YORKEY

Stock Code : 2788

YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.

精熙國際(開曼)有限公司*

(incorporated in the Cayman Islands with limited liability)

Annual Report 2019

* For identification purpose only

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Corporate Information

Executive Directors

Lai I-Jen *(Chairman)*
Kurihara Toshihiko *(Chief Executive Officer)*

Non-Executive Director

Wu Shu-Ping

Independent Non-Executive Directors

Lin Meng-Tsung
Liu Wei-Li
Wang Yi-Chi

Company Secretary

Wong Tak Yee *(resigned on 30 April 2019)*
Lui Mei Yan Winnie *(appointed on 30 April 2019 and resigned on 23 December 2019)*
Cheng Choi Ha *(appointed on 23 December 2019)*

Registered Office

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman KY1-1111
Cayman Islands

Place of Business in Hong Kong

Workshops 1-2, 6th Floor
Block A, Goldfield Industrial Centre
1 Sui Wo Road
Shatin
New Territories
Hong Kong

Place of Business in the PRC

No. 2 Xiaobian Industrial District
Changan Town
Dongguan City
Guangdong Province
The PRC

Auditor

Deloitte Touche Tohmatsu

Principal Bankers

CTBC Bank Co., Ltd.
Bank SinoPac
China Construction Bank
China Merchants Bank
Industrial Bank

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Stock Code

2788

Website

www.yorkey-optical.com

Chairman's Statement

Annual Results

The Group's revenue for the financial year ended 31 December 2019 ("**FY2019**") was US$60,917,000, representing a decrease of approximately 12.6% as compared with US$69,703,000 for the previous year. The Group's net profit for FY2019 was US$5,036,000, representing a decrease of approximately 34.7% as compared with US$7,708,000 for the previous year.

Dividend

The board of directors of the Company (the "**Board**" and "**Directors**" respectively) proposed to declare a final dividend of HK$0.025 per share out of the Company's profits. Subject to approval of the shareholders for the final dividend, the Company expects to maintain a stable and sound financial position subsequent to the dividend distributions.

Business Review and Outlook

The Group is principally engaged in the manufacturing and sales of plastic and metallic parts and components of optical and opto-electronic products and manufacturing and sales of molds and cases, including plastic and metallic parts and components of digital still cameras ("**DSCs**"), action cameras, copier-based multifunction peripherals, surveillance cameras, projectors and advanced TVs, etc.

Chairman's Statement

The Group recorded revenue of US$60,917,000 in FY2019, representing a decrease of approximately 12.6% as compared with US$69,703,000 in the previous financial year. The Group recorded net profit of US$5,036,000 in FY2019, representing a decrease of approximately 34.7% as compared with US$7,708,000 in the previous financial year. The change in net profit of the Group is due to multiple factors, which mainly include: (1) the decrease in revenue in FY2019 which was mainly due to the decrease in revenue derived from the sale of components for DSCs as a result of the weak state of DSCs industry and the sale of components for other opto-electronic products; (2) the decrease in gross profit in FY2019 as compared with that in the previous financial year, which was mainly attributable to the decrease in revenue and the reduced efficiency in economies of scale; and (3) the decrease in exchange gain in FY2019 was recorded compared to that in the financial year ended 31 December 2018 ("**FY2018**"), which was attributable to the rate of depreciation in the exchange rate of Renminbi against United States Dollars for FY2019 is less than for FY2018 and the functional currency of a subsidiary of the Company is Renminbi whilst certain financial assets of such subsidiary are denominated in United States Dollars.

In FY2019, the Group continued to invest in technology and quality enhancement while high regard was paid to corporate governance for higher governance level. The concerted efforts of its staff have finally led to the appreciation and endorsement by the Group's customers for the product quality and advanced technology attained by the Group. The Group will keep up its commitment to the actualisation of its core value. In addition, the Group will respond to changes in the industry by continuing its efforts in product diversification in order to increase its competitiveness.

According to statistics announced by the Camera & Imaging Products Association ("**CIPA**"), the shipment volume of DSCs for FY2019 decreased by approximately 21.7% as compared with that in the corresponding period in the previous year. The Group's revenue derived from sale of components for DSCs accounts for a high proportion of the overall revenue, whilst the operating environment continues to be challenging. The core competitiveness of the Group lies in its highly sophisticated module technology and its manufacturing technology and capabilities which earns its customers' trust. The Group provides "one-stop" services to maintain its competitive edge.

Chairman's Statement

Looking ahead to 2020, the operating environment continues to be challenging.

Firstly, there is still uncertainty on future development although Sino-US trade tensions conflict is expected to ease after the phase-one trade deal was signed by the PRC and the U.S.

Secondly, the Epidemic has been expanded across the PRC and globally, and has affected supply chain management across the industry, which put the Group under pressure in respect of both production and sales. Governments around the world and international organizations have taken a series of prevention and control measures in an effort to contain the Epidemic. The Group follows instructions from the local government to appropriately practice prevention and control measures of the Epidemic.

Thirdly, the DSCs industry remains weak and large portion of the Group's revenue derived from the sale of components for DSCs products. Due to the impact from the shrinkage in the scale of the DSCs industry, the efficiency in economies of scale has increasingly reduced, and the Group is faced with considerable cost pressures.

Fourthly, the laws and regulations in the PRC for discharging air pollutants and factories activities became more stringent. As such, the Group continues to upgrade environmental protection treatment facilities to ensure the compliance of the laws and regulations.

In light of the challenging operating environment ahead, the Group will strengthen its financial structure. The management of the Group will continue to monitor the impact of the global economy on the Group's business operations and financial conditions. The Group will also optimise its capability, improvement in automation and efficiency as a guarantee for product quality and expenses control, and will diversify its product portfolio and develop products for other applications. The Group will also continue to comply with relevant regulations in respect of environmental protection and corporate governance.

Acknowledgement

On behalf of the Board, I would like to take this opportunity to extend my sincere thanks to our shareholders, customers and suppliers for their continuous support, as well as the management team and staff of the Group for their hard work and contributions in the past year.

LAI I-Jen
Chairman

Management Discussion and Analysis

Important

The final results for FY2019 set out in this annual report are based on audited financial information prepared under HKFRSs. As financial results are subject to fluctuations and affected by a number of factors, the Group's financial results for any past period should not be taken as indicative of any expected performance of the Group for any future period.

This annual report contains statements with respect to the operating conditions and business prospects of the Company which are based on currently available information. Such statements do not constitute guarantees of the future operating performance of the Group. If due to any unexpected factors, including, but are not limited to, changes in economic conditions, shifts in customer demands and changes in laws and regulatory policies, which may cause the Group's actual results to differ from those expressed in the statements, the Group undertakes no obligation to update or revise any such statements to reflect subsequent circumstances. The Group will, however, comply with all disclosure requirements stipulated by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

Operational and Financial Review

The Group is principally engaged in the manufacturing and sales of plastic and metallic parts and components of optical and opto-electronic products and manufacturing and sales of molds and cases, including plastic and metallic parts and components of DSCs, action cameras, copier-based multifunction peripherals, surveillance cameras, projectors and advanced TVs, etc.

The Group recorded revenue of US$60,917,000 in FY2019, representing a decrease of approximately 12.6% as compared with US$69,703,000 in the previous financial year. The Group recorded net profit of US$5,036,000 in FY2019, representing a decrease of approximately 34.7% as compared with US$7,708,000 in the previous financial year. The change in net profit of the Group is due to multiple factors, which mainly include: (1) the decrease in revenue in FY2019 which was mainly due to the decrease in revenue derived from the sale of components for DSCs as a result of the weak state of DSCs industry and the sale of components for other opto-electronic products; (2) the decrease in gross profit in FY2019 as compared with that in the previous financial year, which was mainly attributable to the decrease in revenue and the reduced efficiency in economies of scale; and (3) the decrease in exchange gain in FY2019 was recorded compared to that in FY2018, which was attributable to the rate of depreciation in the exchange rate of Renminbi against United States Dollars for FY2019 is less than for FY2018 and the functional currency of a subsidiary of the Company is Renminbi whilst certain financial assets of such subsidiary are denominated in United States Dollars.

In FY2019, the Group continued to invest in technology and quality enhancement while high regard was paid to corporate governance for higher governance level. The concerted efforts of its staff have finally led to the appreciation and endorsement by the Group's customers for the product quality and advanced technology attained by the Group. The Group will keep up its commitment to the actualisation of its core value. In addition, the Group will respond to changes in the industry by continuing its efforts in product diversification in order to increase its competitiveness.

Management Discussion and Analysis

Key Relationships with Customers, Suppliers and Employees

The Group places great importance on building a mutually beneficial relationship with its customers by offering competitively priced products to them, which in turn has helped to nurture a closer relationship with the Group's customers. The Group's largest customer and top five customers accounted for approximately 15.8% and 51.9% of its revenue for FY2019, respectively. The top five customers include internationally renowned brands which have had a long history of substantial business dealings with the Company. The Group offers credit terms ranging from an average of 60 days to 120 days to the top five customers, which is in line with those offered to other customers, except for a few customers who are offered longer credit term.

As of 31 December 2019, there was no allowance for credit losses for all customers as compared with US$1,000 as at 31 December 2018.

The Group cooperates with its suppliers and purchases various raw materials and materials from them at competitive prices. The aggregate purchases attributable to the Group's largest supplier and the top five suppliers accounted for approximately 5.9% and 19.3% of the Group's total purchases for FY2019, respectively.

The Group has implemented and maintained sound and effective systems of internal control and enterprise risk management to assess and monitor relevant potential risks.

Employment, Training and Development

As at 31 December 2019, the Group had a total of 1,592 employees (as at 31 December 2018: 1,960 employees). Staff costs incurred for FY2019 amounted to US$19,739,000 (FY2018: US$20,535,000).

