appointed as an executive director of the Company on 25 March 2015 and re-designated from an executive director of the Company to a non-executive director of the Company on 2 July 2018.

9. Five Highest Paid Employees

The five highest paid employees during the year included no director (2018: Nil), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the five (2018: five) highest paid employees who are neither a director nor chief executive of the Company during the year are as follows:

	2019 HK\$'000	2018 HK\$'000
Salaries, allowances and benefits in kind	4,595	5,130
Performance related bonuses	91	-
Equity-settled share option and Share Award Scheme expenses	875	1,538
Pension scheme contributions	114	114
	5,675	6,782

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9. Five Highest Paid Employees (Continued)

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

	2019	2018
Nil to HK\$1,000,000	1	–
HK\$1,000,001 to HK\$1,500,000	4	3
HK\$1,500,001 to HK\$2,000,000	–	2
	5	5

During the year, share options were granted to five (2018: five) and shares under a Share Award Scheme were granted to four (2018: Nil) non-director and non-chief executive highest paid employee in respect of their services to the Group, further details of which are included in the disclosures in note 30 and note 31 to the financial statements. The fair value of such options and the Share Award Scheme, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. Income Tax

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Pursuant to the PRC Income Tax Law and the respective regulations, the subsidiaries which operate in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on the taxable income. Preferential tax treatments were available for one (2018: two) of the Group's principal operating subsidiaries, Sky Light Shenzhen, since it was recognised as a High and New Technology Enterprise and entitled to a preferential tax rate of 15% during the year.

The Group's subsidiaries in the United States are subject to the federal tax at a rate of 21% (2018: 21%), and also subject to the statutory applicable state corporate income tax at a rate of 8.84% (2018: 7%).

The Group's subsidiary in Vietnam is subject to corporate income tax at a rate of 20%.

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10. Income Tax (Continued)

	2019 HK\$'000	2018 HK\$'000
Deferred tax	–	3,116
Total tax charge for the year from continuing operations	–	3,116
	–	3,116

A reconciliation of the tax expense applicable to loss before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

2019	Mainland China		Hong Kong		America		Vietnam		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax from continuing operations	(42,456)		(14,697)		(21,083)		(6,240)		(84,476)	
Tax at the statutory tax rates	(10,614)	25.0	(2,425)	16.5	(6,283)	29.8	(1,248)	20.0	(20,570)	24.4
Entities entitled to lower statutory income tax rates	1,611	(3.8)	–	–	–	–	–	–	1,611	(1.9)
Super-deduction of research and development costs	(2,876)	6.8	–	–	–	–	–	–	(2,876)	3.4
Expenses not deductible for tax	2,861	(6.7)	752	(5.1)	1,810	(8.6)	–	–	5,423	(6.4)
Tax losses not recognised	9,018	(21.3)	1,746	(11.9)	4,473	(21.2)	1,248	(20.0)	16,485	(19.5)
Income not subject to tax	–	–	(73)	0.5	–	–	–	–	(73)	0.1
Tax charge at the Group's effective tax rate	–	–	–	–	–	–	–	–	–	–

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10. Income Tax (Continued)

2018	Mainland China		Hong Kong		America		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax from continuing operations	(4,083)		(53,192)		(10,385)		(67,660)	
Loss before tax from a discontinued operation	-		-		(182,952)		(182,952)	
Loss before tax	(4,083)		(53,192)		(193,337)		(250,612)	
Tax at the statutory tax rates	(1,021)	25.0	(8,777)	16.5	(54,134)	28.0	(63,932)	25.5
Entities entitled to lower statutory income tax rates	519	(12.7)	-	-	-	-	519	(0.2)
Super-deduction of research and development costs	(7,375)	180.6	-	-	-	-	(7,375)	3.0
Expenses not deductible for tax	214	(5.2)	3,984	(7.5)	20	-	4,218	(1.7)
Tax losses not recognised	10,779	(264.0)	4,855	(9.1)	54,114	(28.0)	69,748	(27.8)
Income not subject to tax	-	-	(62)	0.1	-	-	(62)	-
Tax charge at the Group's effective tax rate	3,116	(76.3)	-	-	-	-	3,116	(1.2)
Tax charge from continuing operations at the effective rate	3,116	(76.3)	-	-	-	-	3,116	(1.2)
Tax charge from a discontinued operation at the effective rate	-	-	-	-	-	-	-	-

11. Discontinued Operation

During the year ended 31 December 2018, the board of directors of the Group had made the decision to dispose of the ION360 business located in the United States of America. The Group entered into an agreement to dispose of its 100% equity shares of ION Worldwide Inc., ION America LLC, ION360 (USA) LLC, ION360 Investments LLC, and ION360 Imaging LLC ("ION USA") to a third party at the consideration of one United States dollar. The disposal of ION USA became effective on 1 October 2018. Further details are included in note 33 to the financial statements. With the ION360 business being classified as a discontinued operation, it was no longer included in the note for operating segment information.

Notes to Financial Statements

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11. Discontinued Operation *(Continued)*

The results of these subsidiaries for the year are presented below:

	2018 HK\$'000
Revenue	280
Expenses	(183,232)
Loss before tax from the discontinued operation	(182,952)
Income tax	–
Loss for the year from the discontinued operation	(182,952)

The net cash flows incurred by these subsidiaries are as follows:

	2018 HK\$'000
Operating activities	(2,678)
Investing activities	–
Financing activities	–
Net cash outflows	(2,678)
Loss per share:	
Basic, from the discontinued operation	HK(21.5) cents
Diluted, from the discontinued operation	HK(21.5) cents

The calculations of basic and diluted loss per share from the discontinued operation are based on:

	2018 HK\$'000
Loss attributable to ordinary equity holders of the parent from the discontinued operation	(182,952)
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (note 13)	852,757,000

Notes to Financial Statements

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12. Dividends

The board of directors of the Company did not recommend any final dividends for 2019 (2018: Nil).

13. Loss Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 938,965,000 (2018: 852,757,000) in issue during the year.

As an anti-dilutive effect was resulted following the losses incurred by the Group, no adjustment has been made to the basic loss per share amounts for the years ended 31 December 2019 and 2018.

