# SMART-CORE HOLDINGS LIMITED
# 芯智控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 2166

# 2019 annual report

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

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

### Independent Non-executive Directors

Mr. TANG Ming Je
Mr. ZHENG Gang
Mr. WONG Hok Leung

## BOARD COMMITTEES

### Audit Committee

Mr. WONG Hok Leung *(Chairman)*
Mr. TANG Ming Je
Mr. ZHENG Gang

### Remuneration Committee

Mr. ZHENG Gang *(Chairman)*
Mr. TANG Ming Je
Mr. WONG Hok Leung
Mr. TIAN Weidong

### Nomination Committee

Mr. TIAN Weidong *(Chairman)*
Mr. TANG Ming Je
Mr. WONG Hok Leung

## COMPANY SECRETARY

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

## AUTHORISED REPRESENTATIVES

Mr. TIAN Weidong
Mr. WONG Tsz Leung

## REGISTERED OFFICE

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## AUDITOR

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

## LEGAL ADVISOR

As to Cayman Islands law

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

As to Hong Kong law

DLA Piper Hong Kong
25th Floor, Three Exchange Square
8 Connaught Place
Central, Hong Kong

As to PRC law

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

# CORPORATE INFORMATION

## SHARE REGISTRARS

Hong Kong

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

Cayman Islands

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

## PRINCIPAL BANKERS

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

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

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

## STOCK CODE

2166

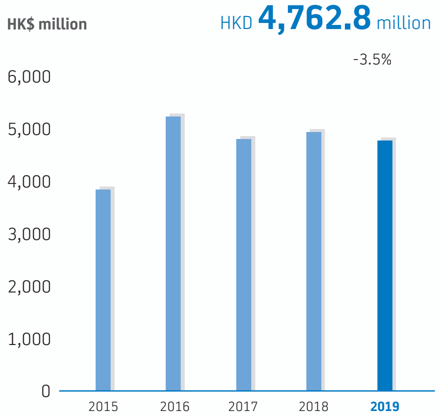
## COMPANY WEBSITE

www.smart-core.com.hk

# FIVE-YEAR FINANCIAL SUMMARY

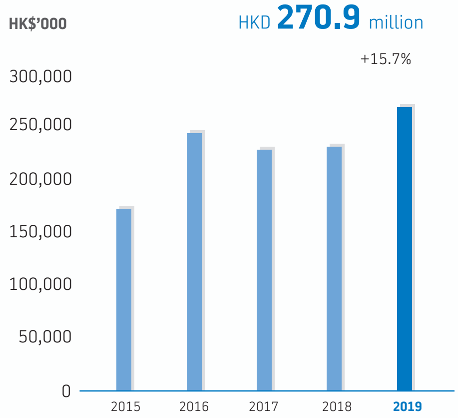
## Revenue

For the year ended 31 December



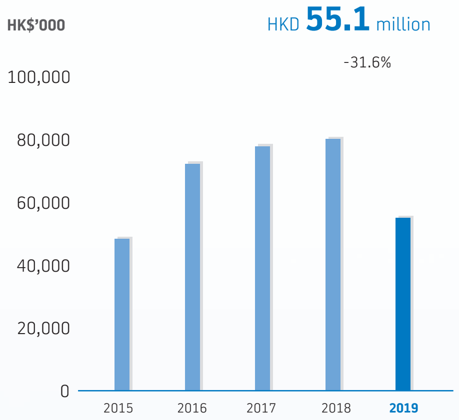

## Gross Profit

For the year ended 31 December



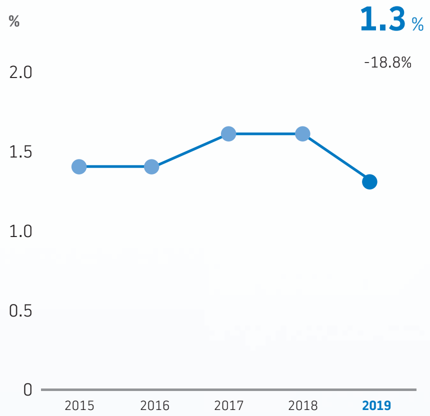

## Profit for the year attributable to Owners of the Company

For the year ended 31 December



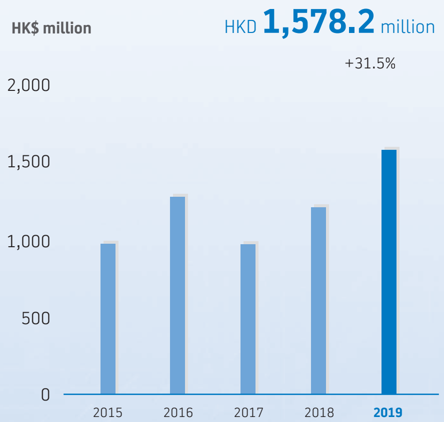

## Net Profit Margin

For the year ended 31 December



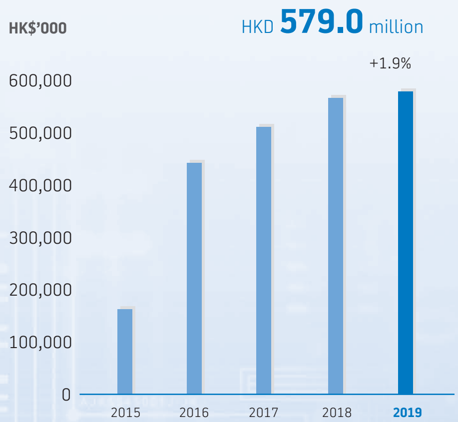

## Total Asset

As at 31 December




## Total equity attributable to Owners of the Company

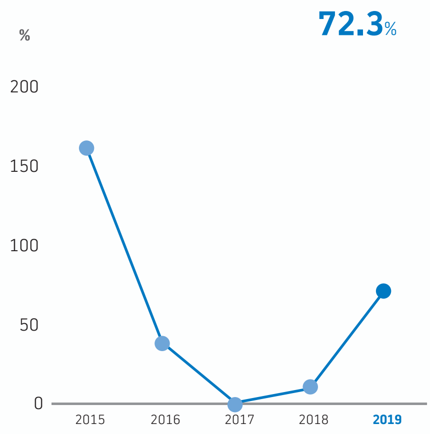
As at 31 December



# FIVE-YEAR FINANCIAL SUMMARY

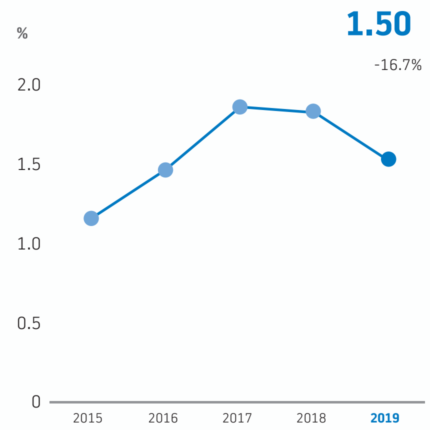
## Gearing Ratio

As at 31 December



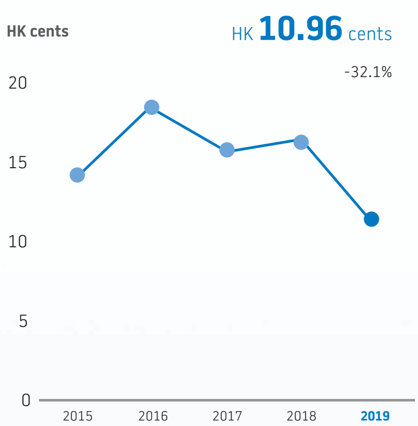

## Current Ratio

As at 31 December



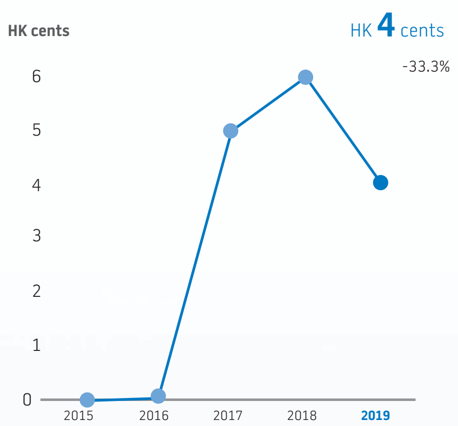

## Earnings per share ("EPS")-Basic (HK cents)

For the year ended 31 December



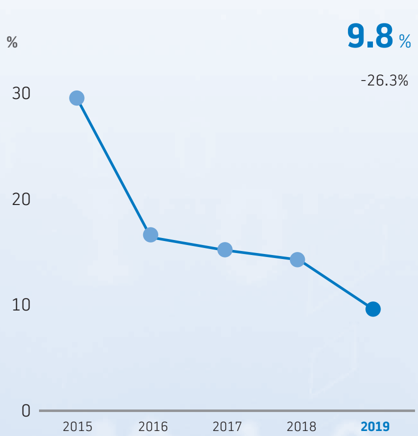

## Dividend per share (HK cents)

For the year ended 31 December



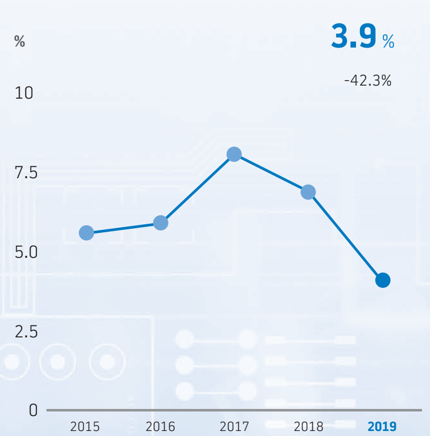

## Return on equity-%

For the year ended 31 December




## Return on assets-%

For the year ended 31 December



# CHAIRMAN'S STATEMENT

## REVIEW OF 2019

The Group is a leading distributor of integrated circuit and other electronic components based in the People's Republic of China (the "**PRC**") covering a wide range of integrated circuits and other electronic components used in applications such as television products, smart terminals, memory products, optoelectronic displays, communication, security monitoring, Internet of Things ("**IoT**"), optical communication, etc.. In addition, we provide customers with services in relation to technical solutions, technical support and supply chain of electronic components which enable us to maintain stable co-operative relationship with semiconductor manufacturers of the upstream supply chain. In respect of the authorized distribution business segment, the Group has a diversified customer base comprising over 4,200 companies. New development was also seen in the independent distribution business segment which is mainly operated by Quiksol International HK Pte Limited ("**Quiksol HK**", and together with its subsidiary, "**Quiksol Group**").

In 2019, we were confronted with a more volatile and complex international environment, further slowdown in global economic growth and declining consumer spending, all contributing to the significant impact on the electronic manufacturing industry and the domestic market of consumer electronics in the PRC. According to the latest statistics released by Semiconductor Industry Association in early February 2020, operating revenue of the semiconductor industry across the globe for 2019 amounted to US$412.1 billion, representing a substantial year-on-year decrease of 12.1% over 2018. By overcoming various difficulties, the Group still maintained a healthy operation under such circumstances and realized an aggregate sales of HK$4.76 billion and a gross profit of HK$270.9 million in 2019.

# CHAIRMAN'S STATEMENT

Within the Group, the authorized distribution business represented by Smart-Core International Company Limited ("**Smart-Core International**") remained healthy during 2019, maintaining the Group's fundamentals and steady development. The independent distribution business represented by Quiksol Group also performed well in 2019 with relatively faster growth and better gross margin. Technology value-added projects have also achieved breakthrough in various aspects. Smart projectors developed in collaboration with benchmarking clients were launched into the mass market and millions of smart door locks were delivered. Leveraging on the Group's resources of solutions and customers in the areas of displays and IoT accumulated over the years, the software service team has positioned itself well to proceed with the building of the big data PaaS platform and software services.

As to the authorized distribution business, shipments from the Group's core business, namely the distribution of TV SoC chips, made up around one-third of the global market. According to Sigmaintell's survey, the global TV sales for 2019 slightly fell to 224 million sets. However, thanks to the ongoing development and integration of new technologies in display, AI, IoT, falling price of mid-range and high-end big-screen TVs, increasing popularity of 4K ultra HD TVs and set-top boxes, research agencies and industry participants generally believed that the global TV market will witness a slight growth in 2020 which could be beneficial to the steady development of the Group's business. Business segments like memory, communication, IoT experienced a downturn in results, attributable to the substantial price reduction in memory chips and also reflecting our deficiency in market exploration, customer base and product lines that need to be improved and enhanced in 2020. Sales performance of optoelectronic display, security monitoring, automotive electronics and optical communication recorded growth of various degrees in 2019 and the Group will commit more resources to consolidate and expand its market share in future.

In respect of the Company's internal management and organization, the Group continued to optimize its internal management in 2019 by rationalizing the system and structure of authorized distribution and independent distribution, reinforcing team building and business management of the Group's subordinated entities, defining the development objective, positioning and direction of technology value-added business. At the same time, the Group enhanced the expertise and skills training for various management positions and key staff members, formulated a learning-oriented structure to address the fast changing environment, regulated the management system for the Group's intellectual property rights and stepped up its commitment to IT infrastructures and corporate informatization.

As to investments, after a thorough assessment, the Group launched a new venture in the memory segment by setting up a subsidiary specialized in memory solutions in 2019. This subsidiary is principally engaged in the provision of customized semiconductor memory solutions for specific industries and is capable of integrating resources covering wafer, package probe, technical solutions, module design, manufacturing and sales.

## OUTLOOK FOR 2020

The substantial downturn in sales for the global semiconductor industry in 2019 and the outbreak of novel coronavirus earlier this year foreshadow greater impact on the industry in the second and the third quarters of 2020. However, with the accelerated commercialization of 5G, price of memory chips will see gradual rally, and better growth is expected in such popular segments as IoT, smart wearable devices, smart security monitoring, automotive semiconductors, etc, we are still positive about the medium and long term prospects of the semiconductor industry. Accordingly the Group will assess risks and opportunities and strategically increase commitment to the development of quality business segments.

### Keeping up with Industry Trend, Expanding Distribution Business

The Group's electronic components distribution business consists of authorized distribution business and independent distribution business, which complement each other and have achieved synergy. Electronic component distribution business is the principal business of the Group and the main source of cash flow and profit. Therefore, expanding business scope and enhancing operating efficiency will be the two focal points for the development of our distribution business in 2020.

# CHAIRMAN'S STATEMENT

The steps to expand business scope include introduction of new product lines and identifying new clients. Precise analysis and prediction of the development trend and hotspots in the industry are necessary for heading the right direction and utilizing the right resources, thereby maximizing the benefits with limited resources. Besides, applications of the existing product lines may be analyzed and explored so as to come up with new applications and markets.

Such measures as the CRM system and information analysis are adopted to enhance operating efficiency. Business categories are specifically classified and allocated. Operating efficiency may be enhanced by way of strengthened business management and reasonable deployment of resources, raising the average staff performance standard at all business departments.

We acknowledge that downstream manufacturers will experience an industry reshuffle when the industry is slowing down. In this case, enterprises engaged in electronics distribution will be subject to added risks in operation. Therefore, we need to implement risk control over trade receivables and inventory management by closely monitoring and raising the indicative levels for liquidity turnover and inventory turnover.

## Capitalizing on Market Hotpots, Creating Value with Technology

Technology value-added has long been the development strategy we adhere to, and is also the core competitiveness that the Group attaches great importance. In 2020, the Group will continue to commit more resources to technology research and development. We will strengthen the planning and building of patents and software copyrights within the domain of intellectual property rights, achieve intellectual property right certification in compliance with national standards, and ensure planning and management for the Group's intellectual property rights. The Group will closely keep up with the development trend and hotspots of the industry. Combining its own resources and capabilities, the Group will effect strategic deployment in industries with growth potential, creating more long-term value by way of technology.

The Group's technology value-added products, such as smart commercial display, smart projection and smart locks, realized bulk delivery in 2019. The Group's software projects also made impressive progress by forging cooperation relations with leading players of the internet industry to proceed with the building of an IoT-based PaaS platform and related software services. For the development of the Group's technology value-added projects, 2020 will be a critical year when we will strive for building strengths in existing businesses and making breakthroughs in businesses still in their infancy, providing long-term assistance for the development of the Group.

## Activating Sales Network, Exploring Overseas Markets

Currently the Group has over 10 subordinated entities worldwide while the Group's sales are mainly contributed by the business team in the Southern China. This is characterized by the specific distribution and convergence of the industries in relation to the product lines that the Group represents, but it also reflects the imbalance and under-localization of the Group's business development. As a result, how to better capitalize on the business potential of various regions to achieve revenue growth in line with the industry characteristics of their respective localities will be an important objective for the Group in 2020, which will have far-reaching effect on the future development of the Group. Presently Eastern China has become the Group's second largest income source, attributable to the growth of the independent distribution business of Quiksol Group.

Exploring overseas markets is another important objective for the Group in 2020. At present, we are still eyeing the markets of India and South-east Asia, which are expected to have more room for development and better prospect in the future. In the future, we will leverage on the Group's operating platform, capitalize on the industry characteristics and demand in the locality, achieve breakthroughs by combining resources of our own product lines and technology solutions, and promote localization in operation so as to cater the local markets and gradually expand our presence.

# CHAIRMAN'S STATEMENT

## Integrating Industry Resources, Ensuring Healthy Development

Along with the ongoing growth slowdown in the global economy, falling demand gives rise to keener price competition and will in turn impose additional cost pressure on the supply chain, both upstream and downstream. The distribution segment of the electronic component industry will also feel the squeeze. Meanwhile, such hotspots and ideas as 5G, AI, IoT, smart wearable devices, automotive electronics, security monitoring, localized alternatives, maintain growth amid adversity. Notwithstanding some short term pressure, the medium and long term prospects of the semiconductor industry in the PRC will be promising.

Past experience suggests that it will be much more difficult for distributors to achieve business expansion based solely on organic growth amid intensifying competition in the market. As a result, a large number of distributors with relatively inferior strengths will be in trouble. The industry is presented with ever-increasing requirements for capital in terms of depth and operating strength. The electronic component distribution industry in the PRC has entered into a consolidation phase. We believe that quality resources of the electronic component distribution industry will gradually converge on top players in the future. Being a leading all-round distributor, the Group will fully capitalize on its listing status and connection with the capital markets to consider commencing investments as well as mergers and acquisitions, accumulating and integrating industry resources against all odds. We will endeavor to establish ourselves as a sizable trading platform for electronic components based on our experience and expertise accumulated over the years.

Looking forward into 2020, we are confident and well-positioned to take on challenges and will continue to ensure smooth operation and healthy development of the Group's businesses and actively explore new areas, generating greater return for our shareholders. Finally, I would like to extend my heartfelt gratitude to each shareholder, business partner, member of the Board of Directors, the management and all staff for their assistance and support that contribute to the development of the Company.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group acquired the Quiksol Group in 2018, expanding the Group's distribution business by adding independent distribution business to authorised distribution business. Amid the volatile international market in 2019, the global economic growth slowed down significantly and the downward pressure exerted on the major economies surged. The semiconductor market was also affected by the macroeconomic situation, resulting in a decrease in demand. Coupled with other factors such as decline in memory price, the global semiconductor sales have decreased considerably in 2019. Driven by favorable factors such as 5G commercialization in various countries around the world, doubled sales of smart speakers, booming smart wearable market, and promising prospects of semiconductor market including security, auto semiconductors, IoT and AI applications, the sales of semiconductor chips have been improving in the second half of 2019.

Despite the poor general market conditions in 2019, the Group managed to maintain a stable development. The Group's overall consolidated revenue for the year amounted to HK$4.76 billion, representing a slight decrease of 3.5% as compared with 2018. The independent distribution business achieved a growth while the authorised distribution business posted a decrease, among the authorised business: the annual sales of television products, smart terminals, and communication products showed a year-on-year decrease, sales of optoelectronic display product slightly increased while the sales of security and optical communication products achieved rapid growth. The Group's independent distribution business, which was mainly contributed from Quiksol Group, recorded a steady growth in 2019. The business review of each major product line is as follows:

### Authorised Distribution

#### Television Products

The sales of TV System on Chip ("**SoC**") chips are one of the core businesses of the Group. In light of the intensified price competition of TV SoC chips in 2019, together with the continual decrease in Dynamic Random Access Memory ("**DRAM**") prices since the end of 2018, more customers preferred external DRAM products in the face of high unit price of SoC chips with built-in DRAM storage integration features and price fluctuation of memory. As the unit price of mid-end and low-end TV SoC chips has dropped, the total amount of TV chip orders for the same shipment volume will decrease. Due to the above factors, the sales of the Group's TV business slightly declined in 2019. In 2019, the accumulative sales of this product line amounted to HK$2,086.2 million, representing a decrease of 6.1% as compared with 2018.

#### Smart Terminals

Set-top box is the core of the Group's smart terminal business. At present, the set-top box market is dominated by Digital Video Broadcasting ("**DVB**"), Internet Protocol Television ("**IPTV**") and Over-The-Top ("**OTT**"). According to the Ministry of Industry and Information Technology, as of the end of November 2019, the total number of IPTV users reached 294 million with a penetration rate of home users of 65.8%, becoming the major mainstream video transmission channel under National Radio and Television Administration. The number of OTT users nationwide also reached 220 million, outperforming the number of traditional cable TV users. Affected by IPTV and OTT, as of the third quarter of 2019, the total number of cable TV DVB users in China dropped to 212 million, representing a decrease of approximately 40 million as compared with the peak in 2016.

Given the stiff competition of the market, coupled with other factors such as Sino-US trade friction, growth of overseas market is limited, the Group felt the pinch and saw a considerable decline in the sales of set-top box chips in 2019. In 2019, the sales of smart terminal products amounted to HK$537.2 million, representing a decrease of 30.2% as compared with 2018.

# MANAGEMENT DISCUSSION AND ANALYSIS

**Optoelectronic Displays**

The Group's optoelectronic display product line mainly focuses on the sales of integrated circuit ("**IC**") related to displays and screen modules. According to the data for global shipment of personal computer ("**PC**") in 2019 from research firms, namely IDC and Gartner, the sales of PC in 2019 experienced a turnaround from decline in the past seven years to growth. The shipment volume of certain enterprises exceeded 260 million units. Since the PC shipments have bottomed out, the demand for display products will also increased.

As for liquid crystal display ("**LCD**") displays, with the investments from Chinese panel manufacturers, sluggish demand and oversupply in the market, the competition in panel modules remained fierce and the prices significantly decreased. However, as certain manufacturers planned to gradually shut down or adjust their existing production lines to optimize their product portfolio financial structure, the excess supply and demand of panels will alleviate in 2020 and the market share of Chinese panel manufacturers will further increase.

In 2019, the optoelectronic display business of the Group showed healthy development. The sales of optoelectronic displays amounted to HK$531.7 million, representing an increase of 6.5% as compared with 2018.