The emolument of the employees of the Group is determined on the basis of their performance, qualifications and work competence. In addition, other benefits including allowances and subsidies are offered to employees for accommodation needs and continuous education; and discretionary bonus is granted to employees with good performance. All employees are entitled to social insurance and other paid leaves in addition to annual leaves such as marriage, maternity and bereavement leaves. Employees are important assets to the Group. Performance appraisal measures are in place to facilitate the conveyance of advocated values and behavior to every staff member who would then know clearly about the requirements of the Group. The Group's staff are also encouraged to carry out operating strategies and achieve targets set by the Company.

The Group places high value on its staff and ensures that a fair and just promotion system is in place and has established sound environment, health and safety policies to ensure that the Group remains competitive in the market to attract various talents. The Group has implemented a long-term and stable human resource policy to attract and retain quality talents and to provide incentives for its staff to enhance performance with commitment to employee training and development on a regular basis in order to maintain the quality of its products.

Management Discussion and Analysis

Revenue

The Group's revenue for FY2019 was US$60,917,000, representing a decrease of approximately 12.6% as compared with US$69,703,000 in the previous financial year. The decrease in revenue was mainly due to the decrease in revenue derived from the sale of components for DSCs as a result of the weak state of the DSCs industry and the sale of components for other opto-electronic products.

The Group's revenue for FY2019 was mainly derived from the sale of components for DSCs which contributed to approximately 56.6% of its revenue (excluding action cameras). However, according to statistics announced by CIPA, the shipment volume of DSCs for FY2019 decreased by approximately 21.7% as compared with that in the corresponding period in the previous year.

Gross Profit

The Group's gross profit for FY2019 was US$14,462,000 and the gross profit margin was approximately 23.7% (FY2018: gross profit of US$17,943,000 and gross profit margin of approximately 25.7%), representing a decrease of US$3,481,000 or 19.4% as compared with those in the previous financial year. Such decrease was mainly attributable to the decrease in revenue and the reduced efficiency in economies of scale.

Other Income, Gains and Losses

In FY2019, other gains of the Group amounted to US$3,384,000 (comprised bank interest income of US$1,827,000, rental income of US$492,000, exchange gain of US$968,000, gain on disposal of fixed assets of US$15,000 and miscellaneous income of US$82,000). In FY2018, other gains of the Group amounted to US$4,027,000 (comprised bank interest income of US$1,879,000, rental income of US$504,000, exchange gain of US$1,586,000, net reversal of impairment loss on trade receivables of US$39,000 and miscellaneous income of US$19,000). Bank interest income for FY2019 recorded a decrease as compared with that in the previous financial year, which was mainly attributable to the decrease of United States Dollars denominated deposit in the second half of 2019 as compared with that in the corresponding period in the previous year, and the gradual decline of United States Dollars denominated deposit rates as compared with those in the corresponding period in the previous year. The decrease in exchange gain for FY2019 compared to the exchange gain for the previous financial year which was attributable to the rate of depreciation in the exchange rate of Renminbi against United States Dollars for FY2019 is less than that for the previous financial year and the functional currency of a subsidiary of the Company is Renminbi whilst certain financial assets of such subsidiary are denominated in United States Dollars.

Management Discussion and Analysis

Operating Expenses

The operating expenses of the Group include distribution costs, administrative expenses and research and development expenses. The operating expenses of the Group for FY2019 amounted to US$12,020,000, representing a decrease of US$737,000 or 5.8% as compared with US$12,757,000 in the previous financial year. Such decrease was mainly due to the Group's active control on the operating expenses.

The administrative expenses of the Group for FY2019 has included a total fine of RMB3.3 million (equivalent to US$479,000) which is composed of the original fine of RMB110,000 and additional fine of RMB3.19 million, imposed on Dongguan Yorkey Optical Machinery Components Ltd. ("**Dongguan Yorkey**"), an indirect wholly-owned subsidiary of the Company, by Dongguan Municipal Ecology and Environment Bureau ("**Dongguan Municipal EEB**"). For further details, please refer to the announcement of the Company dated 31 December 2019.

Interest Expenses

The interest expenses of the Group are the interest expenses on lease liabilities amounting to US$131,000 after the adoption of HKFRS 16 since 1 January 2019.

Net Profit

The Group's net profit for FY2019 was US$5,036,000 and the net profit margin was approximately 8.3% (FY2018: net profit of US$7,708,000 and net profit margin of approximately 11.1%), representing a decrease of approximately 34.7% as compared with those in the previous financial year. Such decrease was mainly due to the decrease in revenue leading to the decrease in gross profit and decrease in other income and gains, but part of which was offset by the decrease in operating expenses and the decrease in PRC income tax expense.

Liquidity and Financial Resources

As at 31 December 2019, the Group had current assets of US$98,036,000 (as at 31 December 2018: US$110,030,000) and current liabilities of US$22,063,000 (as at 31 December 2018: US$22,802,000). The current ratio of the Group was approximately 444% (as at 31 December 2018: approximately 483%).

As at 31 December 2019, the Group had cash at bank and on hand of US$83,641,000 (as at 31 December 2018: US$93,945,000), and no bank borrowing. Net cash decreased by US$10,304,000 from 31 December 2018.

Net cash inflow from operating activities for FY2019 was US$6,915,000.

Net cash inflow from investing activities for FY2019 was US$1,034,000, which comprised (i) interest received of US$1,827,000; (ii) cash outflow from capital expenditure in various business divisions of the Group of US$929,000 and (iii) cash inflow from other investment activities of US$136,000.

Management Discussion and Analysis

Net cash outflow used in financing activities for FY2019 was US$17,509,000, which comprised (i) cash dividend paid during FY2019 of US$16,137,000; (ii) repayment of lease liabilities of US$1,167,000; (iii) interest paid on lease liabilities amounting to US$131,000 after the adoption of HKFRS 16 since 1 January 2019 and (iv) repurchase of shares of US$74,000.

Effect of foreign exchange rate changes for FY2019 was US$744,000.

Possible Risks and Uncertainties Facing the Group

Foreign Currency Risk

Foreign currency risk refers to the risks associated with the foreign exchange rate movements on the financial results and cash flows of the Group. The Group is mainly exposed to currencies of Hong Kong Dollars, Japanese Yen and Renminbi. The gains of the Group are mainly settled in United States Dollars, while others are in Renminbi, Hong Kong Dollars and Japanese Yen. The expenses of the Group are mainly paid in Renminbi, while others are in United States Dollars, Hong Kong Dollars and Japanese Yen. The exchange rate fluctuation between Hong Kong Dollars and United States Dollars is not significant as the exchange rates are pegged to each other. There was exchange gain associated with Japanese Yen denominated net assets due to appreciation of Japanese Yen against United States Dollars during FY2019, although the amount was minimal. As the functional currency of a subsidiary of the Company is Renminbi, during FY2019, the Group recorded exchange gain due to depreciation of Renminbi against United States dollars. In order to reduce foreign currency risk, the management of the Group will continue to monitor its foreign currency position, using natural hedge technique and managing its foreign currency risk by means such as management of transactional currencies.

Capital Risk

The capital risk management of the Group is set out in note 25 on page 131.

Financial Risk

The financial risk management of the Group is set out in note 26 on pages 132 to 137.

Business Risk

The Group's revenue is mainly generated from the sale of components for DSCs. The weak state of the DSCs industry during FY2019 resulted in the shrinkage in the scale of revenue, which led to the decrease in revenue generated from the sale of components for DSCs of the Group. The weak state of the DSCs industry may continue to have an adverse impact on revenue and profit. The Group's top five customers accounted for approximately 51.9% of its revenue for FY2019, and the Group's revenue and profit are affected by the performance of such customers. Therefore, the Group will strive to expand its customer base and develop the application of diversified products. Meanwhile, the Group will pay attention to and strengthen expenses control to enhance its competitiveness.

Apart from the aforesaid changes in the industry environment, there is still uncertainty on future development although Sino-US trade tensions conflict is expected to ease after the phase-one trade deal was signed by the PRC and the US. Moreover, the outbreak of the Epidemic has affected supply chain management across the industry, which put the Group under pressure in respect of both production and sales. The management of the Group will continue to monitor its impact on the Group's business operations and financial conditions.

Management Discussion and Analysis

Reference is made to the Company's announcement dated 11 February 2020 in relation to the impact of the outbreak of respiratory illness caused by novel coronavirus (COVID-19) ("**Epidemic**"). Based on a preliminary assessment of the information currently available to the Group, as a result of the impact caused by the Epidemic, which is beyond the control of the Group, it is currently expected that the Group's revenue for the six months ending 30 June 2020 will be adversely affected. At the current stage, the Group is unable to make a reasonable and meaningful estimate as to the magnitude of the possible adverse impact on the Group's revenue for the six months ending 30 June 2020 as it is affected by many factors. The Board would like to remind shareholders and potential investors that our view is based on a preliminary assessment on information currently available to the Group. Hence, our view is subject to possible adjustments upon further internal review. Further announcement will be made by the Company in accordance with the Listing Rules.

Regulation and Compliance Risk

The Group is exposed to legal and regulatory risks in Hong Kong and in the PRC. Such risks might have significant impacts on the financial conditions, operations and business prospects of the Group. The investments of the Group at present or in the future might be affected by local, national or international changes in political, social, legal, tax, regulatory, shareholder and environmental requirements from time to time and the growth of environmental protection importance could result in an additional or unforeseen increase in operating expenses and capital expenditures, and hence may adversely affect the Group's revenues and profits.