The calculations of basic loss per share are based on:

	2019 HK\$'000	2018 HK\$'000
Loss		
Loss attributable to ordinary equity holders of the parent, used in the basic loss per share calculation:	(82,310)	(253,728)
From continuing operations	(82,310)	(70,776)
From a discontinued operation	—	(182,952)
	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	938,965,000	852,757,000
Basic		
— For loss for the year	HK(8.8) cents	HK(29.8) cents
Diluted		
— For loss for the year	HK(8.8) cents	HK(29.8) cents

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14. Property, Plant and Equipment

	Buildings HK\$'000	Leasehold improvements HK\$'000	Machinery HK\$'000	Motor vehicles HK\$'000	Office and other equipment HK\$'000	Total HK\$'000
31 December 2019						
At 31 December 2018 and at 1 January 2019:						
Cost	6,885	12,983	181,991	3,587	33,130	238,576
Accumulated depreciation	(1,370)	(7,871)	(119,359)	(2,703)	(30,532)	(161,835)
Net carrying amount	5,515	5,112	62,632	884	2,598	76,741
At 1 January 2019, net of accumulated depreciation	5,515	5,112	62,632	884	2,598	76,741
Additions	–	11,752	3,758	661	2,648	18,819
Disposals	–	–	(8,292)	(1)	(362)	(8,655)
Depreciation provided during the year (note 6)	(296)	(3,238)	(20,364)	(359)	(1,865)	(26,122)
Exchange realignment	(77)	(240)	(906)	(15)	(14)	(1,252)
At 31 December 2019, net of accumulated depreciation	5,142	13,386	36,828	1,170	3,005	59,531
At 31 December 2019:						
Cost	6,783	24,470	165,812	3,958	20,620	221,643
Accumulated depreciation	(1,641)	(11,084)	(128,984)	(2,788)	(17,615)	(162,112)
Net carrying amount	5,142	13,386	36,828	1,170	3,005	59,531

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14. Property, Plant and Equipment *(Continued)*

	Buildings HK\$'000	Leasehold improvements HK\$'000	Machinery HK\$'000	Motor vehicles HK\$'000	Office and other equipment HK\$'000	Total HK\$'000
31 December 2018						
At 31 December 2017 and at 1 January 2018:						
Cost	7,109	10,843	191,807	3,574	27,764	241,097
Accumulated depreciation	(1,108)	(5,623)	(102,531)	(2,363)	(22,025)	(133,650)
Net carrying amount	6,001	5,220	89,276	1,211	5,739	107,447
At 1 January 2018,						
net of accumulated depreciation	6,001	5,220	89,276	1,211	5,739	107,447
Additions	-	2,726	6,131	437	2,491	11,785
Disposals	-	-	(5,419)	(72)	(244)	(5,735)
Disposal of subsidiaries	-	-	-	-	(373)	(373)
Depreciation provided during the year (note 6)	(308)	(1,120)	(25,244)	(648)	(4,993)	(32,313)
Exchange realignment	(178)	(1,714)	(2,112)	(44)	(22)	(4,070)
At 31 December 2018, net of accumulated depreciation	5,515	5,112	62,632	884	2,598	76,741
At 31 December 2018:						
Cost	6,885	12,983	181,991	3,587	33,130	238,576
Accumulated depreciation	(1,370)	(7,871)	(119,359)	(2,703)	(30,532)	(161,835)
Net carrying amount	5,515	5,112	62,632	884	2,598	76,741

None of the Group's banking facilities were secured by the Group's buildings as at 31 December 2019 (31 December 2018: HK\$1,804,000).

Certificates of ownership in respect of certain buildings of the Group located in Mainland China with a net carrying value of HK\$3,402,000 as at 31 December 2019 (31 December 2018: HK\$3,711,000) have not yet been issued by the relevant Mainland China authorities. The Group is in the process of obtaining these certificates.

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15. Intangible Assets

	Trademarks HK\$'000	Technology licencing agreement* HK\$'000	Software HK\$'000	Total HK\$'000
31 December 2019				
Cost at 1 January 2019, net of accumulated amortisation	207	–	10,588	10,795
Additions	53	–	554	607
Amortisation provided during the year (note 6)	(21)	–	(1,073)	(1,094)
Exchange realignment	(1)	–	(397)	(398)
At 31 December 2019, net of accumulated amortisation	238	–	9,672	9,910
At 31 December 2019:				
Cost	24,582	–	14,612	39,194
Accumulated amortisation	(3,273)	–	(4,940)	(8,213)
Impairment	(21,071)	–	–	(21,071)
Net carrying amount	238	–	9,672	9,910
31 December 2018				
Cost at 1 January 2018, net of accumulated amortisation	245	44	11,512	11,801
Additions	–	–	692	692
Amortisation provided during the year (note 6)	(33)	(44)	(735)	(812)
Exchange realignment	(5)	–	(881)	(886)
At 31 December 2018, net of accumulated amortisation	207	–	10,588	10,795
At 31 December 2018:				
Cost	24,733	4,076	15,479	44,288
Accumulated amortisation	(3,455)	(3,395)	(4,891)	(11,741)
Impairment	(21,071)	(681)	–	(21,752)
Net carrying amount	207	–	10,588	10,795

* The technology licencing agreement of the Company has been written off during the year of 2019.

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16. Leases

The Group as a lessee

The Group has lease contracts for various items of land, buildings and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 35 years, and no ongoing payments will be made under the terms of these land leases. Buildings generally have lease terms between 3 and 5 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value.

(a) Prepaid land lease payments (before 1 January 2019)

	2018 HK\$'000
Carrying amount at 1 January 2018	2,800
Recognised in profit or loss during the year (note 6)	(95)
Carrying amount at 31 December 2018	2,705
Current portion included in prepayments and other receivables (note 22)	(95)
Non-current portion	2,610

The Group's leasehold land is situated in Hong Kong and held under a medium term lease.

(b) 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	Buildings HK\$'000	Total HK\$'000
As at 1 January 2019	2,705	65,151	67,856
Additions	–	282	282
Depreciation charge	(95)	(14,612)	(14,707)
Disposals	–	(5,002)	(5,002)
Exchange realignment	–	(870)	(870)
As at 31 December 2019	2,610	44,949	47,559

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16. Leases (Continued)

The Group as a lessee (Continued)

(c) Lease liabilities

The carrying amount of lease liabilities (included under other payables and accruals and other long term payables) and the movements during the year are as follows:

	2019 Lease liabilities HK\$'000
Carrying amount at 1 January 2019	65,151
New leases	282
Accretion of interest recognised during the year	2,163
Disposals	(5,142)
Payments	(14,924)
Exchange realignment	(892)
Carrying amount at 31 December 2019	46,638
Analysed into:	
Current portion (note 26)	13,496
Non-current portion (note 28)	33,142

The maturity analysis of lease liabilities is disclosed in note 40 to the financial statements.