**Memory Products**

With the development of big data, cloud computing and IoT and the improvement of product intelligence, memory chips play a much more important role in the entire industry chain, accounting for approximately one-third of the whole industry.

The sales of memory chips in 2019 have fallen sharply after hitting its peak in 2018. According to Gartner, a research firm, the overall sales of memory chips in 2019 decreased by 31.5% year-on-year due to the continued decline in prices of non-volatile memory technology ("**NAND**") flash and DRAM. Against such backdrop, the sales performance of the Group's memory products also showed a substantial decline in 2019. The accumulative sales of memory products amounted to HK$493.2 million, representing a decrease of 22.7% as compared with 2018.

**Others**

Others mainly comprise communication products, optical communication, security products and other product lines. Sales of this business unit recorded year-on-year decrease by 11.1% as compared with the corresponding period in 2018. Although sales of optical communication and security products started to increase gradually in 2019 and were benefited from growth in industry scale to achieve rapid growth in short term, the aggregated volume was insignificant and did not bring significant impact to growth of sales of the Company as a whole. However, communication products were affected by the decrease in market price of MCP memory chips, the result of the whole product line showed significant drop.

## Independent Distribution

The Group's independent distribution business was mainly contributed from Quiksol Group and the revenue from independent distribution amounted to HK$463.0 million representing an increase of over 500% as compared with 2018, as the Group acquired Quiksol Group in October 2018.

In 2019, due to the worldwide substantial price reduction of over 50% of memory products, one of our core businesses, together with the wait-and-see attitudes of the customers, the turnover has declined in the first half of 2019. In the second half of 2019, the price reduction of memory products has become more stable and customers began to place more orders rather than remaining hesitant. Meanwhile, in view of the central processing unit ("**CPU**") shortages and price increment, the management also adjusted its strategy to focus on the CPU requirements of the PC and server industries, resulting in a significant increase in turnover in the second half of the year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OUTLOOK

In 2019, the sales of global semiconductor industry plunged. However, in light of the signs of improvement from the data of the second half of 2019, analysts and market participants are optimistic about the development of the semiconductor industry in 2020. Nevertheless, due to the outbreak of the novel coronavirus at the end of 2019, the market outlook has been clouded by uncertainties. The outlook of the Group, especially its business directions, is as follows:

### Authorised Distribution

**Television Products**

Despite the year-on-year decline in TV sales in China in 2019, thanks to various favorable factors including the strong replacement demand for old TVs and the gradual downward price adjustments of high-end organic light-emitting diode ("**OLED**") and Quantum Dot Light Emitting Diodes ("**QLED**") quantum dots TVs for penetrating into mid-end and low-end market, it is generally believed that the TV shipments in China will break out from its decreasing trend and return to mild growth in 2020.

At CES2020, major TV manufacturers around the world launched their new products, demonstrating the acceleration of maturation and innovation of 8K technology, continuous diversification of screens, and applications of computer visual and voice recognition technology in TVs. It is expected that 5G+4K/8K+AI+IoT will become the highlight of TV technology development in 2020 and beyond.

TVs will no longer be the traditional video displays in the living room in the future. Many manufacturers are committed to developing TV screens as interactive accesses for the entire smart home application systems, thereby paving a path for the TV industry towards high-quality development.

As a result, the large scale and slowdown in growth rate of the entire industry will not hinder its development prospects. By maintaining the sales of the Group's TV SoC chips at a high level, the Group will focus on expanding new applications and new markets and developing upstream and downstream technologies in the future to gain a cluster advantage.

**Smart Terminals**

According to the "White Paper on Ecology of Large-screen TV in China in 2020" (《2020中國電視大屏生態白皮書》), with the popularization of network and intellectualization, the connections between traditional cable TV DVB set-top boxes and OTT will be strengthened. It is expected that large-screen TVs and smart set-top boxes will become essential accesses for application systems in living rooms, covering e-commerce, education and medical care and providing more valuable value-added services. 5G will empower more 4K/8K ultra-high definition video applications, thereby adding another favorable factor for the development of the set-top box industry. According to a report issued by ZION, a market research firm, it is expected that the market size of 4K ultra-high definition set-top boxes will reach approximately US$3.091 billion by 2024, representing a compound annual growth rate of approximately 32.8% from 2018 to 2024. Driven by the high per capita income and popularization of 4K TV, North America and China will become the major markets for 4K set-top boxes.

As a result, along with the product technology upgrades, the integrated circuits and other electronic components used in 4K ultra-high definition smart set-top boxes will maintain a good market prospect in forthcoming years. By focusing on the new applications of AI on smart terminals, the Group will look for more business opportunities in such fields.

**Memory Products**

According to a memory industry report issued by UBS in January 2020, the price reduction cycle of DRAM in terms of capacity will come to an end in the first half of 2020 and start to pick up in the second half of 2020. In addition, owing to the application of 3D high-stacking technology, NAND flash memory will enjoy cost reduction. However, as the major NAND original manufacturers will adopt a conservative approach on their capital expenditure and slow down the growth of production capacity in 2020, a better or tightening market supply and demand balances may be achieved and the flash memory prices may stop falling.

With the rapid growth of data volume and product intellectualization, data storage applications will be more widely used and the importance of memory chips to the electronics industry will further increase. Therefore, the Group will continue to invest resources to expand its business scale and actively explore new business opportunities, including setting up and operating a new storage solutions company for such segment to establish its presence.

**Optoelectronic Displays**

With the upcoming events in 2020, coupled with the buoyant development of innovative application markets in Industrial IoT, smart automobiles, smart manufacturing, remote education and remote medical care, the global demand for display panels will continue to grow in 2020 and achieve a balance between the overall supply and demand.

As for LCD displays, it is estimated that the shipment volume of medium and large screens (i.e. over 23.6 inches) will account for 50% of the total shipment volume in 2020. With the popularization of large screens, the market share of 4K/5K/8K high-resolution displays will further increase. By providing leading technological solutions and chips for displays and screens, the Group will enjoy bright prospects at the time of market recovery and domination by domestic panel manufacturers.

**Others**

The Group's strategy on Others is to develop certain products into meaningful product lines. In 2020, the Group's communication products will continue to focus on business opportunities of electronic components of cellular data module. It will also concern application opportunities of cellular data module in different product lines, in combination with the Company's data and software services. Meanwhile, as governments, enterprises and consumers around the world raise their awareness on securities, they become more willing to pay for security systems, driving continuous growth of the demand for security products. The Group will also extend its effort on expanding security field to diversify its business and increase market shares. For fields of other products, the Group has also started plotting gradually, for example, industrial control and medical industry will hopefully generate new values in 2020.

## Independent Distribution

Surrounded by uncertainties of the Sino-US trade war, we are committed to improve our services and our ability of securing orders from overseas markets and look for potential opportunities. Meanwhile, the supply of memory and CPU, our core products, remains tight. Driven by rebounding demand, it is expected that such segment will continue to make contributions to the Group.

On the whole in 2020, the Group will continue to focus on expanding and enhancing its existing authorized distribution business, investing more resources in new business segments which have achieved breakthroughs, and consolidating and expanding its market share. The Group will also continue to develop and invest in its independent distribution and technology value-added businesses to improve the return on investment.

By investing in technology and research and development, and adhering to intellectual property rights standards to strengthen the construction of intellectual property rights management system, the Group is committed to building up its core competitiveness. We will also identify, approach and evaluate investments and targets for acquisition and merger in the capital market to take action when the right opportunity arises. Looking ahead, while maintaining the stable operation of the Group, we will boost the development of our business, with an aim to create greater return and long-term value for the shareholders of the Company (the "**Shareholders**").

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2019, the Group's revenue amounted to HK$4,762.8 million (2018: HK$4,935.6 million), representing a decrease of HK$172.8 million (3.5%) as compared with the revenue for the year ended 31 December 2018.

The decrease in revenue level was mainly caused by the combination effect of the decrease in the sales from our television products, memory products and other products of approximately HK$562.5 million and the increase in the sales from independent distribution of approximately HK$389.7 million.

### Gross profit

Our gross profit for the year ended 31 December 2019 increased by HK$36.8 million to HK$270.9 million as compared with the prior year (2018: HK$234.1 million). Our gross profit margin increased by 1.0% to 5.7% for the year ended 31 December 2019 (2018: 4.7%). The increase in gross profit margin was principally the combined effect of the higher gross profit margin from the independent distribution business and one-off rebates from our suppliers which decreased our cost of sales.

### Research and development expenses

Research and development expenses mainly comprise of staff costs incurred for our research and development department. For the year ended 31 December 2019, research and development expenses amounted to HK$24.0 million, decreased by 11.4% as compared with the year ended 31 December 2018 (2018: HK$27.1 million). The decrease was mainly due to no share-based payment expenses were recognized for the year ended 31 December 2019 (2018: HK$1.9 million).

### Administrative, selling and distribution expenses

Administrative, selling and distribution expenses aggregated to HK$153.5 million for the year ended 31 December 2019 (2018: HK$109.4 million), which accounted for 3.2% of the revenue for the year ended 31 December 2019 as compared with 2.2% over the corresponding year in 2018. The net increase of HK$44.1 million was attributable to an increase in staff costs and newly added selling and distribution expenses from the independent distribution business after the acquisition of the Quiksol Group in late 2018.

### Finance costs

The Group's interest expense on bank and other borrowings for the year ended 31 December 2019 amounted to HK$27.3 million, a decrease of HK$0.1 million as compared with that in 2018 (2018: HK$27.4 million). Interest expenses mainly represent the borrowings cost from entering into various factoring agreements with some of the principal bankers.

### Profit for the year

For the year ended 31 December 2019, the Group's profits amounted to HK$61.8 million, representing a decrease of HK$19.6 million as compared to HK$81.4 million in 2018, a decrease of 24.1%. The net profit margin for the year ended 31 December 2019 was 1.3%, compared to 1.6% for the year ended 31 December 2018. The decrease in the profit for the year was mainly contributed by the increase in impairment losses recognised under expected credit losses model on certain of trade receivables of our small and medium enterprise customers upon the change in the economic environment.

### Net profit attributable to the owners of the Company

The net profit attributable to the owners of the Company for the year ended 31 December 2019 amounted to HK$55.1 million, representing a decrease of 31.6% as compared with the year ended 31 December 2018 (2018: HK$80.5 million).

# MANAGEMENT DISCUSSION AND ANALYSIS

## Use of proceeds from the global offering

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

The Group has utilised approximately HK$117.1 million of the net proceeds as at 31 December 2019. The unutilised net proceeds have been placed as deposits with banks.

| Use of Proceeds | | Net proceeds (in HK$ million) | Utilised as at 31 December 2019 (in HK$ million) | Amount remaining (in HK$ million) |
|---|---|---|---|---|
| 1. | Hiring additional staff for sales and marketing and business development and improvement of warehouse facilities | 20.6 | (20.6) | 0.0 |
| 2. | Advertising and organizing marketing activities for the promotion of our e-commerce platform Smart Core Planet and our new products | 41.2 | (25.6) | 15.6 |
| 3. | Enhancing, further developing and maintain our e-commerce platform and improving our technology infrastructure | 41.2 | (4.2) | 37.0 |
| 4. | For research and development | 20.6 | (20.6) | 0.0 |
| 5. | Funding potential acquisition of, or investment in business or companies in the e-commerce industry or electronics industry | 61.7 | (25.6) | 36.1 |
| 6. | General working capital | 20.5 | (20.5) | 0.0 |
| | | 205.8 | (117.1) | 88.7 |

## Liquidity and financial resources

The Group's primary source of funding included cash generated from operating activities and the credit facilities provided by banks.

The Group possesses sufficient cash and available banking facilities to meet its commitments and working capital requirements. As at 31 December 2019, the Group maintained aggregate restricted and unrestricted bank balances and cash of HK$347.4 million (31 December 2018: HK$263.2 million).

As at 31 December 2019, the outstanding bank and other borrowings of the Group were HK$434.8 million (31 December 2018: HK$59.3 million). The Group's gearing ratio, based on the interest-bearing borrowings and total equity, increased from 9.7% as at 31 December 2018 to 72.3% as at 31 December 2019 as a result of the increased level of bank borrowings to finance our expanded working capital needs as well as bank borrowings under certain factoring agreements are no longer derecognised as at 31 December 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2019, the total and unutilised amount of the Group's banking facilities (excluding standby letter of credit) were HK$955.8 million and HK$521.0 million (31 December 2018: HK$949.0 million and HK$554.0 million) respectively.

As at 31 December 2019, the Group had current assets of HK$1,394.5 million (31 December 2018: HK$1,050.5 million) and current liabilities of HK$930.7 million (31 December 2018: HK$584.2 million). The current ratio was 1.50 times as at 31 December 2019 (31 December 2018: 1.80 times).

The Group's debtors' turnover period was 48 days for the year ended 31 December 2019 as compared to 29 days for the year ended 31 December 2018. The overall debtors' turnover period was within the credit period. The increase in debtors' turnover period was due to the delay in payments from certain of our small and medium enterprises customers upon the change in the economic environment, as well as receivables of certain of our customers are no longer derecognised under factoring agreements as at 31 December 2019.

The creditors' turnover period was 31 days for the year ended 31 December 2019 as compared with 30 days for the year ended 31 December 2018. The creditors' turnover period has been maintaining at a stable level.

The inventories' turnover period was 18 days for the year ended 31 December 2019 as compared with 20 days for the year ended 31 December 2018. Inventory control was always one of the primary tasks of the Group's management team to maintain the liquidity and healthy financial position of the Group. Inventories' turnover period remained relatively stable in both years.

### Foreign currency exposure

The Group's transactions are principally denominated in US dollars and Renminbi. The Group had not experienced any material difficulties or material adverse impacts on its operation despite the fluctuations in currency exchange rates and the net foreign exchange loss of approximately HK$1.5 million for the year ended 31 December 2019 (31 December 2018: net foreign exchange gain of HK$0.1 million). At the date of this report, the Group has not adopted any foreign currency hedging policy. However, the Group will consider the use of foreign exchange forward contracts to reduce the currency exposures in case the exposures become significant.

### Pledge of assets

As at 31 December 2019, the financial assets at fair value through profit or loss ("**FVTPL**") amounted to HK$127.8 million (31 December 2018: HK$127.5 million), debt instruments at fair value through other comprehensive income ("**FVTOCI**") amounted to HK$nil (31 December 2018: HK$4.2 million), trade receivable factored amounted to HK$308.9 million (31 December 2018: HK$nil) and bank deposits amounted to HK$161.4 million (31 December 2018: HK$103.7 million) had been charged as security for the bank borrowings and financing arrangement of the Group.

### Capital commitment and contingent liabilities

The Group had no material capital commitment and contingent liabilities during the years ended 31 December 2019 and 2018.

### Significant investment held

Save for the financial assets at FVTPL and debt instruments at FVTOCI as disclosed above, the Group did not hold any significant investments during the years ended 31 December 2019 and 2018.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Material acquisition and disposal of subsidiaries and associated companies

The Group has no material acquisitions or disposals of subsidiaries and associated companies during the year ended 31 December 2019.

## Employees

As at 31 December 2019, the Group had 387 employees (31 December 2018: 353 employees), with a majority based in Shenzhen, Suzhou and Hong Kong. Total employee cost for the year ended 31 December 2019, excluding the remuneration of the Directors were approximately HK$102.1 million (31 December 2018: HK$87.9 million). There have been no material changes to the information disclosed in the prospectus dated 27 September 2016 in respect of the remuneration of employees, remuneration policies, share award scheme, share option scheme and staff development.

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

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

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

During the year ended and as at 31 December 2019, no share awards were granted to the employees by the Company pursuant to the Share Award Scheme.

Details of movement of shares awarded under the Share Award Scheme during the Reporting Period were as follows:

| | | Number of shares | | | | | |
|---|---|---|---|---|---|---|---|
| Date of grant | Average fair value per share HK$ | As at 1 January 2019 | Granted during the year | Vested during the year | Lapsed during the year | As at 31 December 2019 | Vesting period |
| 28 March 2018 | 1.59 | 4,390,000 | – | (4,390,000) | – | – | 28 March 2018 – 2 January 2019 |

# MANAGEMENT DISCUSSION AND ANALYSIS

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2019, the Company bought back a total of 10,900,000 Shares on the Stock Exchange (the "**Share Repurchase**"). A total of 10,000,000 shares bought back were subsequently cancelled by the Company on 20 January 2020. Details of the purchases of shares are as follows:

| Month of buy-back | Number of Shares bought back | Price per Share Highest | Price per Share Lowest | Aggregate price (excluding commission fee and etc) |
|---|---|---|---|---|
| | | HK$ | HK$ | HK$ |
| September | 100,000 | 1.27 | 1.26 | 126,200 |
| October | 2,660,000 | 1.35 | 1.23 | 3,438,940 |
| November | 1,280,000 | 1.40 | 1.30 | 1,753,820 |
| December | 6,860,000 | 1.51 | 1.34 | 9,980,020 |

The Board believes that the Share Repurchase may, depending on market conditions and funding arrangements at that time, lead to an enhancement of its earning per Share, and will benefit the Company and Shareholders. Please refer to the announcement of the Company dated 26 August 2019 for further details in relation to the Company's share repurchase plan.

Save as disclosed above, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries during the year ended 31 December 2019.

## EVENTS AFTER THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

### Novel Coronavirus

As a result of the outbreak of the coronavirus disease ("**COVID-19**") and subsequent quarantine measures imposed in China, some of the customers' operation were impacted by these measures and orders to the Group were delayed due to these measures in early 2020.

As the situation remains fluid as at the date of this report, the financial effects of the COVID-19 on the Group cannot be reasonably estimated. Nevertheless, the COVID-19 outbreak is expected to affect the performance of the Group in the second and the third quarters of this year.

# DIRECTORS AND SENIOR MANAGEMENT

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

## EXECUTIVE DIRECTORS

**Mr. Tian Weidong**, aged 53, is the chairman of the Board, an executive Director and chief executive officer of our Company. He is the founder of our Group and has been leading our Group for over 14 years. Mr. Tian was appointed as a Director of our Company on 22 October 2015. He is also the chairman of the Company's nomination committee and a member of the Company's remuneration committee. Mr. Tian is responsible for overseeing the overall business strategy, development of projects, management and operations of our Group. Further, Mr. Tian is currently serving as a director of a number of subsidiaries of the Company, namely, Smart-Core International Holdings Limited, Smart-Core International, Smart Link Holdings Limited, Smart-Core Cloud Holdings Limited, Smart-Core Cloud Limited, UDStore Solutions Holdings Limited, UDStore Solutions Limited, Smart-Core Link Holdings Limited, Smart-Core Link Limited, Smart-Core IC Cloud Holdings Limited, IC Cloud Holdings Limited, IC Cloud Limited, Smart IC Cloud Holdings Limited, Quiksol HK, Smart-Core Overseas Holdings Limited, Smart-Core Development Company Limited, Smart-Core DTDS Limited, DTDS Smart-Core Pte Limited and Smart-Core Japan Holdings Ltd.. He is also the sole director and sole shareholder of Smart IC Limited, a controlling shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**")) of the Company.

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

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

**Mr. Wong Tsz Leung**, aged 56, is an executive Director and chief financial officer of our Company. He was appointed as a Director of our Company on 22 October 2015. Mr. Wong joined our Group in March 2007 and subsequently promoted to the vice general manager. Mr. Wong is responsible for overseeing the overall strategy and responsible for the financial operations and management of our Group. Mr. Wong is currently serving as a director of a number of subsidiaries of the Company, namely, Smart-Core DTDS Limited, Quiksol HK and UDStore Solutions Limited. Mr. Wong is also the chairman of supervisor committee of Henan Jinma Energy Company Limited (stock code: 6885) since July 2016. He is also the sole director and sole shareholder of Insight Limited, a substantial shareholder (as defined in the Listing Rules) of the Company.

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

# DIRECTORS AND SENIOR MANAGEMENT

**Mr. Liu Hongbing**, aged 53, is an executive Director of our Company. He was appointed as a Director of our Company on 22 October 2015. Mr. Liu joined Shenzhen Smart-Core Technology Co., Ltd. in February 2007 and acted as the manager of the development department and was subsequently promoted to vice general manager. Mr. Liu is responsible for overseeing the overall strategy and responsible for the research and development matters of our Group. Further, Mr. Liu is currently serving as a director of a number of subsidiaries of the Company, namely, Shenzhen Smart-Core Technology Co., Ltd., Shenzhen Smart-Core Cloud Information Technology Co., Ltd and Shenzhen IC-Cloud Information Technology Co., Ltd.

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

**Mr. Xie Yi (resigned with effect from 1 April 2019)**, aged 48, is an executive Director of our Company. He was appointed as a Director of our Company on 16 March 2016. Mr. Xie joined Shenzhen Smart-Core Technology Co., Ltd. in May 2008 and acted as the manager of the mobile phone business division. In September 2012, Mr. Xie was appointed as the assistant to the general manager where he was responsible for assisting the general manager in respect of internal management of the sales centers. Mr. Xie has become the head of the e-commerce platform since August 2015. He is responsible for overseeing the operations of the e-commerce platform of our Group.

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

**Mr. Yan Qing (appointed with effect from 1 April 2019)**, aged 50, has more than 20 years of experience in electronics distribution industry. Mr. Yan served in the Beijing Magnet Health-care Product Co. Ltd as the sales engineer from August 1992 to August 1995. From November 1995 to July 1998, he acted as a sales manager of Nison Industrial & Commercial Pte Ltd-Singapore. From November 1999 to January 2006, he acted as a purchasing director of Converge Singapore. From January 2006 to August 2012, he worked as a director of APAC of Converge China.

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

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

# DIRECTORS AND SENIOR MANAGEMENT

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Zheng Gang**, aged 52, is an independent non-executive Director of our Company. Mr. Zheng has been the executive director of Good Fellow Healthcare Holdings Limited (formerly known as Hua Xia Healthcare Holdings Limited), a company listed on the Stock Exchange (stock code: 8143) since August 2007. Mr. Zheng had also been appointed as the independent non-executive director of China Internet Investment Finance Holdings Limited (formerly known as Open Asia Development Limited), a company listed on the Stock Exchange (stock code: 810) from July 2012 to May 2013. Mr. Zheng has extensive experience in management in the finance and investment industry. Mr. Zheng obtained a degree of Bachelor of Electronic Engineering from Xiamen University in July 1989 and a degree of Master of Business Administration from University of Wales in April 1994.