References are made to the announcements of the Company dated 23 December 2019 and 31 December 2019. In order to reduce the exhaust gas from production discharged by the factory of Dongguan Yorkey to meet the air pollutant discharge standards, Dongguan Yorkey has set up a special project team to formulate rectification measures for the detected excessive pollution, and upgraded the exhaust gas treatment facilities. It has also suspended production of the spray painting process and entrusted other companies that met the standards to assist in processing until the exhaust gas treatment facilities were upgraded. During the second on-site visit, the implementation works of the rectification measures in response to the order made by Dongguan Municipal EEB were in progress. Upon the receipt of the decision on administrative penalty (Dong Huan Fa Zi [2019] No. 4169) (《行政處罰決定書》 (東環罰字) [2019] 4169號) (the "**Decision**"), Dongguan Yorkey has commenced rectification measures in response to the Decision to ensure the exhaust gas from production in compliance with the pollutant discharge standards. In addition, Dongguan Yorkey has paid the fine within the prescribed period and seek legal advice in respect of the Decision.

The Group keeps monitoring regulatory developments and where necessary, will obtain professional advice in respect of the updated regulatory changes.

Contingent Liabilities

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

Management Discussion and Analysis

Capital Commitment

As at 31 December 2019, the capital commitment of the Group was US$456,000 (as at 31 December 2018: US$11,000).

Significant Investment

The Group held no significant investment for FY2019.

During the financial year ended 31 December 2016, the Group acquired a property located at Workshops 01-09 on 26th Floor & Flat Roof Above the 26th Floor, CRE Centre, No. 889 Cheung Sha Wan Road, Kowloon, Hong Kong, at a purchase price of HK$42,800,000. The property is an industrial property with a gross area of approximately 8,854 square feet.

The property is currently leased to an independent third party.

Material Acquisition and Disposal of Subsidiaries

The Group did not have any material acquisition or disposal of subsidiaries during FY2019 (2018: Nil).

Pledge of Assets

There was no pledge of the Group's assets as at 31 December 2019 and 2018, respectively.

Outlook

According to statistics announced by CIPA, the shipment volume of DSCs for FY2019 decreased by approximately 21.7% as compared with that in the corresponding period in the previous year. The Group's revenue derived from sale of components for DSCs accounts for a high proportion of the overall revenue, whilst the operating environment continues to be challenging. The core competitiveness of the Group lies in its highly sophisticated module technology and its manufacturing technology and capabilities which earns its customers' trust. The Group provides "one-stop" services to maintain its competitive edge.

Looking ahead to 2020, the operating environment continues to be challenging.

Firstly, there is still uncertainty on future development although Sino-US trade tensions conflict is expected to ease after the phase-one trade deal was signed by the PRC and the U.S.

Secondly, the Epidemic has been expanded across the PRC and globally, and has affected supply chain management across the industry, which put the Group under pressure in respect of both production and sales. Governments around the world and international organizations have taken a series of prevention and control measures in an effort to contain the Epidemic. The Group follows instructions from the local government to appropriately practice prevention and control measures of the Epidemic.

Management Discussion and Analysis

Thirdly, the DSCs industry remains weak and large portion of the Group's revenue derived from the sale of components for DSCs products. Due to the impact from the shrinkage in the scale of the DSCs industry, the efficiency in economies of scale has increasingly reduced, and the Group is faced with considerable cost pressures.

Fourthly, the laws and regulations in the PRC for discharging air pollutants and factories activities became more stringent. As such, the Group continues to upgrade environmental protection treatment facilities to ensure the compliance of the laws and regulations.

In light of the challenging operating environment ahead, the Group will strengthen its financial structure. The management of the Group will continue to monitor the impact of the global economy on the Group's business operations and financial conditions. The Group will also optimise its capability, improvement in automation and efficiency as a guarantee for product quality and expenses control, and will diversify its product portfolio and develop products for other applications. The Group will also continue to comply with relevant regulations in respect of environmental protection and corporate governance.

Final Dividend

The Board proposed to declare and distribute to the shareholders a final dividend of HK$0.025 per share. It is expected that the final dividend will be paid on or before Tuesday, 4 August 2020.

Including the interim dividend of HK$0.019 per share paid to the shareholders on Thursday, 3 October 2019 and the final dividend to be paid in the future, total dividend paid to the shareholders for FY2019 will be HK$0.044 per share, bringing a dividend payout ratio of approximately 91.9%.

Profile of Directors and Senior Management

Executive Directors

Mr. LAI I-Jen (賴以仁), aged 71, joined the Group in December 2005 and is an executive Director and the chairman of the Company. He is also the chairman of Yorkey Optical Technology Limited, a direct wholly-owned subsidiary of the Company. Mr. Lai has over 30 years of experience in the manufacturing and sales of optical components and opto-electronic products. Mr. Lai is currently the chairman of Asia Optical Co., Inc. ("**Asia Optical**", an indirect substantial shareholder of the Company), a company listed on the Taiwan Stock Exchange. Asia Optical is principally engaged in the design, manufacturing and sales of optical parts and components and opto-electronic products.

Mr. Lai is also currently the chairman and chief operating manager of Asia Tech Image Inc. ("**Asia Tech**"), a company listed on the Taiwan's GreTai Securities Market and holds directorship in various companies. Asia Tech is held by Asia Optical as to 26.2%, and is principally engaged in the trading of image sensor and electronic related parts and components.

Mr. Lai has substantial experiences and international vision in business management, marketing and global logistics.

Mr. KURIHARA Toshihiko (栗原俊彥), aged 66, joined the Group in July 2016 and is an executive Director and the Chief Executive Officer of the Company. He is also a member of the nomination committee of the Company, a director of Yorkey Optical Technology Limited, a direct wholly-owned subsidiary of the Company and the chairman of Dongguan Yorkey Optical Machinery Components Ltd., an indirect wholly-owned subsidiary of the Company. Mr. Kurihara graduated from Sophia University with a major in mechanical engineering and has over 30 years of experience in the optical disk pickup industry. Prior to joining the Group, Mr. Kurihara has served various positions in Pioneer Corporation ("**Pioneer**"), a company listed in Japan which manufactures and sells audio and video equipment for household, industrial, and automobile use. Mr. Kurihara joined Pioneer in 1977 and had served in many managerial positions in the pickup development and sales department of Pioneer from April 1992 to September 2009. Subsequently, from October 2009 to April 2012, Mr. Kurihara served as the chief executive officer of Pioneer Digital Design and Manufacturing Corporation, a joint venture of Pioneer and Sharp. He was an executive officer of Pioneer from June 2012 to June 2015. Mr. Kurihara was a consultant of Pioneer from June 2015 to June 2016. He had served as a director of Fortune Lands International Limited ("**Fortune Lands**"), the trustee of The Yorkey Employees' Trust, since June 2017 and resigned in February 2018.

Profile of Directors and Senior Management

Non-Executive Director

Ms. WU Shu-Ping (吳淑品), aged 57, joined the Group in December 2005 and is a non-executive Director. Ms. Wu is currently a director of Asia Optical and a director and an executive manager of Asia Tech and holds directorship in various companies. She had been successfully involved in the listing, overseas financing and merger & acquisition projects of Asia Optical.

Independent Non-Executive Directors

Mr. LIN Meng-Tsung (林孟宗), aged 46, was appointed as an independent non-executive Director in June 2017. Mr. Lin is also the chairman of the audit committee, nomination committee and remuneration committee of the Company. Mr. Lin graduated from Feng Chia University in Taiwan majoring in accounting and is a qualified accountant and bookkeeper in Taiwan. Mr. Lin had served in an international accounting firm from July 1997 to August 2011, during which he was mainly responsible for providing auditing and taxation services to listed companies and corporations. He is currently a certified public accountant and the director of Kung Long Certified Public Accountants (廣隆會計師事務所) in Taiwan. Mr. Lin had served as a director of Fortune Lands since June 2017 and resigned in October 2017.

Mr. LIU Wei-Li (劉偉立), aged 39, was appointed as an independent non-executive Director in June 2017. Mr. Liu is also a member of the audit committee, nomination committee and remuneration committee of the Company. Mr. Liu received a master of laws for science and technology and a bachelor of science degree in engineering from National Tsing Hua University in Taiwan, as well as an LL.M. degree from Stanford University. Mr. Liu is a lawyer qualified in both Taiwan and the New York State, and is a patent agent of Taiwan. He had many years of experience with international law firms. Mr. Liu is now a counsel at LCC Partners Law Office. Mr. Liu's areas of expertise are intellectual property, cross-border investment, venture capital and commercial litigation. With an engineering background, he has extensive experience in providing solutions for technology companies as well as for start-up companies.

Mr. WANG Yi-Chi (王逸琦), aged 48, was appointed as an independent non-executive Director in May 2012. Mr. Wang is also a member of the audit committee, nomination committee and remuneration committee of the Company. Mr. Wang holds a doctoral degree in industrial engineering from Mississippi State University in the United States. His areas of expertise are lean enterprise transformation and gemba kaizen. Mr. Wang has published numerous research articles in some international journals and he is currently a full-time professor with the Department of Industrial Engineering and Systems Management at Feng Chia University in Taiwan. Mr. Wang had served as a director of Fortune Lands since March 2013 and resigned in October 2017.

Profile of Directors and Senior Management

Senior Management

Mr. CHAN Sun-Ko (詹孫科), aged 51, is the deputy general manager of Dongguan Yorkey Optical Machinery Components Ltd. (an indirect wholly-owned subsidiary of the Company), and assists the Chief Executive Officer in undertaking various duties. Mr. Chan is the head of each of the mould technology department, metal stamping department, plastic injection and moulding department, surface treatment processing department, assembly department, cases and bags department, quality assurance division and sales and marketing department of the Group. Mr. Chan had worked in other companies in the plastic moulding industry and has more than 20 years of experience in this industry. He is responsible for overseeing production, technique and quality for the Group. He joined the Group in July 1998.

Ms. LIANG Li-Li (梁黎黎), aged 43, joined the Group in March 2005. Ms. Liang is currently a senior manager of the Group's finance department and is responsible for accounting work.