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

	2019 HK\$'000
Interest on lease liabilities	2,163
Depreciation charge of right-of-use assets	14,707
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in administrative expenses)	48
Expense relating to leases of low-value assets (included in administrative expenses)	43
Total amount recognised in profit or loss	16,961

(e) The total cash outflow for leases is disclosed in note 36(b) to the financial statements.

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17. Inventories

	2019 HK\$'000	2018 HK\$'000
Raw materials	120,820	130,391
Work in progress	55,725	79,839
Finished goods	162,787	161,235
	339,332	371,465
Inventory provision	(204,922)	(164,613)
	134,410	206,852

The movements of inventory provision are as follows:

	2019 HK\$'000	2018 HK\$'000
Balance at beginning of the year	164,613	24,116
Provision for the year	61,145	156,832
Written off as sold-out	(18,411)	(12,621)
Exchange realignment	(2,425)	(3,714)
Balance at end of the year	204,922	164,613

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18. Investments in Associates

	2019 HK\$'000	2018 HK\$'000
Share of net assets	1,798	1,798
Goodwill on acquisition	–	–
	1,798	1,798
Provision for impairment (note 6)	(1,798)	(1,798)
	–	–

The Group's shareholdings in the associates comprise equity shares held by the Company or held through a wholly-owned subsidiary of the Company.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2019 HK\$'000	2018 HK\$'000
Share of the associates' losses for the year	–	(2,198)
Share of the associates' total comprehensive losses	–	(2,198)
Aggregate carrying amount of the Group's investments in the associates	–	–

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19. Trade Receivables

	2019 HK\$'000	2018 HK\$'000
Trade receivables	84,364	129,222
Impairment	(3,229)	(6,620)
	81,135	122,602

The Group requires most of its customers to make payments in advance, however, the Group grants certain credit periods to those customers with good payment history. The credit period for specific customers is considered on a case-by-case basis and is set out in the sales contracts, as appropriate.

The Group seeks to maintain strict control over its outstanding receivables with the internal control department minimising credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing and the carrying amounts of the trade receivables approximate to their fair values.

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 1 month	76,982	47,917
1 to 2 months	3,723	61,906
2 to 3 months	300	4,860
Over 3 months	130	7,919
	81,135	122,602

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19. 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	6,620	–
Impairment losses (note 6)	2,244	8,758
Amount written off as uncollectible	(5,619)	(2,138)
Exchange adjustments	(16)	–
At end of year	3,229	6,620

The decrease (2018: increase) in the loss allowance was due to the following significant changes in the gross carrying amount:

- (i) Decrease in the loss allowance of HK\$6,684,000 as a result of a net decrease of trade receivables which were assessed individually;
- (ii) Increase in the loss allowance of HK\$170,000 as a result of the changes in ECLs which were caused by the changes in historical observed default rates and forecast economic conditions;
- (iii) Decrease in the loss allowance of HK\$3,481,000 as a result of the write-off of certain trade receivables.

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 by customer type. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Notes to Financial Statements

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19. Trade Receivables *(Continued)*

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

As at 31 December 2019

Category	Carrying amount		Bad debt provision		Net book value
	Amount	Proportion (%)	Amount	Proportion (%)	
Trade receivables for which bad debt provision has been assessed individually	2,642	3.13%	2,642	100%	–
Trade receivables for which bad debt provision has been assessed by using a provision matrix	81,722	96.87%	587	0.72%	81,135
Total	84,364	100%	3,229	3.83%	81,135

As at 31 December 2018

Category	Carrying amount		Bad debt provision		Net book value
	Amount	Proportion (%)	Amount	Proportion (%)	
Trade receivables for which bad debt provision has been assessed individually	16,126	12.48%	6,390	39.63%	9,736
Trade receivables for which bad debt provision has been assessed by using a provision matrix	113,096	87.52%	230	0.20%	112,866
Total	129,222	100%	6,620	5.12%	122,602

Trade receivables for which bad debt provision has been assessed by using a provision matrix:

As at 31 December 2019

	Current	Past due			Total	
		Less than 3 months	3 to 6 months	6 months to 1 year		
Expected credit loss rate	0.38%	1.20%	4.20%	22.77%	100%	–
Gross carrying amount (HK\$'000)	77,276	3,769	313	167	197	81,722
Expected credit losses (HK\$'000)	294	45	13	38	197	587

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19. Trade Receivables *(Continued)*

As at 31 December 2018

	Current	Past due			Over 1 year	Total
		Less than 3 months	3 to 6 months	6 months to 1 year		
Expected credit loss rate	–	–	5%	30%	100%	–
Gross carrying amount (HK\$'000)	106,650	6,071	–	207	168	113,096
Expected credit losses (HK\$'000)	–	–	–	62	168	230

20. Equity Investments Designated at Fair Value through other Comprehensive Income

	2019 HK\$'000	2018 HK\$'000
Non-current assets		
Unlisted equity investments, at fair value	26,076	34,035

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

21. Financial Assets at Fair Value through Profit or Loss

	2019 HK\$'000	2018 HK\$'000
Other unlisted investment, at fair value	2,646	2,635

The above unlisted investment at 31 December 2019 was a wealth management product issued by a bank in Hong Kong. It was mandatorily classified as financial assets at fair value through profit or loss as its contractual cash flows are not solely payments of principal and interest.

Certain of the Group's banking facilities were secured by the wealth management product with a carrying value of HK\$2,646,000 (2018: HK\$2,635,000).

The gross loss in respect of the above wealth management products recognised in other comprehensive income amounting to HK\$105,000 was reclassified from other comprehensive income to the statement of profit or loss for the year ended 31 December 2018.