**Mr. Tang Ming Je**, aged 66, is an independent non-executive Director of our Company. Mr. Tang was a tenured associate professor of the department of business administration of University of Illinois at Urbana-Champaign from August 1991 to August 1995, a visiting associate professor of Hong Kong University of Science and Technology from January 1994 to January 1995 and a professor of department of industrial administration of Chang Gung University from December 1994 to August 1996. He held various positions in National Taiwan University, including Professor of the department of international business from August 1996 to February 2019, founding executive director of the executive master of business administration program from August 1997 to July 1999, director of the division of professional development from March 1998 to July 2004 and vice president for finance from August 2007 to May 2014. Mr. Tang obtained a degree of Bachelor of Civil Engineering from National Taiwan University in June 1975 and a degree of Doctor of Philosophy from Massachusetts Institute of Technology in September 1985. Mr. Tang has been an independent director of Fubon Financial Holding Co., Ltd., a company listed on the Taiwan Stock Exchange (stock code: 2881) since June 2014. He has also been appointed as an independent director of Mediatek Inc., a company listed on the Taiwan Stock Exchange (stock code: 2454) since June 2017.

**Mr. Wong Hok Leung**, aged 67, has over 20 years of experience in banking, finance, IT and retail banking, and his last position in banking was in Singapore, as the head of distribution channels for DBS Bank.

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

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

## SENIOR MANAGEMENT

**Mr. Yau Chak Man**, aged 40, joined the Group in February 2019 as the financial controller. Mr. Yau was also appointed as the company secretary of the Company in March 2019. He has extensive experience in auditing and financial management. He obtained the degree of Bachelor of Science in Quantitative Finance from The Chinese University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

# DIRECTORS' REPORT

The Directors hereby present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

## PRINCIPAL ACTIVITIES

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

## BUSINESS REVIEW

A review of the business of the Group and a discussion on the Group's future business development is set out in the Chairman's Statement on pages 6 to 9 and in the Management Discussion and Analysis on pages 10 to 18 of this annual report.

### Compliance with laws and regulations

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

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

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

### Environmental policies and performance

Environment protection is critical to the long term development of the Group. The Group considers the importance of environmental affairs and believes business development and environment affairs are highly related. The Group has endeavoured to comply with laws and regulations regarding environment protection. These policies were supported by our staff and were implemented effectively. During the year ended 31 December 2019, we had not been subject to any fines or other penalties due to any non-compliance with health, safety or environmental regulations.

### Relationship with employees

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

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

### Relationship with suppliers, customers and other stakeholders

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

Our major suppliers are generally reputable IC and other electronic component companies, and had business relationship with the Group from 7 to 13 years. Our largest supplier is headquartered in Taiwan and has a diverse product portfolio of application specific ICs in various markets such as TV, set-top box and LCD monitor. Our major suppliers include IC companies that supply memory and silicon turner IC as well. The credit period from the major suppliers is 30 to 60 days.

Our major customers include leading brand-name consumer electronic product manufacturing companies, original design manufacturer ("**ODMs**") and original equipment manufacturer ("**OEMs**") in the electronic product industry in the PRC region. The years of business relationship with the Group ranged from 4 to 13 years and the credit terms granted to the major customers from 30 to 120 days.

### Principal risks and uncertainties

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

- We are dependent on our major suppliers ("**Major Suppliers**"). If our distributorship rights with these Major Suppliers are terminated, interrupted, or modified in any way adverse to us, our business, financial condition and results of operations could be adversely affected. We are expanding our supplier base by means such as organic growth of our business, expansion into various product segments which the Major Suppliers are not the supplier and through investment in, acquisition of and strategic cooperation with IC companies and distributors. We have been expanding and will continue to expand our supplier base by exploring co-operation opportunities with new suppliers as well as introducing new product segments that we consider to have growth potential. We have implemented guidelines for selecting and introducing new suppliers and/or new products to our offering.

- We generally do not enter into long-term agreements with our customers, and some of them may cancel, change or postpone their orders. Furthermore, more than 50% of our revenue during the year was generated from our largest five customers. The concentration of our customers exposes us to risks, and the performance of our major customers may in turn lead to fluctuation or decline in our revenue. We are investing more resources on our advertising and organizing marketing activities for the promotion of our e-commerce platform, Smart-Core Planet and our new products, with the aim of expanding our customer base. Apart from expanding our customer base through Smart-Core Planet, we keep enriching our product portfolio and expanding our supplier base. We have identified a number of strategic product segments which we consider to be fast developing. We will continue to expand our product portfolio and invest in our value added engineering support services in relation to such strategic segments.

- Our profit margins are slim and therefore our profitability could be adversely affected if our profit margins cannot be sustained.

- We are dependent on short-term financing. In the event that our bankers cancel these facilities or the interest rates at which we could obtain such facilities increases, our business operations, revenue and profitability could be adversely affected.

- As a distributor, we do not directly monitor the quality control procedures of our major suppliers. If a product that we distribute has defects or performance problems, our reputation and operation could be adversely affected.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 and the Group's financial position at that date are set out in the Group's consolidated financial statements on pages 67 to 69 .

Subsequent to the end of the Reporting Period, a final dividend of HK2 cents per share (2018: HK4 cents) had been recommended by the directors of the Company and is subject to the approval by the Shareholders in the forthcoming annual general meeting. Interim dividend of HK2 cents per share (2018: HK2 cents) was declared and paid during the year.

## FINANCIAL SUMMARY

A summary of the consolidated results and the assets and liabilities of the Group for the last five financial years is set out on pages 4 and 5.

## SEGMENT INFORMATION

Details of the segment information of the Group are set out in note 7 to the consolidated financial statements.

## NON-COMPETITION UNDERTAKING

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

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

Mr. Tian and Smart IC Limited have confirmed their compliance with the Non-Competition Undertaking during the year ended 31 December 2019. The independent non-executive Directors have also reviewed the compliance with the Deed of Non-Competition by Mr. Tian and Smart IC Limited and are satisfied that they have complied with the undertakings.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 34 consolidated financial statements.

## RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and reserves of the Company on page 70 and note 47 to the consolidated financial statements of this annual report respectively.

## DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2019, the Company had distributable reserves amounted to HK$255.5 million (2018: HK$301.4 million).

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

## DONATIONS

During the year, the Group made charitable and other donations in the aggregate amount of approximately HK$60,000 (2018: HK$40,000).

## BANK AND OTHER BORROWINGS

Particulars of the bank and other borrowings of the Group at 31 December 2019 are set out in note 32 to the consolidated financial statements.

## MAJOR SUPPLIERS AND CUSTOMERS

During the year, the aggregate amount of purchase from the Group's five largest suppliers was approximately 82.6% of the Group's total purchases, while the purchases from the Group's largest supplier was approximately 63.4% of the Group's total purchases.

During the year, the aggregate amount of sales to the Group's five largest customers was approximately 50.1% of the Group's total revenue, while the sales to the Group's largest customer was approximately 21.2% of the Group's total revenue.

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

# DIRECTORS' REPORT

## DIRECTORS

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

### Executive Directors

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

### Independent non-executive Directors

Mr. Tang Ming Je
Mr. Zheng Gang
Mr. Wong Hok Leung

In accordance with the articles of association of the Company, one third of the Directors will retire at the forthcoming annual general meeting (the "**AGM**"), and being eligible, offer themselves for re-election at the AGM. Accordingly, Mr. Wong Tsz Leung, Mr. Liu Hongbing and Mr. Zheng Gang will retire by rotation at the forthcoming AGM of the Company and being eligible, will offer themselves for re-election at the AGM.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2019, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing more than one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise. The Company has received written confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent.

## DIRECTORS' SERVICE CONTRACTS

### Executive Directors

Mr. Yan Qing, as executive Director, executed a service agreement with the Company for a term of three years commencing from 1 April 2019, which shall be renewed as determined by the Board or the shareholders of the Company, and Mr. Xie Yi resigned as an executive Director with effect from 1 April 2019 so as to devote more time to fulfill his role as the assistant general manager of the Company. Each of the executive Director has entered into a service contract with the Company pursuant to which they agreed to act as executive Directors for a term of three years with effect from the date of appointment, which shall be renewed as determined by the Board or the Shareholders of the Company. The appointment of each of the executive Directors may be terminated by either party by giving at least three months' written notice to the other.

### Independent non-executive Directors

Each of the independent non-executive Directors has been appointed for a term of three years commencing from the date of appointment, which shall be renewed as determined by the Board or the Shareholders of the Company. The appointment of each of the independent non-executive Directors may be terminated by either party giving at least three months' written notice to the other.

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

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, the interests and short positions of our Directors or chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Future Ordinance ("**SFO**")) as recorded in the register required to be kept under Section 352 of the SFO; or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange are as follows:

| Name of Director | Nature of Interest | Number of Shares held | Approximate shareholding percentage[4] |
|---|---|---|---|
| Mr. Tian Weidong [1] | Interest in a controlled corporation | 262,500,000 (L) | 52.07% |
| Mr. Wong Tsz Leung [2] | Interest in a controlled corporation | 90,000,000 (L) | 17.85% |
| Mr. Yan Qing [3] | Beneficial owner | 1,231,509 (L) | 0.24% |

Notes:

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

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

(3) Mr. Yan Qing is interested in 1,755,000 shares of Quiksol HK, representing approximately 22.5% of the total issued shares of Quiksol HK.

(4) Based on 504,105,030 Shares in issue as at 31 December 2019.

(L) represents long positions.

Save as disclosed above, as at 31 December 2019, none of the Directors nor their associates had any interests or short positions in any share, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENTS AND CONTRACTS

No transactions, arrangements or contracts of significance, to which the Company, or its holding companies, subsidiaries or fellow subsidiaries was a party and in which the Director or the Director's connected entity had a material interest, whether directly or indirectly, subsisted at the end or at any time during the year ended 31 December 2019.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed under the section headed "Non-Competition Undertaking" on page 24 of this report, during the year ended 31 December 2019, none of the Directors has an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

## PERMITTED INDEMNITY

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

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

# DIRECTORS' REPORT

## EVENTS AFTER THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Details of the events after reporting period of the Group are set out in note 46 to the consolidated financial statements.

## PRINCIPAL SUBSIDIARIES

The Group's operations are conducted on a global basis through its direct or indirect subsidiaries. Details of the subsidiaries of the Company as at 31 December 2019 are set out in note 44 to the consolidated financial statements.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2019, the Company bought back a total of 10,900,000 Shares on the Stock Exchange (the "**Share Repurchase**"). A total of 10,000,000 shares bought back were subsequently cancelled by the Company on 20 January 2020. Details of the purchases of shares are as follows:

| Month of buy-back | Number of Shares bought back | Price per Share Highest | Lowest | Aggregate price (excluding commission fee and etc) |
|---|---|---|---|---|
| | | HK$ | HK$ | HK$ |
| September | 100,000 | 1.27 | 1.26 | 126,200 |
| October | 2,660,000 | 1.35 | 1.23 | 3,438,940 |
| November | 1,280,000 | 1.40 | 1.30 | 1,753,820 |
| December | 6,860,000 | 1.51 | 1.34 | 9,980,020 |

The Board believes that the Share Repurchase may, depending on market conditions and funding arrangements at that time, lead to an enhancement of its earning per Share, and will benefit the Company and Shareholders. Please refer to the announcement of the Company dated 26 August 2019 for further details in relation to the Company's share repurchase plan.

Save as disclosed above, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries during the year ended 31 December 2019.

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

As at 31 December 2019, so far as the Directors are aware, the following persons (other than a Director or a chief executive of the Company) have interests or short positions in the shares or underlying shares of the Company, as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO:

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

Notes:

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

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

(3) Based on 504,105,030 Shares in issue as at 31 December 2019.

(L) Represents long position.

Saved as disclosed above, as at 31 December 2019, the Company had not been notified by any persons who had any interests or short positions in the shares or underlying shares of the Company which would fall under the provisions of Division 2 and 3 of Part XV of the SFO to be disclosed to the Company, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

There were no contracts of significance (including for the provision of services) with any member of the Group as the contracting party and in which any of the Controlling Shareholders and their respective associates possessed direct or indirect substantial interests, and which was still valid on 31 December 2019 or any time during such year and related to the business of the Group.

## CONNECTED TRANSACTIONS

On 28 May 2019, Smart-Core International, a wholly-owned subsidiary of the Company, and Quiksol HK entered in the Loan Agreement ("**Loan Agreement**"), pursuant to which Smart-Core International agreed to make available to Quiksol HK a US$ revolving loan facility in an aggregate amount of US$2,500,000 at an interest rate of 7% per annum, which is determined with reference to the prevailing interest rate in the market. Quiksol HK shall apply all loans solely towards financing purchase orders of electronic components of commodity nature goods arising from orders placed by customers of Quiksol HK with Quiksol HK from time to time.

On 13 August 2019, Smart-Core International and Quiksol HK entered into the supplemental agreement to amend and restate the terms of the Loan Agreement (the "**Supplemental Agreement**"). Pursuant to the Supplemental Agreement, (i) the aggregate amount of US$ revolving loan facility Smart-Core International agreed to make available to Quiksol HK was changed from US$2,500,000 to US$3,800,000; (ii) the availability period was changed from the period commencing from the date of the Loan Agreement up to and inclusive of 29 September 2019 to the period commencing from the date of the Amended Loan Agreement (i.e. the Loan Agreement as amended and restated pursuant to the Supplemental Agreement so that it shall be read and be construed for all purposes as set out in the schedule of the Supplemental Agreement) up to and inclusive of 30 March 2020; and (iii) the maturity date was changed from 30 September 2019 to 31 March 2020. Save for the above, all other major terms and conditions set out in the Amended Loan Agreement are the same as those of the Loan Agreement. To secure the guaranteed obligations, each of Mr. Yan and Mr. Li entered into a personal guarantee on 13 August 2019, pursuant to which, each of Mr. Yan and Mr. Li irrevocably and unconditionally, among others, guarantees to Smart-Core International the punctual performance by each other obligor of all of the guaranteed obligations and undertakes that whenever another obligor does not pay any amount of the guaranteed obligations when due, he shall immediately on demand pay that amount as if he were the principal obligor. Quiksol HK is expanding its business operation as a distributor of electronic components. To ensure such steady growth will be backed by ample financial resources, Quiksol HK would need additional cash flow to finance purchase orders of commodity goods arising from orders by its customers. Therefore, after arm's length negotiation between Quiksol HK and the Company, the Company agrees, through Smart-Core International, to advance the loan at a market interest rate to Quiksol HK and to enter into the Supplemental Agreement. For details, please refer to the Company's announcements dated 28 May 2019 and 13 August 2019.

Smart IC Cloud Holdings Limited, a wholly-owned subsidiary of the Company, holds 25% of the issued share capital of the Quiksol HK. Mr. Yan Qing is an executive Director and therefore a connected person of the Company. He is also a substantial shareholder of Quiksol HK. Quiksol HK is therefore regarded as a commonly held entity within the meaning in rule 14A.27 of the Listing Rules.

The loan made by Smart-Core International to Quiksol HK under the Loan Agreement (the "**Loan**") and the amended facility made available by Smart-Core International to Quiksol HK as set out in the Supplemental Agreement (the "**Amended Facility**") constitute a connected transaction of the Company under rule 14A.26 of the Listing Rules.

As Mr. Yan Qing is a connected person of the Company as disclosed above and Mr. Li Hong Sheng is a substantial shareholder of Quiksol HK, each of the personal guarantees made by Mr. Li Hong Sheng and Mr. Yan Qing as guarantors in favour of Smart-Core International constitutes a connected transaction of the Company in the form of financial assistance under the Listing Rules. According to rule 14A.90 of the Listing Rule, such financial assistance received by the Group is fully exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules as the Directors consider that it is conducted on normal commercial terms or better and it is not secured by the assets of the Group.

During the year ended 31 December 2019, the Group had the following continuing connected transactions with the following companies:

| Name of the company | Nature of transaction | Year ended 31 December 2019 HK$'000 | Year ended 31 December 2018 HK$'000 |
|---|---|---|---|
| SMC Taiwan (Note a) | Sales of goods | 2,823 | 2,117 |
| Quiksol International Components Pte Ltd (Note b) | Sales of goods | 2,898 | 2,463 |
| Quiksol International Components Pte Ltd (Note b) | Purchase of goods | (690) | – |

Notes:

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

(b) A non-controlling shareholder of a non-wholly owned subsidiary is a shareholder of Quiksol International Components Pte Ltd.

Our Directors (including the independent non-executive Directors) consider the above transactions have been entered into: (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms and consideration payable was determined based on arms' length negotiations between the parties and with reference to the price offered to independent similar customers; and (3) in accordance with the respective agreements governing them on the terms that one fair and reasonable and in the interest of the Shareholders as a whole. The Company has complied with the disclosure requirements of Chapter 14A of Listing Rules in respect of the above connected transactions or continuing connected transactions.

## RELATED PARTY TRANSACTIONS

Certain related party transactions as disclosed in note 43 to the consolidated financial statements prepared under Hong Kong Financial Reporting Standards also constituted connected transactions under the Listing Rules required to be disclosed in accordance with Chapter 14A of the Listing Rule. The Company has complied with the disclosure requirements of Chapter 14A of Listing Rules in respect of the above connected transactions or continuing connected transactions.

## EMPLOYEE INCENTIVE SCHEMES

On 19 September 2016, the Company adopted a Share Award Scheme and conditionally approved and adopted a Share Option Scheme. During the year ended 31 December 2019, no new shares had been subscribed by the Trustee and no shares of the Company were acquired by the Trustee pursuant to the rules and trust deed of the Share Award Scheme. No share-based payment expenses were recognized in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019 (2018: HK$15.2 million). No share option had been granted or agreed to be granted by the Company pursuant to the Share Option Scheme as at 31 December 2019. Details of the shares awarded under the Share Award Scheme are set out below:

| | | Number of shares | | | | | |
|---|---|---|---|---|---|---|---|
| **Date of grant** | **Average fair value per share** | **As at 1 January 2019** | **Granted during the year** | **Vested during the year** | **Lapsed during the year** | **As at 31 December 2019** | **Vesting period** |
| | HK$ | | | | | | |
| 28 March 2018 | 1.59 | 4,390,000 | – | (4,390,000) | – | – | 28 March 2018 – 2 January 2019 |

### Share Option Scheme

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

**(a) Purpose of the Share Option Scheme**

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

**(b) Participants of the Share Option Scheme**

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

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

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes (the "**Other Schemes**") of the Company must not in aggregate exceed 50,000,000 shares (representing 10.12% of the issued capital of the Company as at the date of this report) (the "**ESOS Mandate Limit**"). Options lapsed in accordance with the terms of the Share Option Scheme and any Other Schemes of the Company will not be counted for the purpose of calculating the ESOS Mandate Limit.

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

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

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

As at the date prior to the issue of this annual report, the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme is 50,000,000 Shares, representing 10% of the total number of Shares as at the Listing Date.

**(d) Maximum Entitlement of Each Individual**

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

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

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

**(e) Acceptance of an Offer of Options**

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

**(f) Exercise Price**

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

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

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

(iii) the nominal value of the Shares.

**(g) Duration of the Share Option Scheme**

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

**(h) Time of Vesting and Exercise of Options**

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

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

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

**(i) Restriction on the Time of Grant of Options**

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

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

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

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

## Share Award Scheme

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

**(a) Purpose of the Share Award Scheme**

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

**(b) Duration of the Share Award Scheme**

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

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

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

**(d) Maximum number of Shares that can be awarded**

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

**(e) Maximum entitlement of each awardee**

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

**(f) Appointment of Trustee**

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

**(g) Settlement and/or Payment of Award**

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

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

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

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

## REMUNERATION POLICY

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

## CHANGE OF INFORMATION IN RESPECT OF DIRECTORS

Save as disclosed in the section headed "Directors and Senior Management" in this annual report, there was no change to any of the information required to be disclosed in relation to any Director pursuant to rule 13.51B(1) of the Listing Rules since the date of the interim report of the Company for the period ended 30 June 2019.

## PRE-EMPTIVE RIGHTS

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

## EQUITY-LINKED AGREEMENTS

Save for the share-based payment transactions under note 40 to the consolidated financial statements, the Company has not entered into any equity-linked agreements for the year ended 31 December 2019.

# DIRECTORS' REPORT

## SUFFICIENCY IN PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, were held by the public during the year ended 31 December 2019 and up to the date of this report.

## PROFESSIONAL TAX ADVICE RECOMMENDED

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

## AUDIT COMMITTEE

The audited consolidated financial statements for the year ended 31 December 2019 have been reviewed by the audit committee of the Company.

## AUDITOR

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

On behalf of the Board

**Tian Weidong**
*Chairman*
Hong Kong, 30 March 2020

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THIS REPORT

This environmental, social and governance report (collectively "**ESG Report**") details the Group's environmental, social and governance (collectively "**ESG**") policies, measures and performance. Through reporting to stakeholders on sustainable development issues and performance, the Group has improved the transparency and responsibility of information disclosure and increased public confidence; at the same time helping stakeholders better understand the Group's sustainability progress and development direction. The reporting period of this report is the fiscal year 2019 (i.e. 1 January 2019 to 31 December 2019), which coincides with the reporting period of the Group's annual report. The Company is a leading distributor and technical value-added service provider of integrated circuit and other electronic components distributor. The Group uses a comprehensive approach in consolidating industry resources through closely co-operating with IC technology vanguards and adopting an OAO (online and offline) business model, which enables the Group to provide high-quality core IC and value-added services to a broad base of customers. Unless otherwise stated, this ESG Report covers the operations of the Group in Hong Kong and Shenzhen (principle location of operations in the PRC) which represents the majority of Group's environmental and social impacts.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE GUIDELINES

The Group's environmental, social and governance guidelines are designed to continually improve the transparency and responsibility of information disclosure. Therefore, the ESG Report is released annually by the Group for public review. Besides, the Group is steady in resolve and intend to create long-term value for stakeholders that grows in tandem with the Group's business growth and sustainable development while being in line with environmental interests. Accordingly, the Group adopts a sustainable development policy that covers the Group's activities in the areas of the environmental, employment, business integrity, and community. The Group strives to incorporate these principles into its practices and governance, as well as to contribute to the sustainable development of the society and environment.

## BASIS OF PREPARATION

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

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

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

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

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## COMMUNICATION WITH STAKEHOLDERS

The Group believes that effective feedback from stakeholders not only contributes to the comprehensive and impartial evaluation of the ESG performance but also improves its performance based on the feedback. On this ground, the Group engages in regular communication with stakeholders in an open, honest and positive manner through a variety of channels, including results announcements and annual reports, etc. In addition, the Group shares the latest information on the Group with stakeholders through teleconferences, roadshows and the Group's website, etc.

The Group engages in businesses affecting various stakeholders who have expectations on the Group. The Group will continue to maintain communication with stakeholders, collect opinions from stakeholders through different forms and improve the environmental, social and governance guidelines. At the same time, the Group will enhance the reporting principles of quantification, balance and consistency, so as to define the content of the ESG Report and presentation of the information that is more in line with stakeholders' expectations.