Company Secretary

Ms. CHENG Choi Ha (鄭彩霞), was appointed as the company secretary of the Company with effect from 23 December 2019. Ms. Cheng is currently a manager of the Corporate Services Division of Tricor Services Limited, which is an Asia's leading business expansion specialist specializing in integrated business, corporate and investor services. She is a Chartered Secretary, a chartered governance professional and an Associate of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom. Ms. Cheng holds a Bachelor of Business Administration. Ms. Cheng has over 10 years of experience in the corporate secretarial field. She has been providing professional corporate services to Hong Kong listed companies, as well as multinational, private and offshore companies. Ms. Cheng is a core team member for providing company secretarial services to various companies listed on The Stock Exchange of Hong Kong Limited.

Report of the Directors

The Board hereby presents the annual report and the audited financial statements of the Group for the year ended 31 December 2019.

Principal Activities

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 29 to the consolidated financial statements on page 139.

Business Review

An analysis of the Group's revenue and operating segments for the year ended 31 December 2019 are set out in note 5 to the consolidated financial statements on pages 112 to 113. A fair evaluation on the Group's operation, including the description of principal risks and uncertainties facing the Group are set out in the section headed "Management Discussion and Analysis" on pages 10 to 11.

Financial Key Performance Indicators

The following table shows the key financial ratios indicating the performance of the Group:

Financial year ended 31 December	2019	2018
Gross profit margin (%)[1]	**23.7**	25.7
Net profit margin (%)[2]	**8.3**	11.1
Return on assets (%)[3]	**5.1**	7.5

At 31 December	2019	2018
Gearing ratio (%)[4]	**0**	0
Current ratio (%)[5]	**444**	483
Average trade receivables collection period (days)[6]	**64**	63
Average trade payables repayment period (days)[7]	**87**	84

Notes:

1. Gross profit margin = Gross profit/Revenue x 100%
2. Net profit margin = Net profit/Revenue x 100%
3. Return on assets = Net profit before tax/Total assets
4. Gearing ratio = Net debt/Equity attributable to owners of the Company
5. Current ratio = Current assets/Current liabilities
6. Average trade receivables collection period = (Average trade receivables/Revenue) x 365. Detailed analysis on trade receivables is set out in note 16 to the consolidated financial statements on pages 124 to 125.
7. Average trade payables repayment period = (Average trade payables/Cost of goods sold) x 365. Detailed analysis on trade payables is set out in note 19 to the consolidated financial statements on pages 126 to 127.

Report of the Directors

Environmental Policy and Performance

As society places more importance on corporate social responsibility, the Group realises the importance of a sustainable business operation. As we mainly utilise natural resources from our environment for the manufacturing of our optical and opto-electronic product related parts and components, we are aware of the important role and responsibility in protecting the environment and maintaining environmental sustainability.

The Group is committed to environmental protection. Therefore, we have formulated an environmental policy and implemented the ISO 14001 environmental management system to lead our business operations in a more environmentally friendly manner in order to effectively manage the environmental issues in our operations. In addition, through replacing old equipment, pursuing cleaner means of production and improving resource efficiency, we have reduced the use of resources and the pollutants emission to minimise the impact on the environment arising from our operations. These measures enable the Group to continue to improve its environmental performance.

Further details are set out in the section headed "Environmental, Social and Governance Report" of this annual report.

Compliance with Relevant Laws and Regulations

Save as disclosed on page 11 under the paragraph headed "Regulation and Compliance Risk" in the "Management Discussion and Analysis" section of this annual report, during FY2019, there was no evidence of non-compliance with the relevant laws and regulations that have significant impacts on the Group as far as the Board is aware.

Key Relationships with Customers, Suppliers and Employees

Customers

The Group places great importance on building a mutually beneficial relationship with its customers by offering competitively priced products to them, which in turn has helped to nurture a closer relationship with the Group's customers. The Group's largest customer and top five customers accounted for approximately 15.8% and 51.9% of its revenue for FY2019, respectively. The top five customers include internationally renowned brands which have had a long history of substantial business dealings with the Company. The Group offers credit terms ranging from an average of 60 days to 120 days to the top five customers, which is in line with those offered to other customers, except for a few customers who are offered longer credit term.

As of 31 December 2019, there was no allowance for credit losses for all customers as compared with US$1,000 as at 31 December 2018.

Report of the Directors

Suppliers

The Group cooperates with its suppliers and purchases various raw materials and materials from them at competitive prices. The aggregate purchases attributable to the Group's largest supplier and the top five suppliers accounted for approximately 5.9% and 19.3% of the Group's total purchases for FY2019, respectively.

The Group has implemented and maintained sound and effective systems of internal control and enterprise risk management to assess and monitor relevant potential risks.

Employment, Training and Development

As at 31 December 2019, the Group had a total of 1,592 employees (as at 31 December 2018: 1,960 employees). Staff costs incurred for FY2019 amounted to US$19,739,000 (FY2018: US$20,535,000).

The emolument of the employees of the Group is determined on the basis of their performance, qualifications and work competence. In addition, other benefits including allowances and subsidies are offered to employees for accommodation needs and continuous education; and discretionary bonus is granted to employees with good performance. All employees are entitled to social insurance and other paid leaves in addition to annual leaves such as marriage, maternity and bereavement leaves. Employees are important assets to the Group. Performance appraisal measures are in place to facilitate the conveyance of advocated values and behavior to every staff member who would then know clearly about the requirements of the Group. The Group's staff are also encouraged to carry out operating strategies and achieve targets set by the Company.

The Group places high value on its staff and ensures that a fair and just promotion system is in place and has established sound environment, health and safety policies to ensure that the Group remains competitive in the market to attract various talents. The Group has implemented a long-term and stable human resource policy to attract and retain quality talents and to provide incentives for its staff to enhance performance with commitment to employee training and development on a regular basis in order to maintain the quality of its products.

Results

The results of the Group for the year are set out in the consolidated statement of profit or loss and other comprehensive income on page 84 of this annual report.

Five Year Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 142 of this annual report.

Dividend

The Board proposed to declare and distribute to the shareholders a final dividend of HK$0.025 per share. It is expected that the final dividend will be paid on or before Tuesday, 4 August 2020.

Including the interim dividend of HK$0.019 per share paid to the shareholders on Thursday, 3 October 2019 and the final dividend proposed to be paid, total dividend paid to the shareholders for FY2019 will be HK$0.044 per share, bringing a dividend payout ratio of approximately 91.9%.

Report of the Directors

Share Capital

Details of the movements in the issued share capital of the Company during FY2019 are set out in note 21 to the consolidated financial statements on pages 128 to 129.

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2019 amounted to approximately US$64,872,000.

Reserves

Details of the movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 86 and note 30 to the consolidated financial statements on pages 140 to 141.

Investment Properties

During the financial year ended 31 December 2016, the Group acquired a property located at Workshops 01-09 on 26th Floor & Flat Roof Above the 26th Floor, CRE Centre, No. 889 Cheung Sha Wan Road, Kowloon, Hong Kong, at a purchase price of HK$42,800,000. The property is an industrial property with a gross area of approximately 8,854 square feet.

The property is currently leased to an independent third party.

Property, Plant and Equipment

Details of the movement in property, plant and equipment of the Group during FY2019 are set out in note 12 to the consolidated financial statements on pages 121 to 122.

Major Customers and Suppliers

The aggregate sales attributable to the Group's largest customer and the five largest customers accounted for approximately 15.8% and 51.9% of the Group's total revenue for FY2019, respectively.

The aggregate purchases attributable to the Group's largest supplier and the five largest suppliers accounted for approximately 5.9% and 19.3% of the Group's total purchases for FY2019, respectively.

To the best knowledge of the Directors and their respective associates, none of them are aware of any shareholder who owns more than 5% of the issued share capital of the Company and has any interest in any of the top five customers and suppliers of the Group for FY2019.

Report of the Directors

Directors and Directors' Service Contracts

During FY2019 and up to the date of this annual report, the Directors were:

Executive Directors:

Mr. Lai I-Jen *(Chairman)*
Mr. Kurihara Toshihiko *(Chief Executive Officer)*

Non-executive Director:

Ms. Wu Shu-Ping

Independent non-executive Directors:

Mr. Lin Meng-Tsung
Mr. Liu Wei-Li
Mr. Wang Yi-Chi

The biographical details of the Directors are set out on pages 14 to 15 of this annual report.

Mr. Lai I-Jen (executive Director) entered into a letter of appointment with the Company for a term of one year commencing from 7 June 2013. Mr. Kurihara Toshihiko (executive Director) entered into a service contract with the Company for a term of one year commencing from 10 March 2017. The letter of appointment and the service contract will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

The non-executive Director, Ms. Wu Shu-Ping, has been appointed for an initial term of one year commencing from 20 December 2005 and shall continue thereafter until terminated by not less than three months' prior notice in writing served by either party on the other. In addition, Ms. Wu's appointment is subject to retirement by rotation in accordance with the Company's Articles of Association.

Mr. Wang Yi-Chi (independent non-executive Director) has been appointed for a term of one year commencing from 24 May 2012. Each of Mr. Lin Meng-Tsung (independent non-executive Director) and Mr. Liu Wei-Li (independent non-executive Director) has been appointed for a term of one year commencing from 15 June 2017. In addition, the appointment of each of the independent non-executive Directors is subject to retirement by rotation in accordance with the Company's Articles of Association.

Other than disclosed above, none of the Directors has entered or has proposed to enter into any service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employing company within one year without payment of compensation (other than statutory compensation)).