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22. Prepayments and Other Receivables

	2019 HK\$'000	2018 HK\$'000
Non-current assets		
Non-current prepayments	4,379	9,959
Current assets		
Prepayments	5,453	15,244
Deposits and other receivables*	20,422	50,146
Prepaid land lease payments	–	95
	25,875	65,485
Impairment allowance	–	(16,142)
	25,875	49,343

As at 31 December 2019, the financial assets included in the above balances relate to receivables for which there was no past due amounts, the Group estimated the expected credit loss rate to be minimal.

As at 31 December 2018, amounts of HK\$16,142,000 included in prepayments and other receivables were fully impaired and the loss given by default was estimated to be 100%. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions. For the remaining financial assets, the Group estimated the expected credit loss rate to be minimal.

* Certain of the Group's banking facilities were secured by an insurance amounted to HK\$4,924,000 included in other receivables.

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23. Cash and Cash Equivalents and Pledged Deposits

	2019 HK\$'000	2018 HK\$'000
Cash and bank balances	107,792	95,132
Less: Pledged deposits	893	–
Cash and cash equivalents	106,899	95,132
Cash and bank balances denominated in		
— Renminbi (“RMB”)	53,947	33,876
— United States dollars (“US\$”)	50,390	58,935
— HK\$	2,094	1,801
— Other currencies	468	520
Cash and cash equivalents	106,899	95,132

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$53,947,000 (2018: HK\$33,876,000). 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 and three months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

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24. Interest-Bearing Bank Borrowings

Current	31 December 2019			31 December 2018		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
Bank loans — secured	3.1~4.0	2020	16,678	2.6-4.3	2019	29,717
Analysed into:				2019		2018
Within one year				HK\$'000		HK\$'000
				16,678		29,717

The Group's bank facilities amounted to HK\$23,000,000 (2018: HK\$33,000,000), of which HK\$16,678,000 (2018: HK\$29,717,000) had been utilised as at the end of the year.

The Group's banking facility amounting to HK\$23,000,000 is secured by an insurance and a wealth management product purchased from the bank are disclosed in notes 22 and 21, respectively.

All borrowings are denominated in United States dollars.

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25. Trade and Bills Payables

	2019 HK\$'000	2018 HK\$'000
Trade payables	106,531	168,187
Bills payable	–	859
	106,531	169,046

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

	2019 HK\$'000	2018 HK\$'000
Within 1 month	87,367	78,762
1 to 2 months	7,296	52,929
2 to 3 months	4,598	29,154
Over 3 months	7,270	8,201
	106,531	169,046

The trade and bills payables are non-interest-bearing and are normally settled on terms of 30 to 90 days.

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26. Other Payables and Accruals

	Notes	31 December 2019 HK\$'000	1 January 2019 HK\$'000	31 December 2018 HK\$'000
Contract liabilities	(a)	29,647	18,536	18,536
Other payables	(b)	9,132	11,225	11,225
Salary and welfare payables	(c)	10,419	14,064	14,064
Accruals	(b)	125	168	168
Lease liabilities (note 16)		13,496	14,536	–
		62,819	58,529	43,993

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			
Sale of goods	29,647	18,536	24,186

Contract liabilities include short-term advances received to deliver industrial products. The increase in contract liabilities in 2019 was mainly due to the increase in advances received from customers at the end of the year. The decrease in contract liabilities in 2018 was mainly due to the recognition of revenue arising from contract liabilities during the year.

- (b) Other payables and accruals are non-interest-bearing and are due to mature within one year.
- (c) Salary and welfare payables are non-interest-bearing and are payable on demand.

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27. Deferred Tax

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

Deferred tax liabilities

	2019 Withholding taxes HK\$'000
At 31 December 2018 and 2019	871

The Group has tax losses arising in Hong Kong of HK\$137,031,000 (2018: HK\$101,172,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in Mainland China of HK\$133,727,000 (2018: HK\$125,439,000) that will expire in one to ten years for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in the United States of America of HK\$56,554,000 (2018: HK\$24,250,000) that will expire in one to twenty years for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in Vietnam of HK\$6,189,000 (2018: Nil) that will expire in one to five years for offsetting against future taxable profits of the company in which the losses arose.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax assets have not been recognised in respect of the following items:

	2019 HK\$'000	2018 HK\$'000
Tax losses	333,501	250,861
Deductible temporary differences	343,271	510,304
	676,772	761,165

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27. Deferred Tax (Continued)

The above tax losses and deductible temporary differences are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

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% for the year. The Group is therefore liable for withholding taxes on dividends distributed by the subsidiary 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.

28. Other Long Term Payables

	31 December 2019 HK\$'000	1 January 2019 HK\$'000	31 December 2018 HK\$'000
Lease liabilities (note 16)	33,142	50,615	–
		2019 HK\$'000	2018 HK\$'000
Analysed into:			
In the second year		11,299	–
In the third to fifth years, inclusive		21,383	–
Beyond five years		460	–
		33,142	–

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29. Share Capital *Shares*

	2019 HK\$'000	2018 HK\$'000
Issued and fully paid: 952,739,455 (2018: 857,134,000) ordinary shares	9,528	8,572

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

	Number of shares in issue	Share capital HK\$'000
At 1 January 2018	857,075,000	8,571
Share options exercised	59,000	1
At 31 December 2018 and 1 January 2019	857,134,000	8,572
Issue of new shares under loan capitalization agreement (a)	95,605,455	956
At 31 December 2019	952,739,455	9,528

Note:

- (a) On 15 January 2019, the Group and its director Tang Wing Fong Terry entered into the loan capitalisation agreement whereby the Company agreed to allot and issue 95,605,455 new shares at the issue price of HK\$0.55 per share for the capitalisation of the loans, before share issue expense of HK\$470,000, in the total principal amount of HK\$52,583,000 provided by Tang Wing Fong Terry. For details, please refer to the announcement of the Group dated 15 January 2019.

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30. Share Option Schemes

The Company has adopted two share option schemes (the “Schemes”, including the “Pre-IPO Share Option Scheme” and “Share Option Scheme” for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Schemes include employees, advisers, consultants, agents, contractors, clients, suppliers and any other person(s) whom the board of directors of the Company, in its sole discretion, consider have contributed or may contribute to the Group.

Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme became effective on 29 May 2015. The following share options were outstanding under the Pre-IPO Share Option Scheme of the Company during the year:

Date of grant	Numbers of share options					Exercise period (both dates inclusive)	Exercise price per share
	At 1 January 2019	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2019		
29/05/2015	3,198,000	–	–	(3,198,000)	–	02/07/2016–02/07/2019	HK\$0.83

Date of grant	Numbers of share options					Exercise period (both dates inclusive)	Exercise price per share
	At 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2018		
29/05/2015	6,430,000	–	(59,000)	(3,173,000)	3,198,000	02/07/2016–02/07/2019	HK\$0.83

Notes:

- One-third of these share options shall become vested on the 1st anniversary of 2 July 2015, a further one-third shall become vested on the 2nd anniversary of 2 July 2015, and the remaining one-third shall become vested on the 3rd anniversary date of 2 July 2015.
- The fair value of the share options granted in 2015 was HK\$24,973,000 (HK\$1.18783 each), of which no share option expense was recognised during the year ended 31 December 2019 (2018: reversed expense of HK\$2,776,000).
- The following assumptions were used to derive the fair value, using the binomial model:

Options granted on 29 May 2015

	At grant date
(i) Expected volatility	39.79%–47.04% per year
(ii) Expected life of options	2.1–4.1 years
(iii) Average risk-free interest rate	0.44%–0.87% per year
(iv) Expected dividend yield	3.3% per year
(v) Estimated rate of leaving service	0% per year

Notes to Financial Statements

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30. Share Option Schemes (Continued)

Pre-IPO Share Option Scheme (Continued)

The 59,000 share options exercised during the year of 2018 resulted in the issue of 59,000 ordinary shares of the Company and new share capital of HK\$590 and share premium of HK\$118,000 (before issue expenses).

As at 31 December 2019, the Company had no share options outstanding under the Pre-IPO Share Option Scheme.

Share Option Scheme

The following share options were outstanding under the Share Option Scheme of the Company during the year:

Date of grant	Number of share options					At 31 December 2019	Exercise period (both dates inclusive)	Exercise price per share
	At 1 January 2019	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2019			
(i) 27/07/2015	2,000,000	–	–	(2,000,000)	–	27/07/2016–26/07/2020	HK\$3.46	
(ii) 15/09/2016	9,411,000	–	–	(1,086,000)	8,325,000	15/09/2017–14/09/2024	HK\$1.70	
(iii) 01/12/2016	4,600,000	–	–	(600,000)	4,000,000	01/12/2017–30/01/2025	HK\$1.986	
(iv) 18/05/2017	10,281,000	–	–	(1,638,000)	8,643,000	18/05/2018–17/05/2025	HK\$2.206	
(v) 26/04/2018	12,522,000	–	–	(3,399,000)	9,123,000	26/04/2019–26/04/2026	HK\$0.94	
(vi) 16/05/2019	–	13,110,000	–	(414,000)	12,696,000	15/05/2020–15/05/2023	HK\$0.42	
	38,814,000	13,110,000	–	(9,137,000)	42,787,000			

Date of grant	Number of share options					At 31 December 2018	Exercise period (both dates inclusive)	Exercise price per share
	At 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2018			
(i) 27/07/2015	2,000,000	–	–	–	2,000,000	27/07/2016–26/07/2020	HK\$3.46	
(ii) 15/09/2016	11,544,000	–	–	(2,133,000)	9,411,000	15/09/2017–14/09/2024	HK\$1.70	
(iii) 01/12/2016	11,400,000	–	–	(6,800,000)	4,600,000	01/12/2017–30/01/2025	HK\$1.986	
(iv) 18/05/2017	15,000,000	–	–	(4,719,000)	10,281,000	18/05/2018–17/05/2025	HK\$2.206	
(v) 26/04/2018	–	12,522,000	–	–	12,522,000	26/04/2019–26/04/2026	HK\$0.94	
	39,944,000	12,522,000	–	(13,652,000)	38,814,000			

Notes to Financial Statements

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30. Share Option Schemes *(Continued)*

Share Option Scheme (Continued)

Notes:

- (i) Half of these share options are exercisable on the 1st anniversary of 27 July 2015, and the remaining are exercisable on the 2nd anniversary of 27 July 2015.

The fair value of the share options granted in 2015 was HK\$1,814,000 (HK\$0.907 each), of which no share option expense was recognised during the year ended 31 December 2019 (2018: Nil).

- (ii) One-third of these share options shall become vested on the 1st anniversary of 15 September 2016, a further one-third shall become vested on the 2nd anniversary of 15 September 2016, and the remaining one-third shall become vested on the 3rd anniversary of 15 September 2016.

The fair value of the share options granted in September 2016 was HK\$8,111,000 (HK\$0.62672 each), of which the Group recognised a share option expense of HK\$510,000 (2018: HK\$573,000) during the year ended 31 December 2019.

- (iii) One-third of these share options shall become vested on the 1st anniversary of 1 December 2016, a further one-third shall become vested on the 2nd anniversary date of 1 December 2016, and the remaining one-third shall become vested on the 3rd anniversary of 1 December 2016.

The fair value of the share options granted in December 2016 was HK\$13,990,000 (HK\$0.703 each), of which the Group recognised a share option expense of HK\$1,524,000 (2018: reversed expense of HK\$1,894,000) during the year ended 31 December 2019.

- (iv) One-third of these share options shall become vested on the 1st anniversary of 18 May 2017, a further one-third shall become vested on the 2nd anniversary of 18 May 2017, and the remaining one-third shall become vested on the 3rd anniversary of 18 May 2017.

The fair value of the share options granted on 18 May 2017 was HK\$10,416,000 (HK\$0.6944 each), of which the Group recognised a share option expense of HK\$1,342,000 (2018: HK\$1,838,000) during the year ended 31 December 2019.

- (v) One-third of these share options shall become vested on the 1st anniversary date of 26 April 2018, a further one-third shall become vested on the 2nd anniversary of 26 April 2018, and the remaining one-third shall become vested on the 3rd anniversary of 26 April 2018.

The fair value of the share options granted on 26 April 2018 was HK\$4,245,000 (HK\$0.339 each), of which the Group recognised a share option expense of HK\$1,103,000 (2018: HK\$1,689,000) during the year ended 31 December 2019.

- (vi) One-third of these share options shall become vested on the 1st anniversary date of 16 May 2019, a further one-third shall become vested on the 2nd anniversary of 16 May 2019, and the remaining one-third shall become vested on the 3rd anniversary of 16 May 2019.