## AWARDS AND MEMBERSHIP

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

| **Awards, honours and membership** | **Issuing authority** |
|---|---|
| Top Ten Best Chinese Brand Distributors in 2019 | Electronics Supply and Manufacturing-China |
| National High-Tech Enterprise | Shenzhen Science and Technology Innovation Committee and Shenzhen State Taxation Bureau |
| Shenzhen High-tech Enterprise | Shenzhen Science and Technology Innovation Committee and Shenzhen State Taxation Bureau |
| Vice-Chairman of the China Electronics Distributor Alliance | China Electronics Distributor Alliance (CEDA) |
| Member of the Shenzhen Software Industry Association | Shenzhen Software Industry Association |
| Member of the Hong Kong General Chamber of Commerce | Hong Kong General Chamber of Commerce (1861) |

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## A. ENVIRONMENTAL

The nature of the Group's business is office-based and not energy-intensive. Hence, the most material impact on the environment is limited. However, the Groups considers it equally important to shoulder the part of the responsibility in the context of caring for the environment. Compliance with all applicable local environmental laws and regulations is the bottom line. In addition, the Group will continue to strive for enhanced energy efficiency and reduced carbon emissions within work premises. The following are some of the initiatives on environmental conservation.

### 1. GREENHOUSE GAS AND EXHAUST EMISSIONS

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

| Emission | Unit (kg) | | Intensity (emissions per employee) | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Nitrogen Oxides ($NO_x$) | **7.86** | 25.72 | **0.03** | 0.09 |
| Sulphur oxides ($SO_x$) | **0.16** | 0.18 | **0.001** | 0.001 |
| Particulate matter | **0.58** | 2.34 | **0.002** | 0.01 |

*Table 2 - Total Emissions During the Reporting Period*

The Group's greenhouse gas emissions come from general office operations, including power purchased for day-to-day operations. During the reporting period, the Group generated a total of approximately 225.03 tonnes of carbon dioxide equivalent greenhouse gases (2018: 281.17 tonnes), representing an emission intensity of 0.86 tonnes of carbon dioxide equivalent per employee (2018: 1.05 tonnes), which are mainly derived from power and gasoline consumption.

| Scope of greenhouse gases emission | Emission source | Emissions (tonnes of carbon dioxide equivalent) | | Intensity (emissions per employee) | | Total emissions (in percentage) | |
|---|---|---|---|---|---|---|---|
| | | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| **Scope 1** | | | | | | | |
| Direct emissions | Gasoline and diesel consumed by vehicles of the Group | **25.92** | 32.60 | **0.10** | 0.12 | **11.52** | 11.60 |
| **Scope 2** | | | | | | | |
| Indirect emissions | Power purchased (Note) | **196.80** | 245.36 | **0.75** | 0.92 | **87.46** | 87.26 |
| **Scope 3** | | | | | | | |
| Other indirect emissions | Discarded waste paper | **2.31** | 3.21 | **0.01** | 0.01 | **1.02** | 1.14 |
| Total | | **225.03** | 281.17 | **0.86** | 1.05 | **100.00** | 100.00 |

*Table 3 - Total Greenhouse Gas Emissions During the Reporting Period*

(Note) The methodology of measuring power purchased by the Group has been updated during the reporting period, thus the figures relating thereto has been remeasured accordingly.

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

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

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

**(a) Waste Management**

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

During the reporting period, the Group did not generate a large amount of hazardous waste, and the non-hazardous waste generated was mainly paper (approximately 0.5 tonnes). For the reduction of paper consumption, the Group encourages employees to reduce paper usage and adopt double-sided printing. Since its non-hazardous waste mainly comes from waste paper, the Group has particularly stringent requirements on paper use. The Group uses FSC certified paper which is derived from responsibly managed forest resources to avoid indirectly involving in deforestation of primaeval forests.

| **Waste** | **Consumption (tonnes)** | | **Intensity (consumption per employee)** | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Total non-hazardous waste | **0.48** | 0.67 | **0.002** | 0.003 |

*Table 4 - Waste Generated During the Reporting Period*

The intensity of total non-hazardous waste consumption has been slightly decreased by one-third compared with last year. The Group believes the waste reduction norm has been developed among staff. The Group expects more progress would be made in the future and can be reflected in the key performance result next year.

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

## 2. USE OF RESOURCES

The Group adheres to the concept of energy conservation and emission reduction that achieves green production. The Group has implemented a series of measures to improve energy efficiency and reduce paper and water consumption. By monitoring and managing the use of resources, the Group aims to improve energy utilisation efficiency, achieve low-carbon practices and emission reduction in operation, and reduce the use of resources. Details on energy and water consumption will be discussed in the following sections.

### (a) Resources

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

| Resources | Unit | Consumption | | Intensity (consumption per employee) | |
|---|---|---|---|---|---|
| | | **2019** | 2018 | **2019** | 2018 |
| Power (Note 1) | kWh | **293,248.59** | 341,749.90 | **1,123.56** | 1,275.19 |
| Gasoline | litre | **11,113.72** | 10,892.00 | **42.58** | 40.64 |
| Diesel (Note 2) | litre | **–** | 1,121.04 | **–** | 4.18 |
| Water | $m^3$ | **1,254.97** | 1,146.94 | **4.81** | 4.28 |
| Packaging materials for finished products (paper) | tonnes | **5.67** | 20.50 | **0.02** | 0.08 |

*Table 5 - Consumption of Resources During the Reporting Period*

(Note 1) The methodology of measuring power purchased by the Group has been updated during the reporting period, thus the figures relating thereto has been remeasured accordingly in 2018.

(Note 2) The diesel vehicle has been sold during the reporting period. The Group currently does not own any diesel facilities.

To develop a green approach at the office, the Group established various environmental management practices so as to develop an environmental management system that supports sustainable development.

***Goods Storage and Transportation***

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

***Office Operations***

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

**(b) Water Consumption**

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

## 3. ENVIRONMENT AND NATURAL RESOURCES

As a socially responsible enterprise, protecting nature and the environment has become an integral part of the Group's corporate culture. The Group constantly looks for ways to maximize benefits with minimal resource consumption and environmental impact and continue to strive for sustainable development.

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

### 4. CLIMATE CHANGE

The Group's operations mainly locate in Hong Kong and Shenzhen (principle location of operations in the PRC). The impact of climate change mainly comes from the threat of typhoons. On this ground, the Group identified and evaluates the risk from climate change, and established measures to secure the safety of employees, such as strictly following the relevant extreme weather guidelines issued by the government. As daily operations, the Group regularly inspects all windows in the office area. Personnel will be sent to replace the windows immediately if it finds that they are loose. In addition, the human resources department will remind employees before the typhoon that all windows must be closed when leaving the workplace, in order to reduce the risk of windows being blown by typhoon. The Group has also purchased natural disaster insurance to transfer possible losses caused by natural disasters and reduce the risk of personal injury and property damage.

The Group has formulated emergency guidelines and measures to reduce future damage from natural disasters. The Group will regularly review climate change policies and is committed to ensuring effectiveness.

## B. SOCIAL

### 1. EMPLOYMENT AND LABOUR PRACTICES

The Group reckons that employees are the most valuable assets and have a critical impact on the quality of the Group's products and services. They are also the cornerstone for sustainable corporate development. The Group strives to build a safe, healthy, fair and non-discriminative work environment and maintain a harmonious relationship with employees, so as to bring together all employees to promote the long-term sustainable development of the Group.

#### (a) Equal Opportunity Policy

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

#### (b) Compensation System

The Group provides a fair and competitive compensation package, including basic salary, incentives bonus, mandatory provident fund, and other fringe benefits to attract and retain quality talents. In addition, the Group continually reforms and improves its employee compensation policies and systems and fully considers increasing employee compensation in tandem with the Group's performance, in an effort to ensure that employees are rewarded fairly based on their contributions. The Group considers a variety of factors to assess and determine pay levels, including employees' workability, the Group's performance, and pay levels in the market.

Moreover, the Group also has a set of comprehensive human resources management policy to support human resources function. The policies include compensation and benefits, working hours and holidays, recruitment and selection, performance management, promotion, employment termination, training and development.

The Group strictly observed the relevant legislations in Hong Kong and the PRC regarding equal employment opportunities, child labour and forced labour. The Group abides by the employment regulations, relevant policies and guidance of the relevant jurisdictions where it operates, including the Employment Ordinance (Chapter 57 of the Laws of Hong Kong), the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong), the "Labour Law of the People's Republic of China" and the "Labour Contract Law of the People's Republic of China", etc. During the reporting period, the Group did not have any cases of violation of relevant employment laws and regulations, nor did it receive any complaints related to recruitment.

With a view to increasing the transparency of the ESG Report, starting from this reporting period the Group discloses its key performance index in the social area, so as to address stakeholders' aspirations. Data comparison will be provided in the next reporting period.

| | Number of employees | Percentage of total (%) |
|---|---|---|
| **By gender** | | |
| Male | 162 | 62.1 |
| Female | 99 | 37.9 |
| Total | 261 | 100.0 |
| **By age group** | | |
| below 25 | 18 | 6.9 |
| 25–34 | 133 | 51.0 |
| 35–44 | 88 | 33.7 |
| 45–54 | 15 | 5.7 |
| 55–64 | 6 | 2.3 |
| over 64 | 1 | 0.4 |
| Total | 261 | 100.0 |
| **By employee category** | | |
| Senior management | 5 | 1.9 |
| Middle management | 18 | 6.9 |
| Supervisor | 25 | 9.6 |
| General employee | 213 | 81.6 |
| Total | 261 | 100.0 |

*Table 6 - Breakdown of Employees by Gender, Age Group, and Employee Category*

Breakdown of the turnover rate by gender and age group during the reporting period:

| | Number of employees | Percentage of total (%) |
|---|---|---|
| **By gender** | | |
| Male | 46 | 59.7 |
| Female | 31 | 40.3 |
| Total | 77 | 100.0 |
| **By geographic location** | | |
| Hong Kong | 9 | 11.7 |
| China | 68 | 88.3 |
| Total | 77 | 100.0 |
| **By age group** | | |
| below 25 | 5 | 6.5 |
| 25–34 | 49 | 63.6 |
| 35–44 | 20 | 26.0 |
| 45–54 | 3 | 3.9 |
| 55–64 | 0 | 0 |
| over 64 | 0 | 0 |
| Total | 77 | 100.0 |

*Table 7 - Breakdown of Employees Turnover Rate by Gender, Geographic location and Age Group*

## 2. OCCUPATIONAL HEALTH AND SAFETY

The Group values the health and well-being of every employee. The Group has established a risk assessment program that consists of a number of sequential procedures, such as risk identification, analysis, evaluation, treatment, monitoring and reviewing based on the existing controls and recommendations to reduce risks which are not deemed to be under acceptable limits.

The Group identifies high-risk jobs in its warehouses. Accordingly, the Group has implemented a series of occupational health and safety measures to protect the safety of employees. The Group requires employees to strictly comply with the safety policy and guidelines which specify workflows, various safety measures and guidance as well as employees' responsibilities for their health and safety at the workplace. For example:

- Provide warehouse operators with appropriate personal protective equipment, including safety shoes and slip-resistant gloves;
- Limit the stacking height of goods in the warehouse to less than 1.8 meters;
- Introduce electric forklifts to assist in the handling of large quantities of goods, so as to reduce potential strain caused by long-time handling of heavy loads;
- Develop practices and training sessions for the safe operation of electric forklifts, covering pre-launch inspections, precautions for carrying goods, charging safety, etc.
- Carry out regular education and training on fire fighting;
- Participate in fire drills and fire safety talks arranged by property management companies;
- Improve fire safety hazards suggested by government departments in a timely manner;
- Conduct monthly inspection and maintenance of fire equipment;
- Conduct regular spot checks of office equipment (e.g. monitors, keyboards and chairs) to see if they are working properly;
- Clean the air conditioning system twice a year;
- Wash the carpets twice a year and carry out pest control work;
- Install air conditioning and adequate lighting in warehouses;
- Publicise and explain the correct way of manual lifting; and
- Develop a management system with procedures for employees to easily voice opinions and file complaints.

The Group strictly observed the relevant occupational safety and health legislation in Hong Kong and the PRC, including the Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong) and "Labour Law of the People's Republic of China", etc. During the reporting period, the Group found no case of violation of laws and regulations related to occupational safety and health, nor did it receive any complaints about work conditions. Also, there were no work-related deaths or injuries within the Group.

## 3. DEVELOPMENT AND TRAINING

The Group recognises the importance of skilled and professionally trained employees to its business growth and future success. Therefore, the Group encourages them to participate in personal development and job-related training courses. In addition, the Group conducts performance appraisal on a quarterly and annual basis, and guide employees based on the appraisal results. The Group has developed a staff training policy with a complete set of training measures, which specifies the management responsibilities of the person in charge of training in each department, and provides corresponding training courses for employees to continuously increase their working knowledge and skills.

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

In daily operation, the Group provides induction training for new employees, experienced employees act as mentors to guide newcomers. The Group believes such arrangement can be the best practice to facilitate communication and team spirit, improve technical skills and managerial capability, as well as encourage employees for further development.

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

During the reporting period, a total of 187 employees of the Group completed the training, accounted for 296 hours of training.

Training rates of employees during the reporting period by gender and employee category are as follows:

| | **Number of employees** | **Percentage of total (%)** |
|---|---|---|
| **By gender** | | |
| Male | 124 | 66.3 |
| Female | 63 | 33.7 |
| Total | 187 | 100.0 |
| **By employee category** | | |
| Senior management | 4 | 2.1 |
| Middle management | 15 | 8.0 |
| Supervisor | 24 | 12.9 |
| General employee | 144 | 77.0 |
| Total | 187 | 100.0 |

*Table 8 - Training Rates of Employees by Gender and Employee Category*

Training hours completed by employees during the reporting period by gender and employee category are as follows:

| | Number of training hours | Percentage of total (%) |
|---|---|---|
| **By gender** | | |
| Male | 238 | 80.4 |
| Female | 58 | 19.6 |
| Total | 296 | 100.0 |
| **By employee category** | | |
| Senior management | 138 | 46.6 |
| Middle management | 12 | 4.1 |
| Supervisor | 20 | 6.8 |
| General employee | 126 | 42.5 |
| Total | 296 | 100.0 |

*Table 9 - Training Hours completed by Gender and Employee Category*

## 4. LABOUR STANDARDS

### (a) Prohibition of Child Labour and Forced Labour

The Group strictly complies with all applicable national laws and local regulations as well as relevant labour laws and regulations in the place where it operates. Also, the Group has developed rigorous and systematic measures for recruitment and selection, to prevent itself from hiring child labour and ensure that the employee complies with relevant laws and regulations.

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

### (b) Employee Benefits

The Group strives to establish harmonious labour relationships, create a happy working environment, and promote a positive and healthy lifestyle. As such, employees are more engaged in their work. Accordingly, the Group regularly reviews the employee benefits policies:

- Hold annual Spring Festival gala and offer free travel perk every year;
- Provide funds for departments to arrange their after-work activities (Hong Kong and Shenzhen offices);
- Organise different ball games and interest groups;

- Provide marriage leave, maternity leave, paternity leave, work-related injury leave, etc.;
- Provide medical insurance and health checkups;
- Provide food and beverage allowances; and
- Hold monthly birthday parties and gifts.

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

The Group strictly complies with relevant labour laws and regulations in Hong Kong and PRC, including Employment Ordinance (Chapter 57 of the Laws of Hong Kong) and "Labour Law of the People's Republic of China", etc. During the reporting period, the Group found no incidents in violation of the laws and regulations on labour standards.

## 5. SUPPLY CHAIN MANAGEMENT

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

The Group emphasises promoting good communication and cooperation with business partners to jointly maintain the quality and safety of products and services. The suppliers selected by the Group are all well-known brand manufacturers or distributors in the industry. Also, the Group implements supplier management in accordance with internal guidance which governs the engagement of suppliers. Based on the quality and price, suppliers are chosen to subject to screening and evaluation procedures among the suppliers.

Moreover, to ensure suppliers' capability in quality assurance, safety and environmental responsibility, the Group will arrange field visits to suppliers' productions sites to evaluate their production capacity and quality, and access whether they meet the Group's requirements on multiple aspects, such as environmental protection and labour practices. The evaluation reviews the production capacity, technology level, quality assurance capabilities, supply capacity, safety and environment management qualifications if needed. Only the highly qualified suppliers complied with regulatory requirements are eligible for the supplier selection by the Group. The Group also carries out regular assessments on suppliers' overall capabilities, assets position, nature of the business, reputation in the industry, quality of products, goods delivery and compliance with law and regulations.

The Group will sign agreements with suppliers to regulate their product quality, environmental and safety performance. To protect the rights and interests of customers and comply with social standards and norms, suppliers selected by the Group must be legitimate companies in compliance with business registration regulations.

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

During the reporting period, the Group has over 300 active suppliers.

## 6. PRODUCT RESPONSIBILITY

The Group is committed to providing quality products and services to customers. To this end, the Group has established rigorous policies and procedures for the production and sales of products so as to comply with industry standards and sustainability requirements. During the reporting period, the Group has a total of 180 intellectual property rights.

### (a) After-sales Policy

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

### (b) Recall Procedures

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

### (c) Customer Data Protection and Privacy Policy

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

During the reporting period, the Group received a total of 27 complaints about products, all of which have been followed up and handled. The Group abided by relevant product liability laws and there was no case of prosecution against the Group for violation of laws related to product responsibility and privacy protection.

## 7. INTEGRITY

The Group endeavours to advocates honest operation and fair competition and expects all employees to observe the highest ethical, personal and professional standards. The Group has developed a sound risk management code and internal control code, including setting out the relevant policies in the employee handbook and guides the employees to abide by the code of conduct. The code of conduct provides a clear definition of the provision and acceptance of interests, such as gifts and souvenirs, and ways to deal with conflicts of interest.

The Group has established and implements an internal integrity system to strengthen the integrity of employees in governance practices. Besides, the Group has established an effective whistle-blowing procedure, encouraging the employees to report directly any misconduct and dishonest behaviours, such as bribery, fraud and other offences. Furthermore, the Group has specified in the employee handbook that the Group is entitled to terminate the employment contract with any employee who is bribed with money, gifts or commission, etc., and reserves the right to take further actions against such person.

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

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

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

### 8. COMMUNITY ENGAGEMENT

The Group understands well the importance of making positive contributions to the community where it operates and considers community benefits as one of its social responsibility. The Group considers that enterprises and communities are inseparable as a whole; enterprise development is also inseparable from the support and help of the community. In order to better fulfil its social responsibilities, the Group is committed to participating in community activities and undertakes the responsibility as a good corporate citizen to contribute to the communities by encouraging employees to participate in charity and social services.

During the reporting period, the Group again organised the "Smart-Core Guangxi Charity Tour" to collect donations for purchasing supplies and books and donating them to poor schools in Guangxi.

During the year, to promote rehabilitation services and youth community services, the Group donated a total of HKD60,000 to the St. James' Group for support.

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

## OUTLOOK

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

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code of corporate governance. Except for code provision A.2.1 as disclosed below in this report, the Company has complied with the applicable code provisions of the CG Code during the year ended 31 December 2019. The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code.

Pursuant to code provision A.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual.

The Company deviates from code provision A.2.1 in that Mr. Tian Weidong currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

## 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 own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiry of the Directors, and all Directors confirmed that they had fully complied with the Model Code during the year ended 31 December 2019.

## THE BOARD OF DIRECTORS

### Board Composition

As at the date of this report, the Board comprises seven members, of whom four are executive Directors and three are independent non-executive Directors. Directors who held office during the year ended 31 December 2019 and up to the date of this report are:

### Executive Directors

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

### Independent non-executive Directors

Mr. TANG Ming Je
Mr. ZHENG Gang
Mr. WONG Hok Leung

# CORPORATE GOVERNANCE REPORT

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

During the year ended 31 December 2019 and up to the latest practicable date prior to the issue of this annual report, the Board has complied with rules 3.10(1) and 3.10(2) of the Listing Rules to have not less than three independent non-executive Directors and at least one of the independent non-executive Directors has the requisite professional qualification in accounting or relevant financial management experience. In addition, the Company has complied with rule 3.10A of the Listing Rules which stipulates that the number of independent non-executive Directors appointed by a listed company shall not be less than one third of the Board.

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

## Board meetings

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

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

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

The attendance records of the Directors at the Board meeting held during the year ended 31 December 2019 are set out below:

| **Name of Directors** | **Board Meetings attended** | **General Meeting attended** |
|---|---|---|
| ***Executive Directors*** | | |
| Mr. Tian Weidong | 8/8 | 1/1 |
| Mr. Wong Tsz Leung | 8/8 | 1/1 |
| Mr. Liu Hongbing | 8/8 | 1/1 |
| Mr. Xie Yi *(resigned with effect from 1 April 2019)* | 2/2 | 0/0 |
| Mr. Yan Qing *(appointed with effect from 1 April 2019)* | 6/6 | 1/1 |
| ***Independent non-executive Directors*** | | |
| Mr. Tang Ming Je | 8/8 | 1/1 |
| Mr. Zheng Gang | 8/8 | 1/1 |
| Mr. Wong Hok Leung | 8/8 | 1/1 |

## Chairman and Chief Executive Officer

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

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

## Appointment, Re-election and Removal

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

Pursuant to article 16.18 of the Articles of Association, at every annual general meeting of the Company one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

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

## Independent non-executive Director

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

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

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

## Directors' training and development

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

### Board diversity policy

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

### Nomination policy

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

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

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

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

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

# CORPORATE GOVERNANCE REPORT

### Dividend policy

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

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

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

## CORPORATE GOVERNANCE DUTIES

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

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

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

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

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

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

## BOARD COMMITTEES

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

### Audit Committee

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

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

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

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

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

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

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

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

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

During the year ended 31 December 2019, individual attendance of each member of the Audit Committee is set out below:

| Audit Committee member | Attended/Held |
|---|---|
| Mr. Wong Hok Leung *(Chairman)* | 2/2 |
| Mr. Zheng Gang | 2/2 |
| Mr. Tang Ming Je | 2/2 |

### Remuneration committee

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

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

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

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

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

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

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

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

During the year ended 31 December 2019, individual attendance of each member of the Remuneration Committee is set out below:

| Remuneration Committee member | Attended/Held |
|---|---|
| Mr. Zheng Gang *(Chairman)* | 2/2 |
| Mr. Tian Weidong | 2/2 |
| Mr. Wong Hok Leung | 2/2 |
| Mr. Tang Ming Je | 2/2 |

### Nomination Committee

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

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

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

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

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

During the year ended 31 December 2019, individual attendance of each member of the Nomination Committee is set out below:

| Nomination Committee member | Attended/Held |
|---|---|
| Mr. Tian Weidong *(Chairman)* | 1/1 |
| Mr. Wong Hok Leung | 1/1 |
| Mr. Tang Ming Je | 1/1 |

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended 31 December 2019 to ensure that the financial statements give a true and fair view of the Group's financial position and other financial disclosures. The Company provided all members of the Board with monthly updates on the Group's performance, financial positions and prospects to enable the Board to carry out an informed assessment of the Company's financial statements. The statement by the auditors of the Company regarding their responsibilities on the consolidated financial statements of the Company is set out on the Independence Auditor's Report on pages 62 to 66 of this annual report.