Report of the Directors

The Company had received written confirmations from each of the Company's independent non-executive Directors of their independence and considered all independent non-executive Directors to be independent. Despite respective directorship of Mr. Wang Yi-Chi held from March 2013 to October 2017 and Mr. Lin Meng-Tsung held from June 2017 to October 2017 at Fortune Lands International Limited ("**Fortune Lands**"), the trustee of The Yorkey Employees' Trust, the Company considered the said independent non-executive Directors to be independent taking into account the fact that the main duty of holding such directorship at Fortune Lands was to consider rewarding the Group's employees which the Company was of the view that it did not have an impact on their independence. In accordance with the provisions of the Company's Articles of Association, Mr. Lai I-Jen, Mr. Kurihara Toshihiko, Ms. Wu Shu-Ping, Mr. Lin Meng-Tsung, Mr. Liu Wei-Li and Mr. Wang Yi-Chi will retire from the Board at the forthcoming annual general meeting and being eligible, will offer themselves for re-election. Details of Directors' emoluments on a named basis are set out in note 7 to the consolidated financial statements on pages 115 to 116 of this annual report.

Directors and Chief Executive's Interests in Shares

As at 31 December 2019, the interest or short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SFO**") which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") to be notified to the Stock Exchange and the Company, are set out below:

1. Long positions in the shares, underlying shares and debentures of the Company

As at 31 December 2019, none of the Directors or chief executive of the Company had any long position in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

Report of the Directors

2. Short positions in the shares, underlying shares and debentures of the Company and interests and short positions in the shares, underlying shares and debentures of the Company's associated corporation

As at 31 December 2019, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any interest or short position in the shares, underlying shares or debentures of the Company's associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Stock Exchange and the Company pursuant to the Model Code.

At no time during FY2019 was the Company, its subsidiaries or its associated companies a party to any arrangement to enable the Directors (including their spouse and children under 18 years of age) to acquire benefits by an acquisition of shares or underlying shares, or debentures of, the Company or its associated corporation.

Directors' Interest in Contracts of Significance

Save as disclosed in note 28 to the consolidated financial statements, no significant contract to which the Company or any of its subsidiaries was a party and in which a Director had material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Rights to Acquire Shares

At no time during FY2019 was the Company, its substantial shareholders or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

Substantial Shareholders

As at 31 December 2019, the interests or short positions of every person, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

Report of the Directors

1. Long position in the shares and underlying shares of the Company

Name of shareholder of the Company	Type of interest	Number of shares/ underlying shares in the Company	Percentage of the issued share capital in the Company
Asia Optical International Ltd.	Beneficial owner	186,833,000	22.79%
Asia Optical Co., Inc.	Interest in a controlled corporation	226,833,000 *(Note 1)*	27.67%
Ability Enterprise (BVI) Co., Ltd.	Beneficial owner	143,817,000	17.54%
Ability Enterprise Co., Ltd.	Interest in a controlled corporation	143,817,000 *(Note 2)*	17.54%
Fortune Lands International Limited	Founder of discretionary trust	113,000,000 *(Note 3)*	13.78%
Mr. Chan Sun-Ko	Interest in a controlled corporation	113,000,000 *(Note 4)*	13.78%
Ms. Wu Bo-Yan	Interest of a spouse	113,000,000 *(Note 5)*	13.78%
Mr. David Michael Webb	Interest in a controlled corporation; beneficial owner	49,196,000 *(Note 6)*	6.00%

Note 1: Asia Optical Co., Inc. holds 100% direct interest in the issued share capital of Asia Optical International Ltd. ("**AOIL**") and Richman International Group Co., Ltd. ("**Richman**"), which holds 186,833,000 shares and 40,000,000 shares in the Company respectively, and therefore is taken to be interested in an aggregate of 226,833,000 shares held by AOIL and Richman.

Note 2: Ability Enterprise Co., Ltd. holds 100% direct interest in the issued share capital of Ability Enterprise (BVI) Co., Ltd. ("**Ability Enterprise BVI**") and therefore is taken to be interested in an aggregate of 143,817,000 shares in the Company held by Ability Enterprise BVI.

Report of the Directors

Note 3: As recorded in the register required to be kept under section 336 of the SFO, Fortune Lands International Limited ("**Fortune Lands**") is the founder of The Yorkey Employee's Trust and is the registered owner of 113,000,000 shares in the Company which it held as trustee of The Yorkey Employees' Trust.

Note 4: As recorded in the register required to be kept under section 336 of the SFO, Mr. Chan Sun-Ko, being the sole shareholder of Fortune Lands, is taken to be interested in an aggregate of 113,000,000 shares in the Company held by Fortune Lands.

Note 5: As recorded in the register required to be kept under section 336 of the SFO, Ms. Wu Bo-Yan, the spouse of Mr. Chan, is taken to be interested in an aggregate of 113,000,000 shares in the Company in which Mr. Chan is interested.

Note 6: Mr. David Michael Webb ("**Mr. Webb**") holds 100% direct interest in the issued share capital of Preferable Situation Assets Limited ("**Preferable Situation**") which holds 31,242,691 shares in the Company, and therefore is taken to be interested in the 31,242,691 shares in the Company held by Preferable Situation. Mr. Webb also holds 17,953,309 shares in the Company as beneficial owner.

Save as disclosed above, as at 31 December 2019, the Company had not been notified of any long position being held by any persons, other than a Director or chief executive of the Company, in the shares or underlying shares in the Company which would be recorded in the register required to be kept under section 336 of the SFO.

2. Short positions in the shares and underlying shares of the Company

As at 31 December 2019, the Company had not been notified of any short position being held by any substantial shareholder in the shares or underlying shares in the Company which would be recorded in the register required to be kept under section 336 of the SFO.

Share Option Scheme

A share option scheme was conditionally adopted by the shareholders' written resolution of the Company dated 18 January 2006 and had expired on 17 January 2016 and no new share option scheme has been adopted by the Company.

Remuneration of Senior Management

During FY2019, remuneration payable to the three senior management members of the Group (including the Chief Executive Officer), whose biographical details are disclosed in the section headed "Profile of Directors and Senior Management" in this annual report, falls within the following bands:

	Number of Senior Management
US$0 – US$50,000	2
US$50,001 – US$100,000	0
US$100,001 – US$150,000	0
US$150,001 – US$200,000	1
	3

Report of the Directors

Continuing Connected Transactions

During FY2019, the Group had the following connected transactions that were subject to the reporting requirements under the Listing Rules for disclosure in this annual report.

1. Lease of property by Dongguan Yorkey Optical Machinery Components Ltd ("Dongguan Yorkey") to Dongguan Guang Tong Business Machines Co., Ltd. ("Dongguan Guang Tong")

On 23 March 2018, Dongguan Yorkey, an indirect wholly-owned subsidiary of the Company, as landlord and Dongguan Guang Tong, as tenant, renewed the supplemental lease agreement pursuant to which Dongguan Guang Tong has agreed to lease the relevant property located at Xiao-bian, the Second Industrial Zone, Changan Town, Dongguan City, Guangdong, China, with a maximum area of 4,419 square metres for production use for a term commencing from 1 January 2019 to 31 December 2021. Monthly rental is calculated based on the actual space used by Dongguan Guang Tong.

Dongguan Guang Tong is wholly owned by Ever Pine International Limited ("**Ever Pine**"), while Ever Pine is held by Ability Enterprise BVI as to approximately 34.65%. As such, Ability Enterprise BVI indirectly holds 34.65% of the equity interests in Dongguan Guang Tong. Dongguan Guang Tong is an associate of Ability Enterprise BVI and hence, Dongguan Guang Tong is a connected person of the Company for the purposes of the Listing Rules.

With a view to prevent the leased property flow vacant and unused and to optimize the utilization of the Group's resources, Dongguan Yorkey entered into an agreement to lease the said area to Dongguan Guang Tong.

During FY2019, the rental income received from Dongguan Guang Tong amounted to approximately US$257,000.

2. Sale of plastic parts and components from Dongguan Yorkey to Dongguan Guang Tong

On 23 March 2018, Dongguan Yorkey and Dongguan Guang Tong renewed the supplemental DY agreement ("**Renewed Supplemental DY Agreement**") pursuant to which Dongguan Yorkey agreed to sell plastic parts and components to Dongguan Guang Tong for a term commencing from 1 January 2019 to 31 December 2021.

Entering into the Renewed Supplemental DY Agreement will benefit the Group from the enhancement of the Group's sales portfolio through selling plastic parts and components to Dongguan Guang Tong.

During FY2019, the Group's sales of plastic parts and components to Dongguan Guang Tong amounted to approximately US$16,000.

Report of the Directors

3. Lease of property by Dongguan Sintai Optical Co., Ltd. ("Dongguan Sintai") to Dongguan Yorkey

On 23 March 2018, Dongguan Yorkey, as tenant and Dongguan Sintai, as landlord, renewed the lease agreement pursuant to which Dongguan Sintai agreed to lease the relevant property located at Xiao-bian, the Second Industrial Zone, Changan Town, Dongguan City, Guangdong, China, with a maximum area of 13,984.13 square metres for production use, a maximum area of 6,581 square metres for storage use and a maximum area of 4,653.38 square metres for dormitory use for a term commencing from 1 January 2019 to 31 December 2021. Monthly rental is calculated based on the actual space used by Dongguan Yorkey.

Dongguan Sintai is a wholly-owned subsidiary of AOIL, a substantial shareholder of the Company, and hence a connected person of the Company.

After considering that (i) the Group intends to lease the property to satisfy its demand for plant and staff quarters; and (ii) reasonable rental terms were agreed, it renewed the lease agreement with Dongguan Sintai.

During FY2019, the rental paid to Dongguan Sintai amounted to approximately US$1,114,000.