The fair value of the share options granted on 16 May 2019 was HK\$1,333,000 (HK\$0.102 each), of which the Group recognised a share option expense of HK\$421,000 during the year ended 31 December 2019.

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30. Share Option Schemes *(Continued)*

Share Option Scheme (Continued)

The following assumptions were used to derive the fair value, using the binomial model:

At grant date	16 May 2019	26 April 2018
(i) Expected volatility	59.67%–61.87% per year	59.03%–62.75% per year
(ii) Expected life of options	2.0-4.0	6.0-8.0
(iii) Average risk-free interest rate	1.56%–1.69% per year	2.11%–2.13% per year
(iv) Expected dividend yield	5.32% per year	5.74% per year
(v) Estimated rate of leaving service	27.50% per year	27.50% per year

As at 31 December 2019, the Company had 42,787,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 42,787,000 additional ordinary shares of the Company and additional share capital of HK\$428,000 and share premium of HK\$73,062,000 (before issue expenses).

31. Share Award Scheme

A share award scheme was adopted on 20 September 2016 (the "Share Award Scheme"). The Share Award Scheme is to recognise the contributions made by certain employees and to provide them with incentives in order to maintain the continual operation and development of the Group; and to attract suitable personnel for further development of the Group.

The awarded shares will be acquired by an independent trustee ("the Trustee") from the open market by utilising the Company's resources provided to the Trustee. The maximum number of shares in respect of which shares may be granted under the Share Award Scheme and which may be awarded to a selected employee shall not exceed 10% and 2.5% respectively of the issued share capital of the Company as at 20 September 2016.

Subject to any early termination as may be determined by the board of directors pursuant to the terms of the Share Award Scheme, the scheme shall be valid and effective from 20 September 2016 to the date the last awarded share has been vested and transferred to the relevant selected employee or has lapsed in accordance with the terms provided that no award shall be made on or after 10 years of 20 September 2016.

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31. Share Award Scheme (Continued)

The following awarded shares were outstanding under the Share Award Scheme of the Company during the year:

Date of grant	Number of awarded shares					Exercise period (both dates inclusive)	Exercise price per share
	At 1 January 2019	Granted during the year	Vested during the year	Lapsed during the year	At 31 December 2019		
(i) 29/11/2016	4,372,000	–	(2,186,000)	(2,186,000)	–	19/12/2017–19/12/2019	–
(ii) 19/7/2019	–	2,186,000	(2,186,000)	–	–	29/7/2019	–
	4,372,000	2,186,000	(4,372,000)	(2,186,000)	–		

Date of grant	Number of awarded shares					Exercise period (both dates inclusive)	Exercise price per share
	At 1 January 2018	Granted during the year	Vested during the year	Lapsed during the year	At 31 December 2018		
(i) 29/11/2016	4,372,000	–	–	–	4,372,000	19/12/2017–19/12/2019	–

Notes:

- (i) In 2016, based on the Company's instructions, the Trustee purchased a total of 6,558,000 ordinary shares of the Company on the Stock Exchange at prices ranging from HK\$1.79 to HK\$2.30 per share at a total consideration (including related transaction costs) of approximately HK\$14,000,000.

The Company granted 6,558,000 shares to a certain employee on 29 November 2016, which will be vested in tranches of one-third each on every anniversary of the grant date starting from the 1st anniversary date until the 3rd anniversary.

The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$1.92) on the date of the grant, and amounted to HK\$12,591,000, of which the Group reversed a Share Award Scheme expense of HK\$2,915,000 during the year ended 31 December 2019 due to the resignation of the employee aforementioned. (2018: recognised expense of HK\$3,323,000).

- (ii) The Company granted 2,186,000 shares to selected employees on 19 July 2019 which was vested on 29 July 2019. The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$0.305) on the date of the grant, and amounted to HK\$667,000, of which the Group recognized expense of HK\$667,000 during the year ended 31 December 2019.

As at 12 September 2019, the board of directors resolved to terminate the Share Award Scheme.

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32. 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 pages 63 to 64 of the financial statements.

Reserve fund

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

33. Disposal of Subsidiaries

	2018 HK\$'000
Property, plant and equipment	373
Cash and bank balances	95
Trade receivables	30
Prepayments and other receivables	3,263
Accruals and other payables	(9,454)
Net liabilities disposed of	(5,693)
Satisfied by cash	–
Gain on disposal of subsidiaries (note 6)	5,693

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2018 HK\$'000
Cash consideration	–
Cash and bank balances disposed of	(95)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(95)

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33. Disposal of Subsidiaries *(Continued)*

The Group had entered into an agreement dated 1 October 2018 to dispose of its 100% equity interests in the registered capital of ION Worldwide Inc., ION America LLC, ION360 (USA) LLC, ION360 Investments LLC, and ION360 Imaging LLC ("ION USA") to a third party at the consideration of one United States dollar.

The principal activities of ION USA are distributions of cameras. ION USA had been loss making for the past several years. The Directors were in the opinion that the disposal of ION USA was in line with the Group's development strategy and could streamline the Group's structure.

34. Pledge of Assets

Details of the Group's assets pledged for the Group's bank loans are included in note 24 to the financial statements.

35. Commitments

(a) 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:		
Unpaid investment amount	–	15,284
Plant and machinery	1,089	762
	1,089	16,046

(b) *Operating lease commitments as at 31 December 2018*

The Group leases certain of its plant, office premises and staff quarters under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to nine years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK\$'000
Within one year	19,423
In the second to fifth years, inclusive	56,919
After five years	3,667
	80,009

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36. Notes to the Consolidated Statement of Cash Flows

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK\$282,000 and HK\$282,000, respectively, in respect of lease arrangements for land and buildings (2018: Nil).

(b) Changes in liabilities arising from financing activities

2019

	Bank loans HK\$'000 (Note 24)	Lease liabilities HK\$'000 (Note 16)	Total HK\$'000
At 1 January 2018	89,265	–	89,265
Financing cash flows	(59,548)	–	(59,548)
At 31 December 2018	29,717	–	29,717
Effect of adoption of HKFRS 16	–	65,151	65,151
At 1 January 2019 (restated)	29,717	65,151	94,868
Financing cash flows	(13,039)	(14,924)	(27,963)
New lease	–	282	282
Interest expense	–	2,163	2,163
Disposals	–	(5,142)	(5,142)
Foreign exchange movement	–	(892)	(892)
At 31 December 2019	16,678	46,638	63,316

(c) During the year, the total cash outflow for leases included in the statement of cash flows within financing activities was HK\$14,924,000 and the total cash flows within operating activities were HK\$91,000.