### Auditor's Remuneration

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

For the year ended 31 December 2019, the fees in respect of the audit and non-audit services provided to the Group by Messrs. Deloitte Touche Tohmatsu, is set out as follows:

| | **Fee** |
|---|---|
| | HK$'000 |
| Audit services | 2,080 |
| Non-audit services: | |
| Review of interim results | 480 |
| Tax advisory | 169 |
| Others | 220 |
| | 2,949 |

### Risk management and internal control

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

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

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

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

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

# CORPORATE GOVERNANCE REPORT

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

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

## COMPANY SECRETARY

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

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

During the year ended 31 December 2019, Mr. Yau took no less than 15 hours of relevant professional training.

## ARTICLES OF ASSOCIATION OF THE COMPANY

The amended and restated Articles of Association was adopted by the Company on 19 September 2016 and effective on the Listing Date. The Articles of Association has no change since the date of Listing to the year ended 31 December 2019.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

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

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

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

# INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

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

## OPINION

We have audited the consolidated financial statements of Smart-Core Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as "**the Group**") set out on pages 67 to 148, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## KEY AUDIT MATTERS (Continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment assessment of trade receivables*** | |
| We identified impairment assessment of trade receivables as a key audit matter due to the significance of trade receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("**ECL**") of the Group's trade receivables at the end of the reporting period.<br><br>As disclosed in note 24 to the consolidated financial statements, the Group's net trade receivables amounting to approximately HK$792,032,000 has been net off with lifetime ECL on trade receivables amounted to approximately HK$22,812,000 as at 31 December 2019.<br><br>As disclosed in note 38 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables based on provision matrix through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors, ageing, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. In addition, trade receivables that are credit-impaired or with significant balances are assessed for ECL individually. The loss allowance amount of the credit-impaired trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. | Our procedures in relation to impairment assessment of trade receivables included:<br><br>• Understanding key controls on how the management estimates the credit loss allowance for trade receivables;<br><br>• Testing the integrity of information used by management to develop the provision matrix, including trade receivables ageing analysis as at 31 December 2019, on a sample basis, by comparing individual items in the analysis with the relevant sales invoices and other supporting documents;<br><br>• Challenging management's basis and judgement in determining credit loss allowance on trade receivables as at 31 December 2019, including their identification of significant balances and credit-impaired receivables and, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information);<br><br>• Evaluating the disclosures regarding the impairment assessment of trade receivables in note 38 to the consolidated financial statements; and<br><br>• Testing subsequent settlements of credit-impaired trade receivables, on a sample basis, by inspecting supporting documents in relation to cash receipt from trade debtors subsequent to the end of the current reporting period. |

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (Continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Allowance for inventories*** | |
| We identified the estimated allowance for inventories as a key audit matter due to its significant balance. The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than cost. The management of the Group reviewed the inventory aging report at the end of the reporting period to identify inventories that are obsolete and estimated the net realisable value for those items based on latest selling price. As at 31 December 2019, the carrying amount of the Group's inventories was approximately HK$182,368,000.<br><br>Details relating to the Group's inventories and its accounting policies are set out in notes 23 and 4, respectively, to the consolidated financial statements.<br><br>There is also judgement involved in assessing the level of inventory provision required in respect of slow moving inventory. Therefore, there is a risk that slow moving inventory has not been adequately provided for. | Our procedures in relation to the estimated allowance for inventories included:<br><br>• Understanding the key control and evaluating the basis of how slow-moving or obsolete inventories are identified by the management and their assessment of allowance for inventories;<br><br>• Identifying obsolete inventories when attending inventory counts;<br><br>• Testing the accuracy of the inventory ageing and assessing whether allowance is properly provided for aged inventories; and<br><br>• Checking the historical accuracy of inventory provisioning and the level of inventories write-offs during the year. |

## OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# INDEPENDENT AUDITOR'S REPORT

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

(Continued)

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Yau Wing Chi.

**Deloitte Touche Tohmatsu**
Certified Public Accountants
Hong Kong
30 March 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

| | Notes | Year ended 31 December 2019 HK$'000 | 2018 HK$'000 (Restated) |
|---|---|---|---|
| **Revenue** | 6 | **4,762,816** | 4,935,634 |
| Cost of sales | | **(4,491,880)** | (4,701,564) |
| Gross profit | | **270,936** | 234,070 |
| Other income | 8 | **15,359** | 14,896 |
| Other gains or losses, net | 9 | **5,330** | (1,043) |
| Impairment losses (recognised) reversed under expected credit loss model, net | 11 | **(15,218)** | 17,752 |
| Research and development expenses | | **(24,044)** | (27,059) |
| Administrative expenses | | **(60,481)** | (54,314) |
| Selling and distribution expenses | | **(92,999)** | (55,068) |
| Finance costs | 10 | **(27,333)** | (27,444) |
| **Profit before tax** | | **71,550** | 101,790 |
| Income tax expenses | 12 | **(9,775)** | (20,410) |
| **Profit for the year** | 13 | **61,775** | 81,380 |
| **Other comprehensive income (expenses)** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising on translation of foreign operations | | **1,032** | (1,659) |
| Fair value loss on debt instruments at fair value through other comprehensive income | | **(20)** | (113) |
| Cumulative loss reclassified to profit or loss on sale of investments in debt instruments measured at fair value through other comprehensive income upon disposal | | **105** | – |
| **Total comprehensive income for the year** | | **62,892** | 79,608 |
| **Profit for the year attributable to:** | | | |
| Owners of the Company | | **55,102** | 80,499 |
| Non-controlling interests | | **6,673** | 881 |
| | | **61,775** | 81,380 |
| **Total comprehensive income for the year attributable to:** | | | |
| Owners of the Company | | **56,198** | 78,738 |
| Non-controlling interests | | **6,694** | 870 |
| | | **62,892** | 79,608 |
| **Earnings per share** | 16 | | |
| Basic (HK cents) | | **10.96** | 16.15 |
| Diluted (HK cents) | | **10.96** | 15.99 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

| | Notes | As at 31 December 2019 HK$'000 | As at 31 December 2018 HK$'000 (Restated) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 17 | **4,621** | 4,614 |
| Right-of-use assets | 18 | **21,320** | – |
| Goodwill | 19 | **9,735** | 9,735 |
| Intangible asset | 20 | **9,168** | 11,560 |
| Deposits, prepayments and other receivables | 25 | **7,192** | 109 |
| Deferred tax asset | 33 | **3,792** | – |
| Financial assets at fair value through profit or loss | 22 | **127,820** | 123,297 |
| | | **183,648** | 149,315 |
| **CURRENT ASSETS** | | | |
| Inventories | 23 | **182,368** | 256,169 |
| Trade receivables | 24 | **792,032** | 471,044 |
| Deposits, prepayments and other receivables | 25 | **72,672** | 51,666 |
| Debt instruments at fair value through other comprehensive income | 21 | **–** | 4,232 |
| Financial assets at fair value through profit or loss | 22 | **–** | 4,197 |
| Pledged bank deposits | 26 | **161,373** | 103,664 |
| Bank balances and cash | 26 | **186,068** | 159,568 |
| | | **1,394,513** | 1,050,540 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 27 | **370,989** | 398,174 |
| Other payables and accrued charges | 28 | **73,453** | 96,291 |
| Lease liabilities | 29 | **7,973** | – |
| Contract liabilities | 30 | **18,112** | 13,808 |
| Amount due to a non-controlling shareholder of a subsidiary | 31 | **255** | 2,005 |
| Tax liabilities | | **25,097** | 14,686 |
| Bank and other borrowings | 32 | **434,815** | 59,255 |
| | | **930,694** | 584,219 |
| **NET CURRENT ASSETS** | | **463,819** | 466,321 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **647,467** | 615,636 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

| | Notes | As at 31 December 2019 HK$'000 | As at 31 December 2018 HK$'000 (Restated) |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liability | 33 | 1,513 | 1,907 |
| Lease liabilities | 29 | 13,958 | – |
| | | 15,471 | 1,907 |
| **NET ASSETS** | | 631,996 | 613,729 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 34 | 39 | 39 |
| Reserves | | 578,935 | 568,337 |
| Equity attributable to owners of the Company | | 578,974 | 568,376 |
| Non-controlling interests | | 53,022 | 45,353 |
| | | 631,996 | 613,729 |

The consolidated financial statements on pages 67 to 148 were approved and authorised for issue by the Board of Directors on 30 March 2020 and are signed on its behalf by:

**Tian Weidong**
*DIRECTOR*

**Wong Tsz Leung**
*DIRECTOR*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Other reserve HK$'000 (note a) | Statutory reserve HK$'000 (note b) | Exchange reserve HK$'000 | Investment revaluation reserve HK$'000 | Treasury share reserve HK$'000 (note c) | Share-based payment reserve HK$'000 | Retained profits HK$'000 | Sub-total HK$'000 | Non-controlling interest HK$'000 | Total equity HK$'000 |
| **At 1 January 2018** | 39 | 340,108 | 14,051 | 1,226 | 1,001 | 28 | – | – | 150,560 | 507,013 | 125 | 507,138 |
| Profit for the year | – | – | – | – | – | – | – | – | 80,415 | 80,415 | 1,131 | 81,546 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | (1,648) | – | – | – | – | (1,648) | (11) | (1,659) |
| Fair value loss on debt instruments at fair value through other comprehensive income | – | – | – | – | – | (113) | – | – | – | (113) | – | (113) |
| (Loss) profit and total comprehensive (expense) income recognised for the year | – | – | – | – | (1,648) | (113) | – | – | 80,415 | 78,654 | 1,120 | 79,774 |
| Transfer to statutory reserves | – | – | – | 1,221 | – | – | – | – | (1,221) | – | – | – |
| Recognition of equity-settled share-based payment | – | – | – | – | – | – | – | 15,232 | – | 15,232 | – | 15,232 |
| Purchase of shares under the share award scheme | – | – | – | – | – | – | (14,586) | – | – | (14,586) | – | (14,586) |
| Shares vested under the share award scheme | – | – | – | – | – | – | 7,706 | (7,855) | 149 | – | – | – |
| Forfeitures of share awards | – | – | – | – | – | – | – | (397) | 397 | – | – | – |
| Dividend recognised as distribution (note 15) | – | (25,000) | – | – | – | – | – | – | – | (25,000) | – | (25,000) |
| Capital injection by non-controlling interests to a subsidiary | – | – | – | – | – | – | – | – | – | – | 2,340 | 2,340 |
| Acquisition of a subsidiary (note 35) | – | 6,979 | – | – | – | – | – | – | – | 6,979 | 34,529 | 41,508 |
| At 31 December 2018 | 39 | 322,087 | 14,051 | 2,447 | (647) | (85) | (6,880) | 6,980 | 230,300 | 568,292 | 38,114 | 606,406 |
| Adjustments (note 2) | – | – | – | – | – | – | – | – | 84 | 84 | 7,239 | 7,323 |
| **At 1 January 2019 (restated)** | **39** | **322,087** | **14,051** | **2,447** | **(647)** | **(85)** | **(6,880)** | **6,980** | **230,384** | **568,376** | **45,353** | **613,729** |
| Profit for the year | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **55,102** | **55,102** | **6,673** | **61,775** |
| Exchange differences arising on translation of foreign operations | **–** | **–** | **–** | **–** | **1,011** | **–** | **–** | **–** | **–** | **1,011** | **21** | **1,032** |
| Fair value loss on debt instruments at fair value through other comprehensive income | **–** | **–** | **–** | **–** | **–** | **(20)** | **–** | **–** | **–** | **(20)** | **–** | **(20)** |
| Cumulative loss reclassified to profit or loss on sale of investments in debt instruments measured at fair value through other comprehensive income upon disposal | **–** | **–** | **–** | **–** | **–** | **105** | **–** | **–** | **–** | **105** | **–** | **105** |
| Profit and total comprehensive income recognised for the year | **–** | **–** | **–** | **–** | **1,011** | **85** | **–** | **–** | **55,102** | **56,198** | **6,694** | **62,892** |
| Transfer to statutory reserves | **–** | **–** | **–** | **1,033** | **–** | **–** | **–** | **–** | **(1,033)** | **–** | **–** | **–** |
| Shares vested under the share award scheme | **–** | **–** | **–** | **–** | **–** | **–** | **6,499** | **(6,980)** | **481** | **–** | **–** | **–** |
| Shares repurchased but not yet cancelled (note 34) | **–** | **–** | **–** | **–** | **–** | **–** | **(15,354)** | **–** | **–** | **(15,354)** | **–** | **(15,354)** |
| Dividend recognised as distribution (note 15) | **–** | **(30,246)** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(30,246)** | **–** | **(30,246)** |
| Contribution from non-controlling interest | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **975** | **975** |
| **At 31 December 2019** | **39** | **291,841** | **14,051** | **3,480** | **364** | **–** | **(15,735)** | **–** | **284,934** | **578,974** | **53,022** | **631,996** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

Notes:

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

(b) Pursuant to the relevant laws in the People's Republic of China (the "**PRC**"), the Group's subsidiaries established in the PRC is required to transfer 10% of its profit after tax as per statutory financial statements to the reserve funds. The general reserve fund is discretionary when the fund balance reaches 50% of the registered capital of the subsidiary and can be used to make up for previous years' losses or, expand the existing operations or can be converted into additional capital of the subsidiary.

(c) Treasury share reserve represents (i) Ordinary shares purchased by Computer Share Hong Kong Trustees Limited ("**Trustee**") from the market pursuant to the share award scheme of the Company for those unvested awarded shares and ungranted shares; (ii) share repurchased but not yet cancelled during the year ended 31 December 2019.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

| | 2019<br>HK$'000 | 2018<br>HK$'000<br>(Restated) |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit before tax | 71,550 | 101,790 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 1,789 | 1,962 |
| Depreciation of right-of-use assets | 5,084 | – |
| Share-based payment expenses | – | 15,232 |
| Finance costs | 27,333 | 27,444 |
| Amortisation of intangible asset | 2,392 | 399 |
| Impairment loss (reversal of) trade and other receivables, net | 15,218 | (17,752) |
| Allowance for inventories | 2,394 | 1,536 |
| Interest income from loans to third parties | (5,742) | (2,934) |
| Interest income from debt instruments at fair value through other comprehensive income | (108) | (418) |
| Loss on debt instruments at fair value through other comprehensive income reclassified from equity upon disposal | 105 | – |
| Unrealised exchange loss, net | 1,031 | – |
| Fair value gain on financial assets at fair value through profit or loss | (6,772) | 1,154 |
| (Gain) loss on disposal of property, plant and equipment | (159) | 70 |
| Bank interest income | (1,729) | (1,210) |
| Written off of other payables | (429) | (434) |
| Operating cash flows before movements in working capital | 111,957 | 126,839 |
| Decrease in inventories | 71,456 | 2,791 |
| Increase in trade receivables | (336,497) | (76,120) |
| (Increase) decrease in deposits, prepayments and other receivables | (18,559) | 9,936 |
| (Decrease) increase in trade payables | (26,951) | 7,281 |
| (Decrease) increase in other payables and accrued charges | (22,127) | 5,446 |
| Increase in contract liabilities | 4,337 | 1,718 |
| Cash (used in) from operations | (216,384) | 77,891 |
| Income tax paid | (3,550) | (6,021) |
| **NET CASH (USED IN) FROM OPERATING ACTIVITIES** | (219,934) | 71,870 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

| | Note | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Interest income received from loans to third parties | | **4,346** | 2,934 |
| Interest received from debt instruments at fair value through other comprehensive income | | **108** | 418 |
| Interest received | | **3,978** | 1,628 |
| Loans to third parties | | **(99,060)** | (117,191) |
| Loan repayment from third parties | | **90,671** | 94,380 |
| Purchase of debt instruments at fair value through other comprehensive income | | **–** | (5,874) |
| Proceeds from disposal of debt instruments at fair value through other comprehensive income | | **4,212** | 6,064 |
| Proceeds from disposal of financial assets at fair value through profit or loss | | **4,204** | – |
| Net cash outflow on acquisition of a subsidiary | 35 | **–** | (5,689) |
| Placement of pledged bank deposits | | **(450,885)** | (97,238) |
| Withdrawal of pledged bank deposits | | **393,176** | 63,065 |
| Purchase of property, plant and equipment | | **(1,925)** | (1,805) |
| Purchase of financial assets at fair value through profit or loss | | **–** | (16,133) |
| Proceeds from disposal of property, plant and equipment | | **232** | – |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(50,943)** | (75,441) |
| **FINANCING ACTIVITIES** | | | |
| New bank borrowings raised | | **1,029,068** | 322,369 |
| Repayment of bank borrowings | | **(653,474)** | (272,039) |
| Interest paid | | **(27,333)** | (27,444) |
| Dividend paid | | **(30,246)** | (25,000) |
| Purchase of shares under share award scheme | | **–** | (14,586) |
| Repayment to a non-controlling shareholder of a subsidiary | | **(1,750)** | (112) |
| Repayments of lease liabilities | | **(4,424)** | – |
| Payment on repurchase of shares | | **(15,354)** | – |
| Contribution from non-controlling interests | | **975** | – |
| Capital contribution by non-controlling interests of a subsidiary | | **–** | 2,340 |
| **NET CASH FROM (USED IN) FINANCING ACTIVITIES** | | **297,462** | (14,472) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **26,585** | (18,043) |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | | **159,568** | 177,299 |
| Effect of foreign exchange rate changes | | **(85)** | 312 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER,** represented by bank balances and cash | | **186,068** | 159,568 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as combined and revised) of the Cayman Islands. The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited ("**Stock Exchange**"). Its parent is Smart IC Limited, a private company incorporated in the British Virgin Islands and its ultimate controlling party is Mr. Tian Weidong ("**Mr. Tian**"). The Company is an investment holding company. The Company's subsidiaries are principally engaged in the trading of electronics components.

The functional currency of the Company is United States Dollars ("**US$**") and the presentation currency of the Group's consolidated financial statements is Hong Kong Dollars ("**HK$**").

## 2. ADJUSTMENTS TO PROVISIONAL VALUES FOR BUSINESS COMBINATION IN 2018

Pursuant to Hong Kong Financial Reporting Standards ("**HKFRS**") 3 *Business Combinations*, if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group shall report in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. The Group acquired 25% of the equity interest in Quiksol International HK Pte Limited ("**Quiksol HK**") and its subsidiary ("**Quiksol Group**") in October 2018. The Group recognised in its consolidated financial statements for the year ended 31 December 2018 the provisional amounts of purchase considerations, fair value of identifiable assets acquired and liabilities assumed and goodwill. During the current year (i.e. within the measurement period), the fair value assessment in respect of the acquisition has completed, and the Group retrospectively adjusted the 2018 comparative information on the consolidated statement of financial position as at 31 December 2018 as follows:

| | **As previously reported** | **Adjustments** | **Restated** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Goodwill | 7,230 | 2,505 | 9,735 |
| Intangible asset | 5,790 | 5,770 | 11,560 |
| Deferred tax liability | (955) | (952) | (1,907) |
| Equity attributable to owners of the Company | (568,292) | (84) | (568,376) |
| Non-controlling interests | (38,114) | (7,239) | (45,353) |

The adjustment to provisional values for business combination in 2018 made in the comparative figures and the reclassifications had no impact to the Group's consolidated statement of financial position as at 1 January 2018 and the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017, accordingly, the third consolidated statement of financial position is not presented.

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

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

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

| | |
|---|---|
| HKFRS 16 | Leases |
| HK(IFRIC) — Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to Hong Kong Accounting Standard ("**HKAS**") 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to HKAS 28 | Long-term interests in Associates and Joint Ventures |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015–2017 Cycle |

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

**HKFRS 16 Leases**

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Lease* ("**HKAS 17**") and the related interpretations.

***Definition of a lease***

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) — Int 4 *Determining Whether an Arrangement Contains a Lease* and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

***As a lessee***

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8 (b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

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

### New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

**HKFRS 16 Leases** (Continued)

***As a lessee*** (Continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 4.43%.

| | At 1 January 2019 HK$'000 |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 4,791 |
| Lease liabilities discounted at relevant incremental borrowing rates | 4,265 |
| Less: Recognition exemption — short-term leases | (3,796) |
| Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019 | 469 |
| Analysed as: | |
| Current | 224 |
| Non-current | 245 |
| | 469 |

The carrying amount of right-of-use assets at 1 January 2019 comprises the following:

| | At 1 January 2019 HK$'000 |
|---|---|
| Right-of-use assets relating to operating leases recognised upon application of HKFRS 16 | 469 |
| By class: | |
| Buildings | 469 |

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

### New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

**HKFRS 16 Leases** (Continued)

***As a lessee*** (Continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

| | Carrying amounts previously reported at 31 December 2018 HK$'000 | Adjustments HK$'000 | **Carrying amounts under HKFRS 16 at 1 January 2019 HK$'000** |
|---|---|---|---|
| **Non-current assets** | | | |
| Right-of-use assets | – | 469 | **469** |
| **Current liabilities** | | | |
| Lease liabilities | – | (224) | **(224)** |
| **Non-current liabilities** | | | |
| Lease liabilities | – | (245) | **(245)** |

### New and amendments to HKFRSs in issue but not yet effective

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

| | |
|---|---|
| HKFRS 17 | Insurance Contracts[1] |
| Amendments to HKFRS 3 | Definition of a Business[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material[4] |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform[4] |

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

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

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

### New and amendments to HKFRSs in issue but not yet effective (Continued)

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

### Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

### Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for the Group's annual period beginning on or after 1 January 2020. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

## 4. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below except for certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements are determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment* leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16) and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal accounting policies are set out below.

### Basis of consolidation

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

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

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

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

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains controls until the date when the Group ceases to control the subsidiary.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of consolidation (Continued)

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

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

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

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

### Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date;

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and

- lease liabilities are recognised and measurement at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Business combinations (Continued)

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

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

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

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

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

### Goodwill

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Goodwill (Continued)

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

### Revenue from contracts with customers

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

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

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

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

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue from contracts with customers (Continued)

**Principal versus agent**

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

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

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

### Leases

**Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 3)**

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.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

**The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3)**

***Allocation of consideration to components of a contract***

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

***Short-term leases and leases of low-value assets***

The Group applies the short-term lease recognition exemption to leases of office premises and staff quarters 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 lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

**The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3)** (Continued)

***Right-of-use assets***

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

***Refundable rental deposits***

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("**HKFRS 9**") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

***Lease liabilities***

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

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, initially measured using the index or rate as at the commencement date;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate the lease.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

**The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3)** (Continued)

***Lease liabilities*** (Continued)

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and make a corresponding adjustment to the related right-of-use assets) when the lease term has changed, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

***Lease modifications***

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

**The Group as a lessee (prior to 1 January 2019)**

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currencies

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

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

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

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

Exchange differences relating to the retranslation of the Group's net assets in US$ to the Group's presentation currency (i.e. HK$) are recognised directly in other comprehensive income and accumulated in exchange reserve. Such exchange differences accumulated in the exchange reserve are not reclassified to profit or loss subsequently.