4. Engagement of Shenzhen Sintai Optical Co., Ltd. ("Shenzhen Sintai") for plating and surface treatment processing by Dongguan Yorkey

On 23 March 2018, Dongguan Yorkey and Shenzhen Sintai renewed the plating and surface treatment processing agreement pursuant to which Dongguan Yorkey agreed to the engagement of Shenzhen Sintai for plating and surface treatment processing for a term commencing from 1 January 2019 to 31 December 2021.

Shenzhen Sintai is a wholly-owned subsidiary of AOIL, a substantial shareholder of the Company, and hence a connected person of the Company.

As the Group does not possess plating and surface treatment processing production line, and after considering that Shenzhen Sintai is located closely to the local district of the Group, the Group can save transportation costs and improve efficiency through the engagement of Shenzhen Sintai.

During FY2019, the total amount for the engagement of Shenzhen Sintai for plating and surface treatment processing amounted to approximately US$3,090,000.

Report of the Directors

The independent non-executive Directors have reviewed the continuing connected transactions and in their opinion, these transactions were entered into by the Group:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) in accordance with the terms of the agreements governing such transactions are fair and reasonable and are in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 26 to 27 of this annual report in accordance with Listing Rule 14A.56. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Related Party Transactions and Continuing Connected Transactions

The related party transactions referred to in note 28 to the consolidated financial statements have also constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Management Contracts

Except for the connected transactions as stated in this directors' report, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Directors' Interest in Competing Business

As at 31 December 2019, none of the Directors or any of their respective close associates (as defined in the Listing Rules) has engaged in any business that competes or may compete with the business of the Group, or has any other conflicts of interests with the Group.

Report of the Directors

Permitted Indemnity Provision

A permitted indemnity provision for the benefit of the Directors and officers of the Group is currently in force and was in force throughout FY2019.

Throughout FY2019, the Company has taken out and maintained Directors' and officers' liability insurance which provides appropriate cover for the Directors and officers of the Group.

Emolument Policy

The emolument of the employees of the Group is determined on the basis of their performance, qualifications and work competence. The emolument policy of the senior management is set up by the Group with reference to industry standards and the positions they serve coupled with performance assessment mechanism implemented by the Group.

The emolument of the Directors are recommended by the remuneration committee of the Company and are decided by the Board, as authorised by shareholders at the annual general meeting.

Directors' Emoluments

The Director's fees, basic salaries and other allowances are disclosed in note 7 to the consolidated financial statements.

Save as disclosed in note 7 to the consolidated financial statements, in FY2019, no compensation was paid to or there was no compensation receivable by Directors or past Directors for the loss of office as a Director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group distinguishing between contractual and other payments.

Pension Schemes

The pension schemes of the Company and its subsidiaries are primarily in the form of contributions to the China statutory public welfare fund. The Company did not adopt any retirement benefits scheme for Directors or past Directors. Hence, in FY 2019, the Company's contribution to such retirement benefits scheme is nil.

Sufficiency of Public Float

As at the latest practicable date prior to the issue of this annual report, to the best knowledge of the Directors and based on the information publicly available to the Company, there is a sufficient public float as required by the Listing Rules.

Report of the Directors

Purchase, Redemption or Sale of Listed Securities of the Company

During FY2019, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchases	No. of ordinary shares '000	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$'000
September	700	0.84	0.82	583

	US$' 000
Equivalent to	74

The repurchase of the Company's shares during FY2019 was effected by the Directors pursuant to the repurchase mandate granted by shareholders at the annual general meeting of the Company held on 18 June 2019, with a view to benefiting shareholders as a whole by enhancing the earnings per share of the Group.

The above ordinary shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the listed securities of the Company during FY2019.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under company laws in the Cayman Islands.

Auditor

A resolution to re-appoint Deloitte Touche Tohmatsu as auditor of the Company will be submitted at the forthcoming annual general meeting of the Company. There has been no changes in auditor for the preceding three years.

Report of the Directors

Dividend Policy

When considering the declaration and payment of dividends, the Board needs to consider potential opportunities and risks existing in the Company's operation and development as well as assess various factors, regardless of whether they are financial or operational, internal or external, in the past or the future, microeconomic or macroeconomic. In principle, the Company shall pay shareholders of the Company an annual cash dividend not lower than 70% of the combined profit attributable to equity owners of the Company in the current year. However, the determination to pay such dividends will be made at the discretion of the Board. The payment of dividends may be limited by legal restriction and by agreements that the Group may enter into in the future. There will be no assurance as to whether the dividend distribution will occur as intended, the amount of a dividend payment or the timing of such dividend payment. Any future declaration of dividends may or may not reflect the historical declarations of dividends and will be at the absolute discretion of the Board.

The Board will conduct supervision and review from time to time to ensure that the policy continues to satisfy the Company's needs and, at the same time, reflects current regulatory requirements and positive corporate governance practices, providing that the Company gives no assurance to pay dividends of any certain amount within any fixed period. The Board shall discuss amendments to this policy when necessary.

On behalf of the Board

Lai I-Jen
Chairman

20 March 2020

Corporate Governance Report

Corporate Governance Practices

The Group is committed to ensure high standards of corporate governance in the interest of its shareholders. The Directors also acknowledge that it is their responsibility for preparing the financial statements of the Group for FY2019.

The Group has adopted the code provisions set out in the Code of Corporate Governance Practices (the "**Code**") as stated in Appendix 14 to the Listing Rules. The Company has reviewed each code provision set out in the Code and confirmed that save for those indicated in this annual report, it has fully complied with the Code during FY2019.

According to the code provision stated in section F.1.1 of the Code, the company secretary should be an employee of the Company and have knowledge of the Company's day-to-day affairs. Where the Company engages an external service provider as its company secretary, it should disclose the identity of a person with sufficient seniority (e.g. chief legal counsel or chief financial officer) at the Company whom the external provider can contact.

Ms. Cheng Choi Ha ("**Ms. Cheng**"), a manager of the Corporate Services Division of Tricor Services Limited, an external service provider, has been appointed as the company secretary of the Company with effect from 23 December 2019. The primary contact person at the Company with Ms. Cheng is Mr. Kurihara Toshihiko, an executive director of the Company. For further details, please refer to the announcement of the Company dated 23 December 2019. Ms. Cheng has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

The Company continues to devote much efforts on formulating the sufficient corporate governance practices which it believes is crucial to its healthy growth and its business needs.

Directors' 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 to all Directors regarding any non-compliance with the Model Code for FY2019 and they all confirmed that they have fully complied with the required standard as set out in the Model Code.

Board of Directors

The Board currently comprises two executive Directors, one non-executive Director and three independent non-executive Directors.

The Board members for FY2019 are:

Executive Directors

Mr. Lai I-Jen *(Chairman)*
Mr. Kurihara Toshihiko *(Chief Executive Officer)*

Non-Executive Director

Ms. Wu Shu-Ping

Independent Non-Executive Directors

Mr. Lin Meng-Tsung
Mr. Liu Wei-Li
Mr. Wang Yi-Chi

Corporate Governance Report

The Board has four scheduled meetings a year and meet at other times as and when required to review financial and internal control, risk management, company strategy and operating performance of the Group. Board minutes are kept by the secretary of the Company and are sent to the Directors for records and are open for inspection by the Directors. During FY2019, six board meetings were held and the attendance of each Director is set out below:

Name of Director	Number of Meetings attended
Lai I-Jen *(Chairman)*	6/6
Kurihara Toshihiko *(Chief Executive Officer)*	6/6
Wu Shu-Ping	6/6
Lin Meng-Tsung	6/6
Liu Wei-Li	6/6
Wang Yi-Chi	6/6

The Board is responsible for ensuring that there is a competent executive management which is able to run the Company in a sound and efficient manner. The Board is also responsible for establishing the Company's business strategies and plans from time to time to ensure that the operations of the Company are conducted effectively whilst the Chief Executive Officer and senior management are responsible for strategic planning of the Company's various business units and day-to-day management and operations.

Each executive Director is delegated with individual authority and responsibility to oversee and monitor the operations of a specific business unit, and to implement the strategies and policies set by the Board. The roles of the chairman of the Board and the Chief Executive Officer are segregated and are not exercised by the same individual. During FY2019, the chairman of the Board held two meetings with the independent non-executive Directors without the presence of the other Directors. The Company has received written confirmations of independence from each of the independent non-executive Directors of their independence pursuant to Rule 3.13 of the Listing Rules. The Board is of the view that all the independent non-executive Directors are independent. Despite respective directorship of Mr. Wang Yi-Chi held from March 2013 to October 2017 and Mr. Lin Meng-Tsung held from June 2017 to October 2017 at Fortune Lands International Limited ("**Fortune Lands**"), the trustee of The Yorkey Employees' Trust, the Company considered the said independent non-executive Directors to be independent taking into account the fact that the main duty of holding such directorship at Fortune Lands was to consider rewarding the Group's employees which the Company was of the view that it did not have an impact on their independence. The independent non-executive Directors will provide independent opinion and share their knowledge and experience with the other members of the Board. All the independent non-executive Directors have appropriate professional qualifications or accounting or related financial management expertise.

Corporate Governance Report

The non-executive Director, Ms. Wu Shu-Ping, has been appointed for an initial term of 1 year commencing from 20 December 2005 and shall continue thereafter until terminated by not less than three months' prior notice in writing served by either party on the other, subject to re-election at the forthcoming annual general meeting in accordance with the Articles of Association of the Company and the relevant letter of appointment.

During FY2019, the Board had conducted appropriate internal control procedures and reviewed risk management strategies and policies of the Company to ensure that the Company runs its business in compliance with all legal and regulatory requirements with prudence and integrity.

Each proposed candidate of director of the Company is provided with presentation and training by the professional legal advisor of the Company prior to appointment to ensure that he/she is fully aware of his/her responsibilities under the Listing Rules and other applicable laws and regulations as a director of a listed company in Hong Kong.