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37. Related Party Transactions and Balances

(1) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2019 HK\$'000	2018 HK\$'000
Loans from a related party:			
Tang Wing Fong Terry	(i)	–	51,240
Rental expenses:			
XinYongYi Technology Park (Heyuan) Limited ("XinYongYi")*	(ii)	2,857	4,257

* The related transactions with XinYongYi also constitute continuing connected transactions as defined in Chapter 14A of the Hong Kong Listing Rules.

(i) The loans from Tang Wing Fong Terry, a shareholder of the Company, are unsecured, interest-free, and with maturity of over one year. On 15 January 2019, the Company and Tang Wing Fong Terry entered into the loan capitalisation agreement whereby the loans have been transferred to capital. Further details are included in note 29.

(ii) The rental expenses were paid to XinYongYi, which was controlled by a director of a subsidiary of the Group, for a lease of plant and office premises located in Heyuan and were charged in the form of monthly rentals of HK\$238,000 and HK\$350,000 for the years ended 31 December 2019 and 2018, respectively. The rental was determined based on mutual agreement between the parties.

(2) Compensation of key management personnel of the Group

	2019 HK\$'000	2018 HK\$'000
Short term employee benefits	2,947	2,889
Equity-settled share option and Share Award Scheme expenses	610	836
Post-employment benefits	114	114
Total compensation paid to key management personnel	3,671	3,839

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

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37. Related Party Transactions and Balances *(Continued)*

(3) Outstanding balances with related parties

	2019 HK\$'000	2018 HK\$'000
Due from a related party XinYongYi	398	589
Due to a related party Tang Wing Fong Terry	–	51,240
Due to related parties Shenzhen Yongyida Electronics Co., Ltd. (“YongYiDa”) XinYongYi	39 7	40 44
	46	84

These balances are unsecured and interest-free. The carrying amounts of these balances approximate their fair values. All the above balances were generated from operating activities and repayable on demand except the loans from Tang Wing Fong Terry.

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38. 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:

2019

Financial assets	Financial assets at amortised cost HK\$'000	Financial assets at fair value through profit or loss HK\$'000	Financial assets at fair value through other comprehensive income HK\$'000	Total HK\$'000
Equity investments designated at fair value through other comprehensive income	–	–	26,076	26,076
Financial assets at fair value through profit or loss	–	2,646	–	2,646
Trade receivables	81,135	–	–	81,135
Financial assets included in prepayments and other receivables	13,183	–	–	13,183
Cash and cash equivalents	106,899	–	–	106,899
Pledged deposits	893	–	–	893
Due from a related party	398	–	–	398
	202,508	2,646	26,076	231,230
Financial liabilities				Financial liabilities at amortised cost HK\$'000
Lease liability				46,638
Interest-bearing bank borrowings				16,678
Trade and bills payables				106,531
Financial liabilities included in other payables and accruals (excluding lease liabilities)				9,132
Due to related parties				46
				179,025

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38. Financial Instruments by Category (Continued)

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

2018

Financial assets	Financial assets at amortised cost HK\$'000	Financial assets at fair value through profit or loss HK\$'000	Financial assets at fair value through other comprehensive income HK\$'000	Total HK\$'000
Equity investments designated at fair value through other comprehensive income	–	–	34,035	34,035
Financial assets at fair value through profit or loss	–	2,635	–	2,635
Trade receivables	122,602	–	–	122,602
Financial assets included in prepayments and other receivables	32,390	–	–	32,390
Cash and cash equivalents	95,132	–	–	95,132
Due from a related party	589	–	–	589
	250,713	2,635	34,035	287,383
Financial liabilities				Financial liabilities at amortised cost HK\$'000
Interest-bearing bank borrowings				29,717
Trade and bills payables				169,046
Financial liabilities included in other payables and accruals				11,009
Due to related parties				51,324
				261,096

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39. Fair Value and Fair Value Hierarchy of Financial Instruments

At 31 December 2019 and 2018, the carrying amounts of the Group's financial assets and financial liabilities approximated to their respective fair values.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, financial assets included in prepayments and other receivables, amounts due from/to related parties, trade and bills payables, financial liabilities included in other payables and accruals, and interest-bearing bank borrowings approximate to their respective carrying amounts largely due to the short term maturities of these instruments.

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

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 Group invests in an unlisted investment, classified as financial assets at fair value through profit and loss, which represents a wealth management product issued by a bank in Hong Kong. The Group has estimated the fair value of the unlisted investment based on the market price.

The fair value of the unlisted equity investments designated at fair value through other comprehensive income have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about expected future cash flows, credit risk, volatility and discount rates. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

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39. Fair Value and Fair Value Hierarchy of Financial Instruments *(Continued)*

Fair value hierarchy

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

Assets measured at fair value

As at 31 December 2019	Fair value measurement using		
	Quoted prices in active markets (Level 1) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss	2,646	–	2,646
Equity investments designated at fair value through other comprehensive income	–	26,076	26,076
	2,646	26,076	28,722

As at 31 December 2018	Fair value measurement using		
	Quoted prices in active markets (Level 1) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss	2,635	–	2,635
Equity investments designated at fair value through other comprehensive income	–	34,035	34,035
	2,635	34,035	36,670

The Group did not have any financial liabilities measured at fair value as at 31 December 2019 and 2018.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2018: Nil).

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40. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank borrowings, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, other receivables, trade and bills payables, and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 89.7% (2018: 87.3%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 50.6% (2018: 47.4%) of costs were denominated in the units' functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US\$ exchange rate and RMB exchange rate, with all other variables held constant, of the Group's loss before tax and the Group's equity.