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

### Borrowing costs

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

### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Retirement benefits costs

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

### Short-term employee benefits

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

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

### Share-based payments

**Equity-settled share-based payment transactions**

***Shares granted to employees***

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

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

When the shares are forfeited/lapsed after the vesting date, the amount previously recognised in share-based payments reserve will be transferred to retained profits.

When shares granted are vested, the amount previously recognised in share-based payments reserve will be transferred to treasury share reserve.

### Taxation

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation (Continued)

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

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

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

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary difference.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

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

### Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment (Continued)

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

### Intangible assets

**Internally generated intangible assets — Research and development expenditure**

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

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

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

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

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

**Intangible assets acquired in a business combination**

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, corporate assets are allocated to individual cash-generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or a group of cash-generating units.

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

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

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

### Inventories

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments

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

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

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

**Financial assets**

***Classification and subsequent measurement of financial assets***

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

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

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

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

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("**OCI**") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

**Financial assets** (Continued)

***Classification and subsequent measurement of financial assets*** (Continued)

A financial asset is held for trading if:

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

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

*(i) Amortised cost and interest income*

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

*(ii) Debt instruments classified as at FVTOCI*

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

*(iii) Financial assets at FVTPL*

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

**Financial assets** (Continued)

***Impairment of financial assets***

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, other receivables, pledged bank deposits, debt instruments at FVTOCI and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

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

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

*(i) Significant increase in credit risk*

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

**Financial assets** (Continued)

***Impairment of financial assets*** (Continued)

(i) *Significant increase in credit risk* (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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

(ii) *Definition of default*

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

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) *Credit-impaired financial assets*

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

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

(iv) *Write-off policy*

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

**Financial assets** (Continued)

***Impairment of financial assets*** (Continued)

(v) *Measurement and recognition of ECL*

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

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

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

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

**Financial assets** (Continued)

***Derecognition of financial assets***

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

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

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

**Financial liabilities and equity**

***Classification as debt or equity***

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

***Equity instruments***

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

Repurchase of the Company's own equity instruments, is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

***Financial liabilities at amortised cost***

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

***Derecognition of financial liabilities***

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

### Critical judgements in applying accounting policies

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

#### Control over Quiksol International HK Pte Limited and its subsidiary

As described in note 35, the Group acquired altogether 25% ownership interest in Quiksol International HK Pte Limited ("**Quiksol HK**"), which has a wholly-owned subsidiary (hereinafter collectively referred to as "**Quiksol Group**"), from the then four shareholders of Quiksol HK ("**Four Shareholders**"), who hold in total the remaining 75% equity interest upon the completion of this acquisition.

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

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

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

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Key sources of estimation uncertainty

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

**Provision of ECL for trade receivables**

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

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 38b and 24, respectively.

**Fair value measurement of financial instruments**

Certain of the Group's financial assets as described in note 38c are measured at fair value with fair value being determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could result in material adjustments to the fair values of these instruments.

**Net realisable value of inventories**

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

At 31 December 2019, the carrying amounts of inventories of the Group were approximately HK$182,368,000 (2018: HK$256,169,000) which includes allowance of approximately HK$8,661,000 (2018: HK$7,363,000). Details are set out in note 23.

**Income tax provision and corresponding penalty**

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

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Key sources of estimation uncertainty (Continued)

**Income tax provision and corresponding penalty** (Continued)

As the Group may have understated its assessable profits and/or made an incorrect tax returns or statement to the IRD for the relevant years of assessment, it may be liable for penalty, the amount of which according to the penalty policy of the IRD would be at a maximum of (i) a fine of HK$10,000 (equivalent to US$1,290) to HK$50,000 (equivalent to US$6,450) for each offense; (ii) trebling the amount of tax undercharged or would have been undercharged; and (iii) imprisonment for 6 months to 3 years. However, the penalty may be less than the maximum level if the Group can prove to the satisfaction of the Commissioner of the IRD that there is reasonable excuse for committing the offense and the Company does not have any willful intention to omit/understate the profit in question.

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

## 6. REVENUE

### Disaggregation of revenue from contracts with customers

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Types of goods:** | | |
| Sale of electronic components | 4,762,816 | 4,935,634 |
| **Sales channel/product lines:** | | |
| *Authorised distribution* | | |
| Television products | 2,086,217 | 2,221,557 |
| Smart terminals | 537,247 | 770,124 |
| Optoelectronic displays | 531,747 | 499,166 |
| Memory products | 493,207 | 638,328 |
| Others (note) | 651,435 | 733,186 |
| | 4,299,853 | 4,862,361 |
| *Independent distribution* | 462,963 | 73,273 |
| | 4,762,816 | 4,935,634 |

Note: Others mainly comprising the sales of communication products, optical communication and security products.

In addition, the Group's disaggregation of revenue by geographical markets is disclosed in Note 7.

## 6. REVENUE (Continued)

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

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

Customers can only return or request refund if the goods delivered do not meet required quality standards. As at 31 December 2019 and 2018, all outstanding sales contracts are expected to be fulfilled within 12 months after the end of the reporting period.

## 7. SEGMENT INFORMATION

Information reported to the board of directors, being the chief operating decision maker ("**CODM**"), for the purpose of resources allocation and assessment of segment performance focuses on types of goods delivered.

The Group's reportable segments under HKFRS 8 *Operating Segments* are as follows:

1. Authorised distribution

2. Independent distribution

In October 2018, the Group commenced engaging in independent distribution along with the acquisition of Quiksol Group, and it is considered as a new operating and reporting segment by the CODM in current year as the Group expanded its independent distribution business. Prior year segment disclosures have been represented to conform with the current year's presentation.

No operating segments have been aggregated in arriving at the reportable segments of the Group.

## 7. SEGMENT INFORMATION (Continued)

### Segment revenues and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segments:

**For the year ended 31 December 2019**

| | Authorised distribution HK$'000 | Independent distribution HK$'000 (Note) | Segment total HK$'000 | Elimination HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| SEGMENT REVENUE | | | | | |
| Revenue from external customers | 4,299,853 | 462,963 | 4,762,816 | – | 4,762,816 |
| Inter-segment sales* | 249 | 35 | 284 | (284) | – |
| | 4,300,102 | 462,998 | 4,763,100 | (284) | 4,762,816 |
| Segment profit | 48,691 | 10,433 | 59,124 | – | 59,124 |
| * Inter-segment sales are charged at cost | | | | | |
| Less: Unallocated expenses | | | | | (4,229) |
| Interest income from debt instruments at FVTOCI | | | | | 108 |
| Fair value change on financial assets at FVTPL | | | | | 6,772 |
| Profit for the year | | | | | 61,775 |

## 7. SEGMENT INFORMATION (Continued)

### Segment revenues and results (Continued)

**For the year ended 31 December 2018 (Restated)**

| | Authorised distribution HK$'000 | Independent distribution HK$'000 (Note) | Consolidated HK$'000 |
|---|---|---|---|
| SEGMENT REVENUE | | | |
| Revenue from external customers | 4,862,361 | 73,273 | 4,935,634 |
| Segment profit | 98,438 | 1,449 | 99,887 |
| Less: Unallocated expenses | | | (2,539) |
| Interest income from debt instruments at FVTOCI | | | 418 |
| Fair value change on financial assets at FVTPL | | | (1,154) |
| Share-based payments | | | (15,232) |
| Profit for the year | | | 81,380 |

Note: The operating results of independent distribution include the effect arising from amortisation and deferred tax on intangible asset identified from business combination over the estimated useful life of the intangible asset.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit represents the profit earned by each segment without allocation of unallocated expenses, interest income from debt instruments at FVTOCI, fair value change on financial assets at FVTPL and share-based payments. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

## 7. SEGMENT INFORMATION (Continued)

### Geographical information

The Group principally operates in Hong Kong and the PRC.

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

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Hong Kong | 4,520,079 | 4,823,244 |
| The PRC | 242,737 | 112,390 |
| | 4,762,816 | 4,935,634 |

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

**Non-current assets**

| | 2019<br>HK$'000 | 2018<br>HK$'000<br>(Restated) |
|---|---|---|
| Hong Kong | 24,939 | 22,679 |
| The PRC | 18,962 | 3,230 |
| Others | 943 | – |
| | 44,844 | 25,909 |

Note: Non-current assets excluded those relating to financial assets at FVTPL, deposits, prepayments and other receivables and deferred tax assets.

### Information about major customers

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Customer 1 | 1,011,571 | 1,440,825 |
| Customer 2 | 988,989 | 944,020 |

There are no other revenue from transaction with a single external customer amounted to 10% or more of the total revenue of the Group during the years ended 31 December 2019 and 2018.

## 8. OTHER INCOME

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Interest income from debt instruments at FVTOCI | 108 | 418 |
| Bank interest income | 1,729 | 1,210 |
| Technical support services income | 5,613 | 7,452 |
| Interest income from loans to third parties | 5,742 | 2,934 |
| Written off of other payables | 429 | 434 |
| Others | 1,738 | 2,448 |
| | 15,359 | 14,896 |

## 9. OTHER GAINS OR LOSSES, NET

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Net foreign exchange (loss) gain | (1,496) | 111 |
| Fair value gain (loss) on financial assets at FVTPL | 6,772 | (1,154) |
| Gain on disposal of property, plant and equipment | 159 | – |
| Loss on debt instruments at FVTOCI reclassified from equity upon disposal | (105) | – |
| | 5,330 | (1,043) |

## 10. FINANCE COSTS

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Interest on: | | |
| Bank and other borrowings | 26,744 | 27,444 |
| Lease liabilities | 589 | – |
| | 27,333 | 27,444 |

## 11. IMPAIRMENT LOSSES RECOGNISED (REVERSED) UNDER EXPECTED CREDIT LOSS MODEL, NET

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Impairment loss recognised (reversed), net in respect of: | | |
| Trade receivables | 15,152 | (17,859) |
| Other receivables | 66 | 107 |
| | 15,218 | (17,752) |

Details of impairment assessment are set out in note 38b.

## 12. INCOME TAX EXPENSES

| | **2019** **HK$'000** | 2018 HK$'000 (Restated) |
|---|---|---|
| Current tax: | | |
| Hong Kong Profits Tax | **11,760** | 18,298 |
| PRC Enterprise Income Tax | **2,201** | 2,178 |
| | **13,961** | 20,476 |
| Deferred tax (note 33) | **(4,186)** | (66) |
| | **9,775** | 20,410 |

The Company was incorporated in the Cayman Island and is exempted from income tax.

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

Accordingly, the Hong Kong profits tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

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

Withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. At 31 December 2019, the aggregate amount of distributable earnings for the Group's PRC subsidiaries in respect of which the Group has not provided for dividend withholding tax amounted to HK$30,974,000 (2018: HK$21,258,000). No liability has been recognised in respect of these amounts because the Group is in a position in control of the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## 12. INCOME TAX EXPENSES (Continued)

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

| | 2019<br>HK$'000 | 2018<br>HK$'000<br>(Restated) |
|---|---|---|
| Profit before tax | **71,550** | 101,790 |
| Tax charge at Hong Kong Profits Tax Rate of 16.5% (note) | **11,806** | 16,795 |
| Tax effect of expenses not deductible for tax purpose | **399** | 3,911 |
| Tax effect of income not taxable for tax purpose | **(1,858)** | (504) |
| Tax effect of deductible temporary difference previously not recognised | **(1,282)** | – |
| Tax effect of tax losses not recognised | **1,767** | 888 |
| Utilisation of tax losses previously not recognised | **(479)** | (474) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(186)** | 69 |
| Income tax at concessionary rate | **(395)** | (360) |
| Others | **3** | 85 |
| Tax charge for the year | **9,775** | 20,410 |

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

## 13. PROFIT FOR THE YEAR

| | 2019<br>HK$'000 | 2018<br>HK$'000<br>(Restated) |
|---|---|---|
| Profit for the year has been arrived at after charging: | | |
| Directors' emoluments (note 14) | **5,056** | 4,838 |
| Staff costs | | |
| Salaries and other allowances | **64,018** | 43,528 |
| Discretionary bonus | **27,621** | 20,352 |
| Retirement benefit scheme contributions | **10,479** | 8,859 |
| Share-based payments | **–** | 15,232 |
| Total staff costs | **107,174** | 92,809 |
| Allowance for inventories recognised (included in cost of sales) | **2,394** | 1,536 |
| Amortisation of intangible asset (included in selling and distribution expenses) | **2,392** | 399 |
| Auditor's remuneration | **2,080** | 1,750 |
| Cost of inventories recognised as an expense | **4,489,486** | 4,700,028 |
| Depreciation of property, plant and equipment | **1,789** | 1,962 |
| Depreciation of right-of-use assets | **5,084** | – |
| Minimum lease payments under operating leases in respect of office premises | **–** | 7,867 |

## 14. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

### Directors

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

| | Fees HK$'000 | Salaries and other allowance HK$'000 | Discretionary bonus HK$'000 (note a) | Retirement benefit scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Year ended 31 December 2019** | | | | | |
| Executive directors: | | | | | |
| Mr. Tian (note b) | – | 1,080 | 250 | 18 | 1,348 |
| Mr. Wong Tsz Leung | – | 720 | 250 | 18 | 988 |
| Mr. Liu Hongbing | – | 780 | 250 | 18 | 1,048 |
| Mr. Xie Yi (note c) | – | 90 | – | 5 | 95 |
| Mr. Yan Qing (note c) | – | 336 | 289 | 52 | 677 |
| Independent non-executive directors: | | | | | |
| Mr. Zheng Gang | 300 | – | – | – | 300 |
| Mr. Tang Ming Je | 300 | – | – | – | 300 |
| Mr. Wong Hok Leung (note d) | 300 | – | – | – | 300 |
| | 900 | 3,006 | 1,039 | 111 | 5,056 |

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

## 14. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

### Directors (Continued)

Notes:

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

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

(c) Mr. Xie Yi resigned and Mr. Yan Qing was appointed as executive director on 1 April 2019.

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

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

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

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

### Employees

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Salaries and other allowances | 1,590 | 946 |
| Discretionary bonus | 100 | 130 |
| Retirement benefit scheme contributions | 41 | 29 |
| Share-based payments | – | 716 |
| | 1,731 | 1,821 |

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

| | 2019 | 2018 |
|---|---|---|
| Nil to HK$1,000,000 | 2 | 2 |

During the year ended 31 December 2018, certain non-director and non-chief executive highest paid employees were granted share awards, in respect of their services to the Group under the share award scheme of the Company. Details of the share award scheme are set out in note 40.

During the years ended 31 December 2019 and 2018, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees) as an inducement to joint or upon joining the Group or as compensation for loss of office.

## 15. DIVIDENDS

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| Dividends for ordinary shareholders of the Company recognised as distributions during the year | | |
| 2019 — Interim — HK2 cents (2018: 2018 interim dividend HK2 cents) per share | **10,082** | 10,000 |
| 2018 — Final — HK4 cents (2018: 2017 final dividend HK3 cents) per share | **20,164** | 15,000 |
| | **30,246** | 25,000 |

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of HK2 cents (2018: final dividend in respect of the year ended 31 December 2018 of HK4 cents) per ordinary share, in an aggregate amount of approximately HK$9,882,000 (2018: HK$20,164,000), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

## 16. EARNINGS PER SHARE

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

| | **Year ended 31 December 2019 HK$'000** | Year ended 31 December 2018 HK$'000 (Restated) |
|---|---|---|
| **Earnings** | | |
| Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share | **55,102** | 80,499 |

| | **Year ended 31 December 2019** | Year ended 31 December 2018 |
|---|---|---|
| **Number of ordinary shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **502,714,302** | 498,352,854 |
| Effect of dilutive potential ordinary shares: | | |
| Unvested shares under share award scheme | **12,027** | 5,212,740 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **502,726,329** | 503,565,594 |

For the year ended 31 December 2019, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share has taken into account for the effect of the ordinary shares of the Company repurchased from the market during 2019 and ordinary shares purchased by Trustee from the market pursuant to the share award scheme of the Company for those unvested awarded shares.

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

## 17. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements HK$'000 | Furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **COST** | | | | |
| At 1 January 2018 | 1,161 | 6,528 | 5,030 | 12,719 |
| Acquisition of a subsidiary (note 35) | – | 147 | 723 | 870 |
| Additions | 12 | 1,062 | 731 | 1,805 |
| Written off | (89) | – | – | (89) |
| Exchange adjustments | – | (232) | (70) | (302) |
| At 31 December 2018 | 1,084 | 7,505 | 6,414 | 15,003 |
| Additions | 244 | 1,681 | – | 1,925 |
| Disposals | – | (1,004) | (951) | (1,955) |
| Exchange adjustments | – | (73) | (34) | (107) |
| At 31 December 2019 | 1,328 | 8,109 | 5,429 | 14,866 |
| **DEPRECIATION** | | | | |
| At 1 January 2018 | 46 | 4,062 | 4,533 | 8,641 |
| Provided for the year | 643 | 890 | 429 | 1,962 |
| Written off | (19) | – | – | (19) |
| Exchange adjustments | – | (127) | (68) | (195) |
| At 31 December 2018 | **670** | **4,825** | **4,894** | **10,389** |
| Provided for the year | **443** | **986** | **360** | **1,789** |
| Eliminated on disposals | **–** | **(931)** | **(951)** | **(1,882)** |
| Exchange adjustments | **5** | **(53)** | **(3)** | **(51)** |
| At 31 December 2019 | **1,118** | **4,827** | **4,300** | **10,245** |
| **CARRYING VALUES** | | | | |
| At 31 December 2019 | **210** | **3,282** | **1,129** | **4,621** |
| At 31 December 2018 | 414 | 2,680 | 1,520 | 4,614 |

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

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

## 18. RIGHT-OF-USE ASSETS

| | Buildings HK$'000 |
|---|---|
| At 1 January 2018 and 31 December 2018 | – |
| Adjustment upon application of HKFRS 16 (note 3) | 469 |
| At 1 January 2019 (restated) | 469 |
| Additions to right-of-use assets | 25,874 |
| Depreciation charge | (5,084) |
| Exchange adjustments | 61 |
| At 31 December 2019 | 21,320 |
| Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16 | (5,076) |
| Total cash outflow for leases | (10,089) |

For both years, the Group leases various offices and warehouse premises for its operations, Lease contracts are entered into for fixed term of 8 months to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases for office premises and staff quarters. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in above.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

## 19. GOODWILL

| | HK$'000 |
|---|---|
| **COST** | |
| At 1 January 2018 | – |
| Arising in acquisition of Quiksol Group (restated) (note 35) | 9,735 |
| At 31 December 2018 (restated) and 2019 | 9,735 |

For the purpose of impairment testing, goodwill has been allocated to a group of cash-generating units ("CGUs"), comprising Quiksol Group. The recoverable amount of Quiksol Group has been determined based on value in use calculation which uses cash flow projections based on financial budgets approved by management covering a 5-year period (2018: 5-year), and discount rate of 15.36% (2018: 15.54%). Cash flows beyond the 5-year period (2018: 5-year) are extrapolated using a steady 2% growth rate (2018: 2%). Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin and such estimation is based on Quiksol Group's past performance and management's expectations for the market development. Based on the result of the assessment, the management of the Group determined that the recoverable amount of the group of CGUs is higher than the carrying amount. As at 31 December 2019, the directors of the Company determined that there is no impairment of goodwill.

Management believes that any reasonably possible changes in any of these assumptions would not cause the carrying amount of Quiksol Group to exceed its recoverable amount.

## 20. INTANGIBLE ASSET

| | Customer relationship HK$'000 |
|---|---|
| **COST** | |
| At 1 January 2018 | – |
| Acquired on acquisition of Quiksol Group (restated) (note 35) | 11,959 |
| At 31 December 2018 (restated) and 31 December 2019 | 11,959 |
| **AMORTISATION** | |
| At 1 January 2018 | – |
| Charge for the year (restated) | 399 |
| At 31 December 2018 (restated) | 399 |
| Charge for the year | 2,392 |
| At 31 December 2019 | 2,791 |
| **CARRYING VALUE** | |
| At 31 December 2019 | 9,168 |
| At 31 December 2018 (restated) | 11,560 |

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

| | |
|---|---|
| Customer relationship | 20% |

## 21. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

In the current year, the Group disposed of the investments in listed bonds, at a consideration of HK$4,212,000, which was also the fair value as at the date of disposal. A cumulative loss on disposal of HK$105,000 has been transferred to profit or loss.

## 22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Financial assets mandatorily measured at FVTPL:** | | |
| Life insurance policies (note i) | 77,128 | 75,075 |
| Unlisted unit trust funds (note ii) | 50,692 | 48,222 |
| Wealth management plan (note iii) | – | 4,197 |
| | 127,820 | 127,494 |
| Analysed as: | | |
| Non-current | 127,820 | 123,297 |
| Current | – | 4,197 |
| | 127,820 | 127,494 |

Notes:

(i) As at 31 December 2019, the Group has a total of six (2018: six) life insurance policies with two (2018: two) insurance companies to insure certain directors of the Company. Under these policies, the Group is the beneficiary and policy holder and the total insured sum is US$29,000,000 (equivalent to approximately HK$226,200,000) (2018: US$29,000,000, equivalent to HK$226,200,000) in aggregate. The Group is required to pay a single premium totalling US$9,533,000 (equivalent to approximately HK$74,357,000) (2018: US$9,533,000, equivalent to HK$74,357,000) at inception. The Group can, at any time, withdraw cash based on the account value of the policy ("**Account Value**") at the date of withdrawal, which is determined by the gross premium paid plus accumulated interest earned and minus any charges made in accordance with the terms and conditions of the policy. If withdrawal is made between the 1st to 15th policy years for the first, third, fourth, fifth and sixth policies and 1st to 18th policy year for the second policy, there is a specified amount of surrender charge deducted from the Account Value. The insurance company will pay the Group a guaranteed interest for the first year and a variable return per annum afterwards (with minimum guaranteed interest rate ranged from 2% to 3% per annum) during the effective period of the policies.

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

(iii) The Group invested into wealth management plans managed by financial institutions in the PRC. The principal is either guaranteed or unguaranteed by the relevant financial institutions with an expected return rate 4.8% per annum as at 31 December 2018. In the current year, the Group disposed the investment at HK$4,204,000.