Continuous Professional Development for Directors

The Company has arranged and provided suitable training, placing an appropriate emphasis on the roles, functions and duties of its Directors to ensure that he/she has a proper understanding of the business and operations of the Company and is fully aware of his/her responsibilities under applicable laws, rules and regulations and the Listing Rules as well as the Group's various governance and internal control policies.

During FY2019, the Company has provided materials to all Directors regarding the business operations of the Group, overall economic conditions and applicable orders. In addition, the Company has arranged a training for Directors provided by a professional institution, and the Company has provided information to its Directors from time to time to ensure that the Directors continue to make contribution to the Board and comply with the requirements of Paragraph A.6.5 of the Code in a fully informed and relevant manner. The Group has received the records of training from all Directors.

The Directors understand the importance of continuous professional development and are committed to participate in suitable training to develop their knowledge and skills.

Appointment, Re-election and Removal of Directors

The Company has established formal and transparent procedures for the appointment and succession planning of Directors.

Each of the Directors has entered into a service contract or a letter of appointment with the Company for a specific term. Such term is subject to his/her re-election at the next following annual general meeting upon retirement pursuant to relevant articles of the Articles of Association of the Company.

Corporate Governance Report

In accordance with the Articles of Association adopted by the Company in 2006 and amended on 24 May 2012, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. At each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, 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 at an annual general meeting at least once every three years and being eligible to offer themselves for re-election.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association. The nomination committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

Remuneration Committee

The Company has established a remuneration committee with written terms of reference as suggested under the code provisions under the Code. The remuneration committee comprises three members, namely, Mr. Lin Meng-Tsung, Mr. Liu Wei-Li and Mr. Wang Yi-Chi, all of whom are independent non-executive Directors. The chairman of the remuneration committee is Mr. Lin Meng-Tsung. The remuneration committee will meet at least twice a year to determine the remuneration policy for Directors and senior management. During FY2019, three remuneration committee meetings were held and the attendance of each Director is set out below:

Name of Director	Number of Meetings attended
Lin Meng-Tsung	3/3
Liu Wei-Li	3/3
Wang Yi-Chi	3/3

The Company has adopted the model of remuneration committee as described in code provision B.1.2(c)(ii) of the Code to make recommendations to the Board on the remuneration packages of Directors and senior management.

Corporate Governance Report

The principal responsibilities of the remuneration committee include making recommendations to the Board on the remuneration package of the Directors and the senior management to ensure that the remuneration offered is appropriate for the duties and responsibilities assumed and in line with the general market practice.

The work performed by the remuneration committee during FY2019 included determining the policy for the remuneration of Directors and senior management, making recommendations to the Board on the remuneration packages of Directors and the Chief Executive Officer, assessing performance of executive Directors and approving the terms of executive Directors' service contracts. Each member of the remuneration committee abstains from voting on any resolution concerning his own remuneration.

Remuneration of Directors

Details of the amount of Directors' emoluments are set out in note 7 to the consolidated financial statements.

Auditor's Remuneration

During FY2019, the fees paid/payable to the auditor, in respect of audit services provided by the auditor to the Group, was approximately US$220,000 and other non-audit services particularly for interim results review amounted to US$77,000 for the year under review.

Audit Committee

The Company has established an audit committee in compliance with Rule 3.21 of the Listing Rules with written terms of reference in compliance with the code provisions under the Code. The audit committee ensures adequate supervision of the Company's financial reporting processes, reviews the internal audit program and reports, ensures coordination between internal and external auditors, assesses the independence and appropriateness of the external auditors, and monitors the compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, as well as internal rules and procedures approved by the Board. The audit committee performed the above duties during FY2019.

As at 31 December 2019, the audit committee comprised three independent non-executive Directors, namely, Mr. Lin Meng-Tsung, Mr. Liu Wei-Li and Mr. Wang Yi-Chi. The chairman of the audit committee was Mr. Lin Meng-Tsung.

During FY2019, four audit committee meetings were held and the attendance of each Director is set out below:

Name of Director	Number of Meetings attended
Lin Meng-Tsung	4/4
Liu Wei-Li	4/4
Wang Yi-Chi	4/4

Corporate Governance Report

At the meetings, the audit committee has reviewed the interim results for the six months ended 30 June 2019 and the consolidated financial statements of the Group for FY2018. The final results for FY2019 were reviewed by the audit committee on 20 March 2020.

The Directors acknowledged their responsibility for preparing the consolidated financial statements for each financial period which give a true and fair view of the financial affairs of the Group.

Nomination Committee

The nomination committee was established on 16 March 2012 in accordance with the code provisions under the Code. Details of the duties and responsibilities of the nomination committee are set out in its terms of reference. The nomination committee is established primarily for the purpose of reviewing the structure, size and composition of the Board regularly, and making recommendations to the Board on nominations and appointment of Directors, and succession planning of Directors.

As at 31 December 2019, the nomination committee comprised three independent non-executive Directors and one executive Director, namely, Mr. Lin Meng-Tsung, Mr. Liu Wei-Li, Mr. Wang Yi-Chi and Mr. Kurihara Toshihiko. The chairman of the nomination committee was Mr. Lin Meng-Tsung.

During FY2019, two nomination committee meetings were held and the attendance of each Director is set out below:

Name of Director	Number of Meetings attended
Lin Meng-Tsung	2/2
Liu Wei-Li	2/2
Wang Yi-Chi	2/2
Kurihara Toshihiko *(Chief Executive Officer)*	1/1

The following is a summary of the work performed by the nomination committee during the year:

- reviewed the structure, size and composition of the Board and made recommendations to the Board on the Directors who should retire and make themselves available for re-election and election at the annual general meetings of the Company to be held on 18 June 2020, pursuant to the Company's Articles of Association; and

- assessed the independence of all independent non-executive Directors.

Corporate Governance Report

Director Nomination Policy

The nomination committee comprised three independent non-executive Directors and one executive Director to ensure that decisions are in the Company's interest. The nomination committee conducts annual reviews on the structure, number and composition, including aspects such as skills, expertise and experience, of the Board to consider succession plans of Board members, and conducts regular reviews. The Company has formulated a set of official and transparent procedures for nomination of Directors. The nomination committee selects candidates suitably qualified to become Board members for the Board's consideration as additional directors or fill in directorship vacancy, with the final appointment being made by the Board. Selection criteria include but are not limited to considering the potential contributions a candidate can bring to the Board in terms of qualifications, skills, experience, independence, gender diversity and board diversity (please refer to the section headed "Board Diversity Policy" in the Corporate Governance Report of this annual report for details). The nomination committee shall seek suitable candidates in accordance with its board diversity policy among different candidates from circles outside of the Board as appropriate and possible. The factors mentioned above are for reference only and are not exhaustive, nor do they possess any determining effect. The nomination committee can determine to nominate any individual it deems fit.

The nomination committee will supervise and review the implementation of this policy from time to time to ensure that the policy continues to satisfy the Company's needs and, at the same time, reflects current regulatory requirements and positive corporate governance practices. Where necessary, the nomination committee will discuss any revisions to the policy, and recommend any such revisions to the Board for consideration and approval.

Board Diversity Policy

The Company has adopted the board diversity policy, the purpose of which is to achieve diversity and maintain a sustainable and balanced development. When determining the composition of the Board, the Company will consider board diversity with regard to factors including, but not limited to, gender, age, culture, ethnicity, educational background, expertise and experience, knowledge and skills, and any other factors that the Board considers relevant and appropriate to achieving board diversity. When determining appointments to the Board, the Company places great emphasis on merit principle and considers whether the strengths of such candidate complement other directors and broaden the skills and experience of the Board as a whole.

Measurable Objectives

The selection of candidates for the Board shall be based on a range of diversified factors, including but not limited to gender, age, culture, ethnicity, educational background, expertise and experience, knowledge and term of service. The decision shall ultimately be determined by the merits of the candidates and the contributions they can make to the Board.

Review and Supervision

The Board will review and supervise the implementation of the policy from time to time to ensure the effectiveness of the policy. Where necessary, the nomination committee will discuss any revisions to the policy, and recommend any such revisions to the Board for consideration and approval.

Corporate Governance Report

Assessment Results of Board Diversity

1. Capacity	Executive Directors	Non-Executive Director	Independent Non-Executive Directors
	2	1	3

2. Ethnicity	Chinese	Non-Chinese
	5	1

3. Directorship with the Company (Number of Years)	1-5 years	6-10 years	more than 10 years
	3	1	2

4. Age Group	31-40	41-50	51-60	61-70	71-80
	1	2	1	1	1

5. Gender	Male	Female
	5	1

Board Expertise and Skills

The breakdown of Board expertise and skills is set out below and demonstrates the diverse mix of experience and background of the members of the Board.

- Related industry experience
- Company executive and leadership skills
- Substantial experiences and international vision in business management, marketing and global logistics
- Legal
- Accounting
- Financing
- Lean enterprise transformation and gemba kaizen

Corporate Governance Report

Corporate Governance Functions

The Board has delegated the responsibility to the audit committee to be responsible for performing the corporate governance duties and determining the relevant policies of the Company. Terms of reference of the audit committee adopted by the Board in compliance with the requirement under code provision D.3.1 of the Code include the duties of the audit committee on corporate governance functions to develop and review the Group's policies and practices on corporate governance, to review and monitor the training and continuous professional development of the Directors and the senior management, to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements, to develop, review and monitor the code of conduct, guidelines and compliance manual applicable to employees and directors and to review the Group's compliance with the Code and disclosure in this Corporate Governance Report.

Risk Management and Internal Controls

Responsibilities of the Board

The Board acknowledges its responsibility and is committed to maintain sound and effective risk management and internal control systems of the Group and to review their effectiveness on an ongoing basis. The Board aims to manage rather than eliminate risks of failure to achieve the Group's business objectives, and to provide reasonable but not absolute assurance against material misstatement or loss.