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in loss before tax HK\$'000	Increase/ (decrease) In equity* HK\$'000
As at 31 December 2019			
If HK\$ weakens against US\$	5	2,989	2,496
If HK\$ strengthens against US\$	(5)	(2,989)	(2,496)
If HK\$ weakens against RMB	5	(323)	(269)
If HK\$ strengthens against RMB	(5)	323	269
As at 31 December 2018			
If HK\$ weakens against US\$	5	3,956	3,303
If HK\$ strengthens against US\$	(5)	(3,956)	(3,303)
If HK\$ weakens against RMB	5	(4,931)	(4,117)
If HK\$ strengthens against RMB	(5)	4,931	4,117

* Excluding retained profits

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

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40. 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.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	
Trade receivables*	–	–	–	81,135	81,135
Financial assets included in prepayments and other receivables**	13,183	–	–	–	13,183
Cash and cash equivalents	106,899	–	–	–	106,899
Pledged deposits	893	–	–	–	893
Due from a related party	398	–	–	–	398
	121,373	–	–	81,135	202,508

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	
Trade receivables*	–	–	–	122,602	122,602
Financial assets included in prepayments and other receivables**	32,390	–	–	–	32,390
Cash and cash equivalents	95,132	–	–	–	95,132
Due from a related party	589	–	–	–	589
	128,111	–	–	122,602	250,713

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40. Financial Risk Management Objectives and Policies *(Continued)*

Credit risk (Continued)

Maximum exposure and year-end staging *(Continued)*

- * For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19 to the financial statements.
- ** The credit quality of the financial assets included in prepayments 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.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 19 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, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

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				Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	3 to less than 12 months HK\$'000	Over 1 year HK\$'000	
Lease liabilities	1,350	2,591	11,572	35,693	51,206
Interest-bearing bank borrowings	–	7,327	9,435	–	16,762
Trade payables	–	99,261	7,270	–	106,531
Due to related parties	–	–	46	–	46
Financial liabilities included in other payables and accruals (excluding lease liabilities)	9,132	–	–	–	9,132
	10,482	109,179	28,323	35,693	183,677

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40. Financial Risk Management Objectives and Policies *(Continued)*

Liquidity risk (Continued)

	2018				
	On demand	Less than	3 to	Over	Total
	HK\$'000	3 months	less than	1 year	HK\$'000
	HK\$'000	HK\$'000	12 months	HK\$'000	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest-bearing bank borrowings	–	16,466	13,405	–	29,871
Trade and bills payables	–	160,845	8,201	–	169,046
Due to related parties	–	–	–	51,324	51,324
Financial liabilities included in other payables and accruals	11,009	–	–	–	11,009
	11,009	177,311	21,606	51,324	261,250

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 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.

Notes to Financial Statements

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40. Financial Risk Management Objectives and Policies *(Continued)*

Capital management (Continued)

The Group monitors capital using a gearing ratio. The gearing ratio is defined as interest-bearing bank borrowings divided by total equity. The gearing ratios as at the end of the reporting period were as follows:

	2019 HK\$'000	2018 HK\$'000
Interest-bearing bank borrowings (note 24)	16,678	29,717
Total equity	273,349	310,067
Gearing ratio	6.1%	9.6%

41. Events After the Reporting Period

Since the novel coronavirus ("COVID-19") continues to spread throughout the world, certain business operations of the Group, in particular, the supply chain and customer orders were impacted, and the degree of the COVID-19 impact will vary depending on the situation of the epidemic preventive measures and the duration of the epidemic. Given the dynamic nature of these circumstances, the Group will continuously evaluate the impact on the revenue and financial results of the Group for the year 2020 and make timely disclosure of any important matters.

42. Comparative Amounts

As further explained in note 2.2 to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

Notes to Financial Statements

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43. 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 ASSETS		
Amounts due from subsidiaries	414,399	587,168
Investment in a subsidiary	22,000	22,000
Total non-current assets	436,399	609,168
CURRENT ASSETS		
Cash and cash equivalents	878	55
Total current assets	878	55
CURRENT LIABILITIES		
Other payables	124	124
Total current liabilities	124	124
NET CURRENT ASSETS	754	(69)
Net assets	437,153	609,099
EQUITY		
Issued capital	9,528	8,572
Shares held for Share Award Scheme	–	(9,333)
Reserves	427,625	609,860
Total equity	437,153	609,099

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43. Statement of Financial Position of The Company (Continued)

Note:

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

	Share premium account HK\$'000	Share award reserve HK\$'000	Share option reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2018	699,995	3,789	25,431	81,350	(199,525)	611,040
Total comprehensive loss for the year	–	–	–	–	(3,981)	(3,981)
Issue of shares and exercise of share options	118	–	(70)	–	–	48
Equity-settled share option arrangements	–	–	(570)	–	–	(570)
Equity-settled Share Award Scheme arrangement	–	3,323	–	–	–	3,323
At 31 December 2018 and 1 January 2019	700,113	7,112	24,791	81,350	(203,506)	609,860
Total comprehensive loss for the year	–	–	–	–	(226,787)	(226,787)
Issue of shares	51,627	–	–	–	–	51,627
Share issue expenses	(470)	–	–	–	–	(470)
Reclassification of vested awarded shares	(4,393)	(4,864)	–	–	–	(9,257)
Equity-settled share option arrangements	–	–	4,900	–	–	4,900
Equity-settled Share Award Scheme arrangements	–	(2,248)	–	–	–	(2,248)
Reclassification of lapsed share options	5,976	–	(5,976)	–	–	–
At 31 December 2019	752,853	–	23,715	81,350	(430,293)	427,625

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to share capital when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

44. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 27 March 2020.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is as follows.

	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
Revenue	549,123	989,708	735,780	1,339,611	2,736,152
Gross profit	62,483	172,957	161,320	325,407	546,143
Gross profit margin	11.4%	17.5%	21.9%	24.3%	20.0%
(Loss)/profit before tax	(84,476)	(250,612)	(470,034)	61,638	253,843
(Loss)/profit for the year	(84,476)	(253,728)	(485,300)	53,728	213,517
Net profit margin	-15.4%	-25.6%	-66.0%	4.0%	7.8%
(Loss)/profit attributable to owners of the Company	(82,310)	(253,728)	(485,300)	53,728	213,517
Cash and cash equivalents	106,899	95,132	203,129	480,436	629,990
Bank and other borrowings	16,678	29,717	89,265	100,984	212,009
Total assets	499,711	611,293	985,428	1,384,661	1,498,311
Total liabilities	226,362	301,226	415,164	361,348	487,525
Equity attributable to owners of the Company	267,364	310,067	570,264	1,023,313	1,010,786
Non-controlling interests	5,985	-	-	-	-
Total equity	273,349	310,067	570,264	1,023,313	1,010,786