## 23. INVENTORIES

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Electronic components held for resale | **191,029** | 263,532 |
| Less: Allowance for inventories | **(8,661)** | (7,363) |
| | **182,368** | 256,169 |

The movements in the allowance of inventories are as follows:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| At beginning of year | **7,363** | 6,146 |
| Allowance recognised in profit and loss, net | **2,394** | 1,536 |
| Written off | **(1,096)** | (319) |
| At end of year | **8,661** | 7,363 |

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

## 24. TRADE RECEIVABLES

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Trade receivables | **814,844** | 346,696 |
| Less: allowance for credit losses | **(22,812)** | (7,660) |
| | **792,032** | 339,036 |
| Trade receivables under factoring agreement (note) | **–** | 132,008 |
| | **792,032** | 471,044 |

Note: The Group entered into non-recourse factoring agreements with banks to factor certain customers' trade receivables and these receivables are measured at FVTPL as it is held within a business model whose objective is not to collect contractual cash flows but to sell the financial assets.

As at 1 January 2018, trade receivables from contracts with customers amounted to HK$319,026,000.

## 24. TRADE RECEIVABLES (Continued)

As at 31 December 2019, total bills received amounting to HK$69,000 (31 December 2018: nil) with a maturity period of 30 days are held by the Group for future settlement of trade receivables. The Group continues to recognise trade receivables' full carrying amounts at the end of the reporting period.

The Group allows credit period of 0 to 120 days (2018: 0 to 120 days) to its customers. The following is an aged analysis of the Group's trade receivables (net of allowance for credit losses), at the end of the reporting period, based on the invoice dates which approximated the respective revenue recognition dates:

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| 0–60 days | **604,735** | 340,725 |
| 61–120 days | **133,312** | 67,425 |
| Over 120 days | **53,985** | 62,894 |
| | **792,032** | 471,044 |

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$94,230,000 (2018: HK$92,253,000) which are past due as at the reporting date. Out of the past due balances, HK$51,837,000 (2018: HK$40,294,000) has been past due 90 days or above, for which the Group's do not consider the balances in default as there has not been a significant change in the credit quality and amounts are still considered recoverable based on historical experience.

As at 31 December 2019, other than bills received amounting to HK$69,000 (2018: nil), the Group does not hold any collateral or other credit enhancements over these balances nor does it has a legal right of offset against any amounts owed by the Group to the counterparty.

Details of impairment assessment of trade receivables are set out in note 38b.

## 25. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Deposits | **35,966** | 20,419 |
| Prepayments | **7,228** | 3,239 |
| Other receivables (note) | **33,917** | 25,610 |
| Value-added tax recoverable | **2,753** | 2,507 |
| | **79,864** | 51,775 |
| Analysed as: | | |
| Non-current | **7,192** | 109 |
| Current | **72,672** | 51,666 |
| | **79,864** | 51,775 |

Note: Other receivables as at 31 December 2019 mainly included a loan (2018: two) granted to third parties amounting to HK$31,200,000 (31 December 2018: HK$22,811,000). These loans are unsecured, carry interest at 4.5% (31 December 2018: a range of 6% to 10%) and repayable in May 2020 (31 December 2018: repayable in January 2019 through May 2019), respectively.

Rental deposits paid included in deposits amounting to HK$1,975,000 and HK$1,946,000 as at 31 December 2019 and 1 January 2019, respectively, were not adjusted upon initial application of HKFRS 16 as the directors of the Company considered the impact is not material.

## 26. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

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

| | 2019 | 2018 |
|---|---|---|
| Range of interest rate per annum: | | |
| Pledged bank deposits | **0.01%–3.00%** | 0.01%–2.11% |
| Bank balances | **0.001%–0.05%** | 0.001%–0.05% |

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

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| HK$ | **4,753** | 4,771 |
| New Taiwan Dollar ("**TWD**") | **722** | – |
| Renminbi ("**RMB**") | **5,692** | 6,392 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 27. TRADE PAYABLES

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Trade payables | **370,989** | 398,174 |

The credit period for trade payables ranging from 0 to 60 days (2018: 0 to 60 days).

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| 0–30 days | **291,333** | 294,334 |
| 31–60 days | **54,207** | 103,361 |
| 61–90 days | **25,369** | 461 |
| Over 90 days | **80** | 18 |
| | **370,989** | 398,174 |

As at 31 December 2019, included in the trade payable is HK$44,811,000 (31 December 2018: HK$2,811,000), in which the Group issued bills to relevant creditors for settlement and remained outstanding at the end of the reporting period.

## 28. OTHER PAYABLES AND ACCRUED CHARGES

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Accrued purchase | **36,369** | 66,112 |
| Accrued expenses | **29,547** | 21,044 |
| Other payables | **7,537** | 9,135 |
| | **73,453** | 96,291 |

## 29. LEASE LIABILITIES

| | 2019<br>HK$'000 |
|---|---|
| **Lease liabilities payable:** | |
| Within one year | 7,973 |
| Within a period of more than one year but not more than two years | 6,034 |
| Within a period of more than two years but not more than five years | 7,924 |
| | 21,931 |
| Less: Amount due for settlement with 12 months shown under current liabilities | (7,973) |
| Amount due for settlement after 12 months shown under non-current liabilities | 13,958 |

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | HK$<br>HK$'000 | RMB<br>HK$'000 | TWD<br>HK$'000 |
|---|---|---|---|
| As at 31 December 2019 | 5,661 | 301 | 711 |

## 30. CONTRACT LIABILITIES

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

As at 1 January 2018, contract liabilities amounted to HK$6,881,000.

During the year ended 31 December 2019, revenue amounting to HK$13,808,000 (31 December 2018: HK$6,881,000) was recognised in the current year which relates to carried-forward contract liabilities.

## 31. AMOUNT DUE TO A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

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

## 32. BANK AND OTHER BORROWINGS

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Bank borrowings (Note i) | **311,304** | 1,206 |
| Import and export loans | **105,360** | 55,709 |
| | **416,664** | 56,915 |
| Other borrowings (Note ii) | **18,151** | 2,340 |
| | **434,815** | 59,255 |
| Carrying amounts of the above borrowings are repayable* | | |
| — within one year | **434,815** | 59,255 |
| Carrying amounts of borrowings that contain a repayable on demand clause (shown under current liabilities) | **416,664** | 56,915 |

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Analysed as: | | |
| Secured | **414,237** | 56,123 |
| Unsecured | **20,578** | 3,132 |
| | **434,815** | 59,255 |

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

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

## 32. BANK AND OTHER BORROWINGS (Continued)

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

| | 2019 | 2018 |
|---|---|---|
| Effective interest rate: | | |
| Bank borrowings and import and export loans | | |
| — variable rates | 3.63%–4.60% | 3.05%–5.04% |
| Other borrowings — fixed rate | 9.00%–10.00% | 9.00% |

The variable rates bank borrowings and import and export loans are subject to interest at London Interbank Offered Rate ("LIBOR") plus a spread and Loan Prime Rate ("LPR") plus a spread (2018: Hong Kong Interbank Offered Rate ("HIBOR") plus a spread, LIBOR plus a spread and LPR plus a spread).

Notes:

(i) During the year ended 31 December 2019, the Group factored trade receivables to banks with recourse in an aggregated amount of HK$308,877,000 (31 December 2018: nil) and accordingly the cash received on the transfer was recognised as borrowings and included in bank borrowings.

(ii) As at 31 December 2019 and 2018, the Group had obtained two loans (2018: one) from individuals and third parties which is unsecured, interest bearing at a fixed rate with a range of 9% to 10% (2018: 9%) per annum and repayable in 8 February 2020 through 18 February 2020 (2018: repayable in 9 August 2019). These loans are subsequently settled.

## 33. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

| | 2019<br>HK$'000 | 2018<br>HK$'000<br>(Restated) |
|---|---|---|
| Deferred tax asset | 3,792 | – |
| Deferred tax liability | (1,513) | (1,907) |
| | 2,279 | (1,907) |

## 33. DEFERRED TAXATION (Continued)

The followings are the major deferred tax liability and asset recognised by the Group and movements thereon during the current and prior years:

| | ECL provision of trade and other receivables | Intangible asset identified from business combination | Total |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2018 | – | – | – |
| Acquisition of a subsidiary (restated) (note 35) | – | 1,973 | 1,973 |
| Credit to profit or loss (restated) | – | (66) | (66) |
| At 31 December 2018 (restated) | – | 1,907 | 1,907 |
| Credit to profit or loss | (3,792) | (394) | (4,186) |
| At 31 December 2019 | (3,792) | 1,513 | (2,279) |

At the end of the reporting period, the Group has unused tax losses of approximately HK$30,254,000 (2018: HK$24,594,000), available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Unrecognised tax losses of approximately HK$25,479,000 (2018: HK$21,317,000) will expire from 2020 to 2024 (2018: 2019 to 2023) and the remaining tax losses may be carried forward indefinitely.

## 34. SHARE CAPITAL

| | Number of shares | Amount |
|---|---|---|
| | | US$'000 |
| Ordinary shares of US$0.00001 each | | |
| **Authorised:** | | |
| At 1 January 2018, 31 December 2018 and 2019 | 5,000,000,000 | 50 |
| **Issued and fully paid** | | |
| At 1 January 2018 | 500,000,000 | 5 |
| Issue of new shares (note a) | 4,105,030 | – |
| At 31 December 2018 and 31 December 2019 | 504,105,030 | 5 |

| | 2019 | 2018 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Shown in the financial statements as | **39** | 39 |

## 34. SHARE CAPITAL (Continued)

Notes:

(a) On 31 October 2018, the Company issued 4,105,030 ordinary shares as part of the consideration for the acquisition of Quiksol Group and resulted in the recognition of share premium of approximately HK$6,979,000. Details of the acquisition are set out in note 35.

(b) During the year ended 31 December 2019, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

| Month of repurchase | Number of shares of US$0.00001 each | Price per share Highest | Price per share Lowest | Aggregate consideration |
|---|---|---|---|---|
| | | HK$ | HK$ | HK$'000 |
| September 2019 | 100,000 | 1.27 | 1.26 | 127 |
| October 2019 | 2,660,000 | 1.35 | 1.23 | 3,451 |
| November 2019 | 1,280,000 | 1.4 | 1.3 | 1,760 |
| December 2019 | 6,860,000 | 1.51 | 1.34 | 10,016 |
| | 10,900,000 | | | 15,354 |

The Company purchased 10,900,000 shares of its own shares between 30 September 2019 to 31 December 2019 for an aggregate consideration of HK$15,354,000. As the repurchased shares have not been cancelled during the year ended 31 December 2019, they were recognised as treasury share reserve as at 31 December 2019.

## 35. ACQUISITION OF SUBSIDIARIES

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

Acquisition-related cost amounted to HK$895,000 and was recognised as administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018.

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

## 35. ACQUISITION OF SUBSIDIARIES (Continued)

During the current year (i.e. within the measurement period), the fair value assessment in respect of the acquisition has completed as follows:

| | Amount recognised at the date of acquisition HK$'000 (determined on a provisional basis) | Adjustments HK$'000 | Amount recognised at the date of acquisition HK$'000 (restated) |
|---|---|---|---|
| **Fair value of assets and liabilities recognised at the date of acquisition** | | | |
| Property, plant and equipment | 870 | – | 870 |
| Inventories | 8,826 | – | 8,826 |
| Bank balances and cash | 11,073 | – | 11,073 |
| Trade receivables (Note iii) | 59,425 | – | 59,425 |
| Deposits, prepayment and other receivables (Note iii) | 5,035 | – | 5,035 |
| Trade payables | (21,534) | – | (21,534) |
| Other payables and accrued charges | (1,838) | – | (1,838) |
| Contract liabilities | (4,128) | – | (4,128) |
| Amount due to a shareholder of Quiksol Group | (2,117) | – | (2,117) |
| Bank and other borrowings | (6,796) | – | (6,796) |
| Tax liabilities | (2,778) | – | (2,778) |
| Intangible asset | 5,990 | 5,969 | 11,959 |
| Deferred tax liability | (988) | (985) | (1,973) |
| Total fair value of identifiable net assets acquired | 51,040 | 4,984 | 56,024 |
| Cash consideration | | | 16,762 |
| Share consideration (Note i) | | | 6,979 |
| Consideration transferred | | | 23,741 |
| Plus: Non-controlling interest | | | 42,018 |
| Less: Net assets acquired | | | (56,024) |
| Goodwill arising on acquisition (Note ii) | | | 9,735 |

## 35. ACQUISITION OF SUBSIDIARIES (Continued)

Notes:

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

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

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

| | HK$'000 |
|---|---|
| **Net cash outflow on acquisition of Quiksol Group** | |
| Cash consideration paid | 16,762 |
| Less: Bank balances and cash acquired | (11,073) |
| Net cash outflow | 5,689 |

During the year ended 31 December 2018, Quiksol Group contributed HK$73,273,000 and HK$1,645,000 (restated) to the Group's revenue or results. Had the acquisition been completed on 1 January 2018, total group revenue for the year would have been HK$5,279,832,000 and profit for the year would have been HK$87,288,000 (restated). The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future results.

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

## 36. OPERATING LEASES

### The Group as lessee

As at 31 December 2018, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of rented office and warehouse premises which fall due as follows:

| | 2018<br>HK$'000 |
|---|---|
| Within one year | 4,537 |
| In the second to fifth year inclusive | 254 |
| | 4,791 |

The leases are generally negotiated for a lease term of two years at fixed rentals.

## 37. CAPITAL RISK MANAGEMENT

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

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

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

## 38. FINANCIAL INSTRUMENTS

### 38a. Categories of financial instruments

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Amortised cost | 1,195,966 | 629,824 |
| Debt instruments at FVTOCI | – | 4,232 |
| Financial assets at FVTPL | | |
| — trade receivables under factoring arrangement | – | 132,008 |
| — other investments | 127,820 | 127,494 |
| **Financial liabilities** | | |
| Amortised cost | 809,837 | 464,814 |
| **Lease liabilities** | 21,931 | – |

### 38b. Financial risk management objectives and policies

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

**Market risk**

***Currency risk***

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

## 38. FINANCIAL INSTRUMENTS (Continued)

### 38b. Financial risk management objectives and policies (Continued)

**Market risk** (Continued)

***Currency risk*** (Continued)

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

**The Group**

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| HK$ | **7,078** | 4,771 | **5,661** | – |
| RMB | **5,740** | 6,392 | **301** | – |
| TWD | **722** | – | **711** | – |
| Indian rupee ("INR") | **1,346** | – | **–** | – |

**Inter-company balances**

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| RMB | **17,769** | 25,417 | **4,598** | 509 |

***Sensitivity analysis***

For the exposure to the fluctuation in US$ against HK$, as HK$ is pegged to US$ and the net exposure of TWD is immaterial, the directors of the Company are of opinion that the Group's exposure to the fluctuation in US$ and TWD are insignificant and no sensitivity analysis is presented.

The following table details the Group's sensitivity to a 5% (2018: 5%) increase and decrease in US$ against RMB and INR. 5% (2018: 5%) is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items including the bank balances and variable-rate pledged bank deposits and inter-company balances and adjusts their translation at the end of the reporting period for a 5% (2018: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where US$ weakens 5% (2018: 5%) against RMB and INR. For a 5% (2018: 5%) strengthening of US$ against the relevant currency, there would be an equal and opposite impact on the profit.

## 38. FINANCIAL INSTRUMENTS (Continued)

### 38b. Financial risk management objectives and policies (Continued)

**Market risk** (Continued)

***Sensitivity analysis*** (Continued)

**The Group**

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Profit for the year | | |
| RMB | 227 | 267 |
| INR | 56 | – |

**Inter-company balances**

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Profit for the year | | |
| RMB | 550 | 1,040 |

The directors of the Company considered the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

***Interest rate risk***

The Group is exposed to fair value interest rate risk in relation to its fixed-rate investments in listed bonds and other borrowings.

The Group is also exposed to cash flow interest rate risk in relation to life insurance policies, bank balances, variable-rate pledged bank deposits, unlisted unit trust funds and bank borrowings.

The management has considered the Group's exposure to cash flow interest rate risk in relation to variable-rate pledged bank deposits and bank balances to be limited because the current market interest rates on general deposits are relatively low and stable.

The Group's exposure to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate is mainly concentrated on the fluctuation of HIBOR, LIBOR and LPR arising from the Group's bank borrowings. The Group currently does not have interest rate risk hedging policy. However, the directors of the Company closely monitor the exposure to future cash flow interest rate risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise.

## 38. FINANCIAL INSTRUMENTS (Continued)

### 38b. Financial risk management objectives and policies (Continued)

**Market risk** (Continued)

***Sensitivity analysis***

The sensitivity analyses below have been determined based on the exposure to interest rates for investments of life insurance policies, unlisted unit trust funds and bank borrowings for the year ended 31 December 2019 and 2018. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2018: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents directors' assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points (2018: 50 basis points) higher and other variables were held constant, profit of the year would be affected as follows. For a 50 basis points (2018: 50 basis points) lower, there would be an equal and opposite impact on the profit.

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| (Decrease) increase in profit for the year | **(1,100)** | 379 |

The Group's exposure to fair value interest rate risk for debt instruments at FVTOCI is not included in the above analysis as the management considers that such exposure is insignificant.

The directors of the Company considered the sensitivity analysis is unrepresentative of the interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

***Other price risk***

The Group is exposed to price risk through its investments in listed bonds, life insurance policies and unlisted unit trust funds. The directors of the Company manage this exposure by maintaining a portfolio of investments with different risks. The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

*Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to price risks at the reporting date.

If the prices of the respective investments in life insurance policies and unlisted unit trust funds had been 5% (2018: 5%) higher/lower, profit for the year ended 31 December 2019 would increase/decrease by HK$6,391,000 (2018: HK$6,165,000) as a result of the changes in fair value of investments in unlisted unit trust funds.

The Group's exposure to other price risk for debt instruments at FVTOCI is not included in the above analysis as the management considers that such exposure is insignificant.

In the opinion of directors of the Company, the sensitivity analysis is not representative of the Group's price risk as it only reflects the impact of price changes to investments in listed bonds and unlisted unit trust funds at the end of the year but not the exposure during the year.

## 38. FINANCIAL INSTRUMENTS (Continued)

### 38b. Financial risk management objectives and policies (Continued)

**Credit risk and impairment assessment**

The Group's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

***Trade receivables arising from contracts with customers***

Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

In addition, the Group performs impairment assessment under ECL model on trade balances individually or based on provision matrix. Except for debtors with significant outstanding balances and credit-impaired, which are assessed for impairment individually, the remaining trade receivables are grouped under a provision matrix based on shared credit-risk characteristics by reference to repayment histories for recurring customers and current past due exposure for the new customers. Net impairment loss of HK$15,152,000 (2018: net impairment gain of HK$17,859,000) is recognised during the year. Details of the quantitative disclosures are set out below in this note.

The Group has concentration of credit risk as 54% (2018: 50%) of the total receivables was due from the Group's top five outstanding balances. The major customers of the Group are mainly leading brand-name consumer electronic product manufacturing companies in the PRC and electronic product trading companies in Hong Kong. In order to minimise the credit risk of trade receivables, the management of the Group delegated a team responsible for determination of credit limits and credit approvals.

***Other receivables***

For other receivables, the directors of the Company make periodic individual assessment on the recoverability of other receivables based on quantitative and qualitative information that is reasonable and supportive forward-looking information. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. The Group performs impairment assessment under ECL model on outstanding balances individually. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The following table shows the movements in 12m ECL that has been recognised for other receivables:

| | **12m ECL** |
|---|---|
| | HK$'000 |
| As at 1 January 2018 | – |
| New financial assets originated | 107 |
| As at 31 December 2018 | 107 |
| Impairment loss reversed due to financial instruments recognised as at 1 January 2019 | (107) |
| New financial assets originated | 173 |
| As at 31 December 2019 | 173 |

## 38. FINANCIAL INSTRUMENTS (Continued)

### 38b. Financial risk management objectives and policies (Continued)

**Credit risk and impairment assessment** (Continued)

***Pledged bank deposits/bank balances***

The credit risks on bank balances and pledged bank deposits are limited because the counterparties are reputable banks and financial institutions with high credit ratings assigned by international credit-rating agencies in the PRC and Hong Kong.

The Group assessed 12m ECL for bank balances and pledged bank deposits by reference to information relating to average loss rate of respective credit rating grades published by external credit rating agencies.

Based on the average loss rates, the ECL on bank balances and pledged bank deposits is considered to be insignificant.

***Debt instruments at FVTOCI/financial assets at FVTPL***

The Group's debt instruments at FVTOCI and financial assets at FVTPL mainly comprise investment of listed bonds, unlisted unit trust funds and life insurance policies that are graded in high credit ratings assigned by international credit-rating agencies and therefore are considered to be low credit risk investments.

The Group assessed 12m ECL for its debt instruments at FVTOCI in which the amount of ECL is considered insignificant.

***Provision matrix — internal credit rating***

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relations to its operation. The following table provides information about the exposure to credit risk for trade receivables which assessed based on provision matrix within lifetime ECL (not credit-impaired). Debtors with significant outstanding balances or credit-impaired with gross carrying amounts of HK$468,286,000 and HK$3,900,000 respectively as at 31 December 2019 (31 December 2018: HK$280,853,000 and HK$3,900,000) were assessed individually.

*Gross carrying amount*

| | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| Internal credit rating | **Average loss rate %** | **Trade receivables HK$'000** | **Credit loss allowance HK$'000** | Average loss rate % | Trade receivables HK$'000 | Credit loss allowance HK$'000 |
| Low risk (Note a) | **0.61** | **240,630** | **1,457** | 0.96 | 22,925 | 220 |
| Medium risk (Note b) | **1.37** | **102,028** | **1,400** | 2.42 | 39,018 | 944 |
| | | **342,658** | **2,857** | | 61,943 | 1,164 |

## 38. FINANCIAL INSTRUMENTS (Continued)

### 38b. Financial risk management objectives and policies (Continued)

**Credit risk and impairment assessment** (Continued)

***Provision matrix — internal credit rating*** (Continued)

*Gross carrying amount* (Continued)

Notes:

(a) Loss risk types customers represent the counterparty has a low risk default and does not have material past-due amounts.

(b) Medium risk types customers represent debtors frequently repays after due dates but usually settle in full.

During the year ended 31 December 2019, the Group provided HK$434,000 (2018: HK$148,000) net impairment allowance for trade receivables based on provision matrix. Net impairment allowance of HK$14,718,000 and nil (2018: net impairment gain of HK$1,336,000 and net reversal of HK$19,343,000) were made on debtors with significant balances and credit-impaired debtors respectively.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

| | **Lifetime ECL (not-credit impaired)** HK$'000 | **Lifetime ECL (credit-impaired)** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| **As at 1 January 2018** | 2,276 | 23,243 | 25,519 |
| Changes due to financial instruments recognised as at 1 January: | | | |
| — Impairment losses reversed (note) | (2,276) | (23,243) | (25,519) |
| New financial assets originated | 3,760 | 3,900 | 7,660 |
| **As at 31 December 2018** | 3,760 | 3,900 | 7,660 |
| Changes due to financial instruments recognised as at 1 January: | | | |
| — Impairment losses reversed (note) | (3,760) | – | (3,760) |
| New financial assets originated | 18,912 | – | 18,912 |
| **As at 31 December 2019** | 18,912 | 3,900 | 22,812 |

Note: Impairment losses reversed during the year as a result of settlement from its debtors.

## 38. FINANCIAL INSTRUMENTS (Continued)

### 38b. Financial risk management objectives and policies (Continued)

**Liquidity risk**

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents as well as undrawn banking facilities deemed adequate by the directors of the Company to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The directors of the Company monitors the utilisation of bank borrowing.

The following table details the Group's remaining contractual maturity for its financial liabilities which has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are variable rates, the undiscounted amount is derived from weighted average interest rate at the end of the reporting period.

| | Weighted average effective interest rate % | Repayable on demand or less than 3 months HK$'000 | 3 months to 1 year HK$'000 | 1 year to 2 years HK$'000 | 2 years to 5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | | | |
| Trade payables | – | 370,989 | – | – | – | 370,989 | 370,989 |
| Other payables | – | 3,778 | – | – | – | 3,778 | 3,778 |
| Bank borrowings — variable rates | 4.48 | 416,664 | – | – | – | 416,664 | 416,664 |
| Other borrowings — fixed rate | 9.01 | 18,560 | – | – | – | 18,560 | 18,151 |
| Amount due to a non-controlling shareholder of a subsidiary | – | 255 | – | – | – | 255 | 255 |
| | | 810,246 | – | – | – | 810,246 | 809,837 |
| Lease liabilities | 3.50 | 2,246 | 6,513 | 6,307 | 8,487 | 23,553 | 21,931 |

## 38. FINANCIAL INSTRUMENTS (Continued)

### 38b. Financial risk management objectives and policies (Continued)

**Liquidity risk** (Continued)

| | Weighted average effective interest rate<br>% | Repayable on demand or less than 3 months<br>HK$'000 | 3 months to 1 year<br>HK$'000 | Total undiscounted cash flows<br>HK$'000 | Carrying amount<br>HK$'000 |
|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | |
| Trade payables | – | 398,174 | – | 398,174 | 398,174 |
| Other payables | – | 5,380 | – | 5,380 | 5,380 |
| Bank borrowings — variable rates | 4.5 | 56,915 | – | 56,915 | 56,915 |
| Other borrowings — fixed rate | 9.0 | – | 2,340 | 2,340 | 2,340 |
| Amount due to a non-controlling shareholder of a subsidiary | – | 2,005 | – | 2,005 | 2,005 |
| | | 462,474 | 2,340 | 464,814 | 464,814 |

Bank borrowings with a repayment on demand clause is included in the "repayable on demand or less than 3 months" time band in the above maturity analysis. At 31 December 2019, the aggregate carrying amount of these bank borrowings amounted to approximately HK$416,664,000 (2018: HK$56,915,000). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the bank will exercise their discretionary right to demand immediate repayment. The directors of the Company believe that such bank borrowings of the Group will be repaid after the end of reporting period in accordance with the scheduled repayment dates set out in the bank borrowing agreements.

For the purpose of managing liquidity risk, the directors of the Company reviews the expected cash flows information of the Group's bank borrowings based on the scheduled repayment dates set out in the bank borrowing agreements as set out in the table below:

| | **Weighted average effective interest rate**<br>% | **Less than 3 months**<br>HK$'000 | **3 months to 1 year**<br>HK$'000 | **Total undiscounted cash flows**<br>HK$'000 | **Carrying amount**<br>HK$'000 |
|---|---|---|---|---|---|
| **Bank borrowings** | | | | | |
| At 31 December 2019 | 4.48 | 421,331 | – | 421,331 | 416,664 |
| At 31 December 2018 | 4.5 | 56,635 | 920 | 57,555 | 56,915 |

## 38. FINANCIAL INSTRUMENTS (Continued)

### 38c. Fair value measurements of financial instruments

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximates their fair values at the end of the reporting period.

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

***Fair value measurement of the Group's financial assets that are measured at fair value on a recurring basis***

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group performed discounted cash flow to derive the present value of other investments. The management of the Group reports the findings to the directors of the Company every half year to explain the cause of fluctuations in the fair value of the assets and liabilities.

The fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are based on quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 38. FINANCIAL INSTRUMENTS (Continued)

### 38c. Fair value measurements of financial instruments (Continued)

***Fair value measurement of the Group's financial assets that are measured at fair value on a recurring basis*** (Continued)

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used):

| Financial assets | Fair value as at 31.12.2019 | Fair value as at 31.12.2018 | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|---|
| (1) Debt instruments at FVTOCI (note 21) | – | Listed debt securities in Hong Kong HK$4,232,000 | Level 1 | Quoted bid price in active market |
| (2) Financial assets at FVTPL (note 22) | **Unlisted unit trust funds HK$50,692,000** | Unlisted unit trust funds HK$48,222,000 | Level 2 | Based on the net asset values of the funds, determined with reference to the observable (quoted) prices of underlying investment portfolio and adjustments of related expenses |
| | — | Wealth management plan HK$4,197,000 | Level 2 | Based on discounted cash flow that capture the present value of future expected cash flows derived from the underlying assets |
| | **Life insurance policies HK$77,128,000** | Life insurance policies HK$75,075,000 | Level 3 | Based on account value of the policies which represent the premium paid to the policies adjusted by net yield with reference to the expected return rate (note) |
| (3) Trade receivables under factoring agreements (note 24) | – | HK$132,008,000 | Level 2 | Based on discounted cash flow that capture the present value of future expected cash flows derived from the underlying assets |

Note: The significant unobservable input is expected return rate and assuming other inputs were held constant, if the expected return rate increases, the fair value of the policies increase and vice versa. In the opinion of the directors of the Company, the change of expected return rate of the policies is insignificant based on historical record.

There were no transfers between Level 1, 2 and 3 for the year.

## 38. FINANCIAL INSTRUMENTS (Continued)

### 38c. Fair value measurements of financial instruments (Continued)

**Reconciliation of Level 3 fair value measurements of financial assets**

| | **Life insurance policies** HK$'000 |
|---|---|
| At 1 January 2018 | – |
| Transfer from deposits, prepayments and other receivables to Level 3 from initial application of HKFRS 9 | 62,316 |
| Payments made during the year | 11,746 |
| Total gains in profit or loss | 1,013 |
| At 31 December 2018 | 75,075 |
| Total gains in profit or loss | 2,053 |
| At 31 December 2019 | 77,128 |

## 39. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

| | **Amount due to a non–controlling shareholder of a subsidiary** HK$'000 | **Dividend payable** HK$'000 | **Bank and other borrowings** HK$'000 | **Lease liabilities** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2018 | – | – | 2,129 | – | 2,129 |
| Financing cash flows | (112) | (25,000) | 22,886 | – | (2,226) |
| Non-cash changes: | | | | | |
| Acquisition of subsidiaries | 2,117 | – | 6,796 | – | 8,913 |
| Dividend declared | – | 25,000 | – | – | 25,000 |
| Interest expenses | – | – | 27,444 | – | 27,444 |
| At 31 December 2018 | 2,005 | – | 59,255 | – | 61,260 |
| Adjustment upon application of HKFRS 16 (note 3) | – | – | – | 469 | 469 |
| At 1 January 2019 (restated) | 2,005 | – | 59,255 | 469 | 61,729 |
| Financing cash flows | (1,750) | (30,246) | 348,850 | (5,013) | 311,841 |
| Non-cash changes: | | | | | |
| New leases entered/lease modified | – | – | – | 25,874 | 25,874 |
| Dividend declared | – | 30,246 | – | – | 30,246 |
| Interest expenses | – | – | 26,744 | 589 | 27,333 |
| Exchange adjustments | – | – | (34) | 12 | (22) |
| At 31 December 2019 | 255 | – | 434,815 | 21,931 | 457,001 |

## 40. SHARE-BASED PAYMENT TRANSACTIONS

### (a) Share Award Scheme

The Company's share award scheme (the "**Share Award Scheme**") was adopted pursuant to the written resolutions of all shareholders of the Company on 19 September 2016 ("**Date of Adoption**") for the primary purpose of rewarding the directors, senior managers and employees ("**Eligible Persons**") of the Group for their hard work, contribution and loyalty and align their interest with those of shareholders of the Company.

An award granted by the board of directors ("**the Board**") of the Company to the Eligible Persons is a right of the relevant participant to receive the shares of the Company. Each award may be subject to such other conditions as may be imposed by the Board at its absolute discretion, including without limitation, a vesting period. Share award must be taken up within 7 days of the grant upon payment of HK$1 per award. The total number of shares in respect of which shares may be granted under the Share Award Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time. The number of shares award which may be granted to any individual but unvested under the Share Award Scheme shall not exceed 1% of the total number of shares of the Company in issue at any point in time.

Subject to any early termination as may be determined by the Board pursuant to the rules of the Share Award Scheme, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on the Date of Adoption, after which period no further awards will be granted but the provisions of the Share Award Scheme shall remain in full force and effect to the extent necessary to give effect to the vesting of any awards granted prior to the expiration of the Share Award Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Award Scheme. On 28 March 2018, the Directors resolved to grant 9,580,000 of its shares ("**the Share Grants**") to employees of the Company pursuant to the Company's Share Award Scheme. Since the Date of Adoption of the Share Award Scheme and up to 31 December 2018, an aggregate of 9,580,000 Share Grants were granted pursuant to the Share Award Scheme subject to certain vesting criteria and conditions. The vesting of the Share Grants is subject to the employees remaining at all times after the grant date and on the vesting date a participant of the Company or any of its subsidiaries.

For the purpose of the Share Grants, the Company purchased its own ordinary shares for an aggregate of 9,580,000 shares on the Stock Exchange in July 2018 through Computershare Hong Kong Trustees Limited acting as its trustee.

Movements of the awarded shares granted under the Share Award Scheme and related fair value are as follows:

| | **Number of awarded shares** '000 |
|---|---|
| Granted on 28 March 2018 | 9,580 |
| Vested on 1 August 2018 | (4,940) |
| Lapsed | (250) |
| Unvested at 31 December 2018 | 4,390 |
| Vested on 2 January 2019 | (4,390) |
| Unvested at 31 December 2019 | – |

The fair value of the Share Grants is estimated based on the share price of the Company on date of grant of HK$1.59 and amounted to HK$15,232,000 (2019: nil) that has been fully recognised as share-based payment expenses during the year ended 31 December 2018.

## 40. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

### (b) Share Option Scheme

The Company's share option scheme (the "**Share Option Scheme**") was adopted pursuant to a written resolutions of all shareholders of the Company passed on 19 September 2016 for the primary purpose of providing incentives and awards to an employee (whether full time or part-time) or a director of a member of the Group or associated companies of the Company for their contribution to the Group and to align their interests with that of the Company ("**ESOS Eligible Person(s)**") so as to encourage them to work towards enhancing the value of the Company.

The Board may, at its absolute discretion, offer to grant an option (the "**Options**") to subscribe for such number of shares in the Company at a price determined by the Board, but shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares of the Company on the date of grant of the option.

The Share Option Scheme shall be valid and effective for a period of ten years commencing on 7 October 2016. Options granted must be taken up not later than 30 days after the date of grant. A consideration of HK$1 is payable on acceptance of the offer of grant of an option. The total number of shares in respect of which shares may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company as at 7 October 2016, without prior approval from the shareholders of the Company. No options shall be granted to any participant under the Share Option Scheme in excess of 1% of the total number of shares of the Company in issue at such date, without prior approval from the shareholders of the Company. At any time, the maximum number of shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the Share Option Scheme and any other schemes of the Company to ESOS Eligible Persons must not exceed 30% of the total number of shares of the Company from time to time.

The exercisable period of an option, which shall not exceed 10 years from 7 October 2016, is determined by the Board at their discretion.

No options have been granted since the adoption of Share Option Scheme.

## 41. RETIREMENT BENEFIT PLANS

### Hong Kong

The Group operates a scheme under Mandatory Provident Fund Schemes ("**MPF Scheme**") for its qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes at the lower of a specified amount or 5% of the relevant payroll costs monthly to the MPF Scheme, which contribution is matched by employees.

## 41. RETIREMENT BENEFIT PLANS (Continued)

### The PRC

The employees of the Group's subsidiaries in the PRC are members of the state-sponsored retirement benefit scheme organised by the relevant local government authority in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the payroll costs of their employees, to the retirement benefit scheme and have no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions.

### Taiwan

The Company participates in an employee's pension fund for all its employees in Taiwan. Starting from 1 July 2005, employees may choose a scheme where the rate of contribution by an employer should not be less than 6% of the employees' monthly salaries and the employees may also voluntarily contribute up to 6% of the monthly salaries to the provision fund account under the Labor Pension Act of Taiwan.

The scheme is a defined contribution scheme and is established under trust with the assets of the funds held separately from those of the Group by independent trustees.

During the year ended 31 December 2019, total amounts contributed by the Group to the schemes in Hong Kong, the PRC and Taiwan charged to profit or loss, which represent contributions payable to the schemes by the Group at rates specified in the rules of the schemes are approximately HK$10,590,000 (2018: HK$8,931,000).

## 42. PLEDGE OF ASSETS

The Group's bank borrowings and bills issued to relevant creditors had been secured by the pledge of the Group's assets and the carrying amounts of the respective assets are as follows:

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Debt instruments at FVTOCI | **–** | 4,232 |
| Financial assets at FVTPL | **127,820** | 127,494 |
| Pledged bank deposits | **161,373** | 103,664 |
| | **289,193** | 235,390 |

In addition, bank borrowings and bills issued to relevant creditors are also secured by personnel guarantees from a non-controlling shareholder for both years and certain trade receivables factored to banks for current year.

## 43. RELATED PARTIES DISCLOSURES

### (i) Transactions

The Group had the following transactions with related parties during the year:

| **Name of related parties** | Notes | **Nature of transactions** | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|---|---|
| 芯智股份有限公司 (Smart-Core Technology Co., Ltd "**SMC Taiwan**")* | (i) | Sales of goods | **2,823** | 2,117 |
| Quiksol International Components Pte Ltd ("**Quiksol International**") | (ii) | Sales of goods | **2,898** | 2,463 |
| | | Purchase of goods | **(690)** | – |

Notes:

(i) Mr. Tian, one of the directors and the ultimate controlling party of the Company, is a shareholder of SMC Taiwan.

(ii) A non-controlling shareholder of Quiksol HK, a subsidiary of the Company, is the controlling shareholder of Quiksol International.

* English name for identification only.

### (ii) Compensation of key management personnel

The remuneration of directors of the Company and other members of key management was as follows:

| | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| Short–term employee benefits | **5,738** | 5,002 |
| Post-employment benefits | **127** | 100 |
| Share-based payment | **–** | 716 |
| | **5,865** | 5,818 |

The remuneration of key management personnel is determined by the management of the Company having regard to the performance of individuals and market trends.

## 44. PARTICULAR OF PRINCIPAL SUBSIDIARIES

### 44a. General information of subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2019 and 2018 are as follows:

| Name of subsidiary | Place of incorporation/ establishment and operations | Issued and fully paid share capital/ registered capital | Equity interest and voting power indirectly attributable to the Group 2019 | 2018 | Principal activities |
|---|---|---|---|---|---|
| Smart-Core International Company Limited | Hong Kong | Ordinary shares HK$10,000,000 | **100%** | 100% | Trading of electronic components |
| Smart-Core Cloud Limited | Hong Kong | Ordinary shares HK$1,000,000 | **100%** | 100% | Trading of electronic components |
| SMC Technology SZ (note a) | The PRC | Registered capital RMB8,500,000 | **100%** | 100% | Trading of electronic components |
| 深圳市芯智雲信息技術有限公司 (note a) | The PRC | Registered capital RMB1,000,000 | **100%** | 100% | Trading of electronic components |
| 芯聯（廈門）科技有限公司 (note b) | The PRC | Registered capital RMB1,000,000 | **75%** | 75% | Provision of technical value-added services |
| Quiksol HK | Hong Kong | Ordinary shares HK$7,800,000 | **25%** | 25% | Trading of electronic components |
| 蘇州酷科電子有限公司 (note a, c) | The PRC | Registered capital RMB1,000,000 | **25%** | 25% | Trading of electronic components |
| UDStore Solutions Limited (note d) | Hong Kong/Taiwan | Ordinary shares US$500,000 | **75%** | – | Trading of electronic components |

Notes:

(a) The companies are registered in the form of wholly owned foreign enterprises.

(b) The company is sino-foreign equity joint ventures with limited liability.

(c) No share capital injected to the company as at 31 December 2018 and 2019.

(d) The company is newly established in 2019.

(e) The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the reporting period.

## 44. PARTICULAR OF PRINCIPAL SUBSIDIARIES (Continued)

### 44a. General information of subsidiaries (Continued)

The table below shows details of a non-wholly owned subsidiary of the Group that has material non-controlling interests:

| Name of subsidiary | Place of incorporation/ principal place of business | Proportion of ownership interests and held by non-controlling interests | | Profit (loss) allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | 2019 | 2018 | 2019 HK$'000 | 2018 HK$'000 (Restated) | 2019 HK$'000 | 2018 HK$'000 (Restated) |
| Quiksol Group | Hong Kong/ Hong Kong and the PRC | 75% | 75% | 7,800 | 1,233 | 51,043 | 43,239 |
| Individually immaterial subsidiaries with non–controlling interests | | | | (1,127) | (352) | 1,979 | 2,114 |
| | | | | 6,673 | 881 | 53,022 | 45,353 |

Summarised financial information in respect of Quiksol Group, which was acquired on 31 October 2018, is set out below. The summarised financial information below represents amounts before intragroup eliminations and fair value adjustments arising from the acquisition:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Current assets | 135,939 | 84,845 |
| Non-current assets | 1,038 | 870 |
| Current liabilities | 76,566 | 37,715 |
| Non-current liabilities | 92 | – |
| Equity attributable to owners of the Company | 15,080 | 12,000 |
| Non-controlling interests | 45,239 | 36,000 |

## 44. PARTICULAR OF PRINCIPAL SUBSIDIARIES (Continued)

### 44b. Details of non-wholly owned subsidiaries that have material non-controlling interests

| | From 1 January 2019 to 31 December 2019 HK$'000 | From 31 October 2018 (date of acquisition) to 31 December 2018 HK$'000 |
|---|---|---|
| Revenue | 462,963 | 73,273 |
| Expenses | (450,566) | (71,296) |
| Profit for the year/period | 12,397 | 1,977 |
| Profit attributable to owners of the Company | 3,099 | 494 |
| Profit attributable to non-controlling interests | 9,298 | 1,483 |
| Profit for the year/period | 12,397 | 1,977 |
| Other comprehensive income (expenses) attributable to owners of the Company | 1 | (4) |
| Other comprehensive income (expenses) attributable to non-controlling interests | 4 | (12) |
| Other comprehensive income (expenses) for the year/period | 5 | (16) |
| Total comprehensive income attributable to owners of the Company | 3,100 | 490 |
| Total comprehensive income attributable to non-controlling interests | 9,302 | 1,471 |
| Total comprehensive income for the year/period | 12,402 | 1,961 |
| Net cash used in operating activities | (48,300) | (6,470) |
| Net cash used in investing activities | (133) | – |
| Net cash from (used in) financing activities | 45,500 | (373) |
| Effect of foreign exchange rate changes | 15 | (13) |
| Net cash outflow | (2,918) | (6,856) |

## 45. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation as the directors of the Company consider that the new presentation is more relevant and appropriate to the consolidated financial statements. The changes included the reclassification of certain income and expenditure items presented in the consolidated statement of profit or loss and other comprehensive income.

## 46. EVENTS AFTER THE END OF THE REPORTING PERIOD

The Group has the following significant event after the end of the reporting period:

As a result of the outbreak of the coronavirus disease ("COVID-19") and subsequent quarantine measures imposed in China, some of the customers' operation were impacted by these measures and orders to the Group were delayed due to these measures in early 2020.

As the situation remains fluid as at the date these consolidated financial statements are authorised for issue, the management of the Company considered that the financial effects of the COVID-19 on the Group's consolidated financial statements cannot be reasonably estimated. Nevertheless, the COVID-19 outbreak is expected to affect the consolidated results of the Group for the first half and full year of 2020.

## 47. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is set out below:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Investments in subsidiaries | 183,760 | 183,760 |
| Amount due from a subsidiary | 69,730 | 93,458 |
| | 253,490 | 277,218 |
| **CURRENT ASSETS** | | |
| Amount due from a subsidiary | 2,149 | 25,205 |
| Other receivables | 449 | – |
| Bank balances | 259 | 4 |
| | 2,857 | 25,209 |
| **CURRENT LIABILITY** | | |
| Other payables and accrued charges | 826 | 966 |
| **NET CURRENT ASSETS** | 2,031 | 24,243 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES AND NET ASSETS** | 255,521 | 301,461 |
| **CAPITAL AND RESERVES** | | |
| Share capital (note 34) | 39 | 39 |
| Reserves | 255,482 | 301,422 |
| | 255,521 | 301,461 |

## 47. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Details of movement in reserves of the Company are as below:

| | Share premium HK$'000 | Treasury share reserve HK$'000 | Share-based payment reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2018 | 340,108 | – | – | (5,858) | 334,250 |
| Loss and total comprehensive expenses for the year | – | – | – | (15,453) | (15,453) |
| Recognition of equity-settled share-based payment | – | – | 15,232 | – | 15,232 |
| Purchase of shares under equity-settled share-based payment | – | (14,586) | – | – | (14,586) |
| Shares vested under the share award scheme | – | 7,706 | (7,855) | 149 | – |
| Forfeitures of shares awards | – | – | (397) | 397 | – |
| Dividend recognised as distribution | (25,000) | – | – | – | (25,000) |
| Acquisition of subsidiaries (note 35) | 6,979 | – | – | – | 6,979 |
| At 31 December 2018 | 322,087 | (6,880) | 6,980 | (20,765) | 301,422 |
| Loss and total comprehensive expenses for the year | – | – | – | (340) | (340) |
| Share vested under the share award scheme | – | 6,499 | (6,980) | 481 | – |
| Shares repurchased but not yet cancelled | – | (15,354) | – | – | (15,354) |
| Dividend recognised as distribution | (30,246) | – | – | – | (30,246) |
| At 31 December 2019 | 291,841 | (15,735) | – | (20,624) | 255,482 |

SMART-CORE HOLDINGS LIMITED
芯智控股有限公司