The Board has reviewed, and is satisfied with, the adequacy of resources, staff qualifications and experience, training requirements and budgets of the staff responsible for the accounting, financial reporting, internal audit and risk management functions.

The Risk Management Committee

The Risk Management Committee ("**RMC**"), reporting to the audit committee, is responsible for strengthening the Group's risk management culture, ensuring the overall framework of risk management is comprehensive and responsive to changes in the business. It regularly reviews the completeness and accuracy of risk assessments, risk reporting and the adequacy of risk mitigation efforts.

The RMC is responsible for overseeing the Group's risk management approach, policy and framework. The Group operates a consistent methodology using the Group's risk management framework for the identification, assessment, reporting and management of risks.

The activities of the RMC are reviewed at least twice a year by the audit committee, which continuously assesses the risk management requirements in accordance with the emerging risks faced by the Group in the changing environment. The internal control system is designed to mitigate and manage the risks that are significant to the fulfillment of the Group's business objectives. The audit committee reviews the findings and the assessment of the RMC on the effectiveness of the Group's risk management system and reports to the Board annually.

Corporate Governance Report

Risk Management Mechanism

The Group's risk management framework, approved by the audit committee, mandates a consistent and effective approach applied across the Group to manage the risks associated with its business and operations. The Group has formalised its risk management framework with a distinct organisational structure for different responsible parties with defined authority, responsibilities and risk management roles. A risk management policy has been established to provide a framework for the identification, analysis, evaluation, treatment, monitoring and reporting of key risks at all levels across the Group to support the achievement of the Group's overall strategic objectives. The existing risk management process has been consistently applied across the business units and departments of the Group during FY2019. Adopting both top-down and bottom-up approaches in relation to risk management, the Group's risk management framework comprises the following key elements:

1. Identify risks;
2. Analyse risks;
3. Evaluate risks;
4. Treat risks;
5. Monitor and review the performance of the risk management process and changes which might affect it; and
6. Communicate and consult with internal and external stakeholders.

Any potential risks that may impact the Group's strategic objectives are identified during regular management meetings and operations on an ongoing basis in order to respond to the changes in the business and external environment. The identified risks are evaluated using appropriate qualitative and quantitative techniques that help to rank the risks into 4 risk levels (i.e. Extremely High, High, Medium and Low) and to prioritise risk management effort to determine the appropriate risk mitigation plans (i.e. accept, reduce, transfer and avoid). Ongoing risk monitoring is performed by respective management/department heads of each business unit/department who have to confirm the effectiveness of the internal control and risk management systems on an annual basis. There are no significant changes in the nature and extent of significant risks identified by the Group since the last annual review. To ensure the effectiveness of the risk mitigation plans, the Group's Internal Audit Department validated these risk mitigation plans executed by the Group on a semi-annually basis.

Internal Audit Function

The Group's Internal Audit ("**IA**") Department, reporting to the audit committee of the Company, performs regular internal audit reviews of the Group, in order to provide assurance over the adequacy and effectiveness of the Group's risk management and internal control framework.

During FY2019, the IA Department played a major role in monitoring the corporate governance of the Group, by conducting internal audit reviews on business processes and risk management. The IA Department reported the review results of the internal audit programme, significant control issues, and the overall adequacy of the control environment to the Board through the audit committee on a regular basis. Based on the internal audit reviews conducted in FY2019, no material internal control deficiencies or weaknesses have been identified.

Corporate Governance Report

To ensure systematic coverage of all auditable areas and effective deployment of resources, an annual risk-based IA plan with reference to the risk assessment results has been formulated. This IA plan, which is prepared annually to reflect the major changes in the organisational structure and risks, is approved by the audit committee of the Company.

Review of Risk Management and Internal Control Systems

The Board reviewed and assessed the adequacy and effectiveness of risk management and internal control systems of the Group, at least semi-annually, through reporting from the audit committee under the RMC's assistance, which covered the major internal control procedures in the areas of financial, operational, compliance and risk management. Areas of improvement have been identified and appropriate measures have been put in place to manage the risks. The improvement of the risk management and internal control systems is an ongoing process and the Board maintains a continuing commitment to strengthen the Company's internal control environment and processes. In respect of FY2019, the Board was satisfied with the effectiveness and adequacy of the Group's risk management and internal control systems. No significant areas of concern were identified. The Board considered that the risk management and internal control systems are functioning effectively and adequately.

Disclosure of Inside Information

The Group is fully aware of its obligation of handling and dissemination of inside information under the Listing Rules and the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong). The Group has established an inside information management policy for identifying, monitoring and reporting inside information to our shareholders, investors, analysts and media. The internal policy is updated whenever required and adopted accordingly to guide its stakeholder communications and the determination of inside information in order to ensure consistent and timely disclosure. The Group conducts its affairs in accordance with the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission in June 2012.

Shareholders' Rights

Procedures for calling for an extraordinary general meeting and putting forward proposals at general meetings

Pursuant to Article 58 of the Articles of Association, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company (by mail to the company secretary's office at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, or by email to ir@yorkey-optical.com) to require an extraordinary

Corporate Governance Report

general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for proposing a person for election as a Director

Pursuant to Article 88 of the Articles of Associations of the Company, no person other than a Director retiring at the annual general meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a written notice ("**Notice**") signed by a Shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such Notice is given of his intention to propose such person for election. If a Shareholder wishes to propose a person other than a Director for election as a Director at a general meeting, the Shareholder shall lodge a Notice signed by himself and the person to be proposed shall sign and lodge a Notice of his willingness to be elected at the principal place of business of the Company in Hong Kong or at the Hong Kong share registrar and transfer office of the Company provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that (if the Notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

Making Enquiries or Proposals to the Board

Shareholders who would like to make enquiries or proposals regarding the Company to the Board may send such enquiry or proposals via email to: ir@yorkey-optical.com.

During FY2019, an annual general meeting of the Company was held on 18 June 2019. The attendance of each Director is shown below:

Name of Director	Number of general meetings
Lai I-Jen *(Chairman)*	1/1
Kurihara Toshihiko *(Chief Executive Officer)*	1/1
Wu Shu-Ping	1/1
Lin Meng-Tsung	1/1
Liu Wei-Li	1/1
Wang Yi-Chi	1/1

Corporate Governance Report

Investor Relations

The Company is committed to maintaining a high level of transparency in communicating with its shareholders and the investment community at large. The Company provides information in relation to the Company and its business in its annual and interim reports, circulars and announcements, which are to be dispatched to shareholders on a timely basis.

All the shareholders of the Company are to be given a 21 days' notice of the date and venue of the Company's annual general meeting where the shareholders will have an opportunity to communicate directly with the Board.

Company Secretary

Ms. Wong Tak Yee of Tricor Services Limited ("Tricor"), an external service provider, retired and ceased to be the company secretary of the Company and was replaced by Ms. Lui Mei Yan Winnie of Tricor with effect from 30 April 2019. For further details, please refer to the announcement of the Company dated 30 April 2019.

Ms. Lui Mei Yan Winnie resigned as the company secretary of the Company and was replaced by Ms. Cheng Choi Ha of Tricor with effect from 23 December 2019. For further details, please refer to the announcement of the Company dated 23 December 2019.

Ms. Cheng Choi Ha, a manager of the Corporate Services Division of Tricor, has been appointed as the company secretary of the Company with effect from 23 December 2019. The primary contact person at the Company with Ms. Cheng is Mr. Kurihara Toshihiko, an executive Director. For further details, please refer to the announcement of the Company dated 23 December 2019. Ms. Cheng has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

Directors' and Auditor's Responsibility for Accounts

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Group for FY2019, which give a true and fair view of the financial position of the Group on a going concern basis.

Statements of directors' responsibilities for preparing the consolidated financial statements of the Group and external auditor's reporting responsibilities are set out in the Independent Auditor's Report in this annual report.

Constitutional Documents

During FY2019, the Company has not made any changes to its Memorandum and Articles of Association.

Environmental, Social & Governance Report

ABOUT ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group is principally engaged in the manufacturing and sales of plastic and metallic parts and components of optical and opto-electronic products and manufacturing and sales of molds and cases, including plastic and metallic parts and components of digital still cameras ("DSCs"), action cameras, copier-based multifunction peripherals, surveillance cameras, projectors and advanced TVs, etc. With the increasing awareness of the corporate social responsibility ("CSR") of the society, the Group recognises its vital role in responsible business operation and practices, together with making progressive business growth and development.

The Group is pleased to publish its fourth Environmental, Social & Governance ("ESG") report, which summarises its policies, approaches and practices towards ESG management to its stakeholders and enable them to have a better understanding about the progress and performance of the Group's ESG development.

Scope of the Report

The scope of this report covers the core operation of the Group, which operates by its subsidiary – 東莞精熙光機有限公司Dongguan Yorkey Optical Machinery Components Ltd., and presents its sustainability performance during the period from 1 January 2019 to 31 December 2019 (the "Reporting Period", "2019"), unless otherwise specified.

Reporting Standard

This report has been prepared in accordance with the "comply or explain" provisions as well as part of the "recommended disclosures" of the Environmental, Social and Governance Reporting Guide under Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKEx ESG Reporting Guide").

Contact and Feedback

The Group welcomes your feedback and suggestion on this ESG report, please feel free to provide your comments via email at ykesg@yorkey-optical.com.

Environmental, Social & Governance Report

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

With the ongoing communication and engagement with its stakeholders, the Group can better understand the perspectives and expectations of its stakeholders on the Group's ESG issues with greatest concerns, as well as the associated environmental and social impacts on the business. By gathering their opinion and understanding their concerns, the Group can refine its management policies and approaches on ESG management, determine a more suitable way to address the ESG issues, as well as making continuous improvement on its ESG performance.

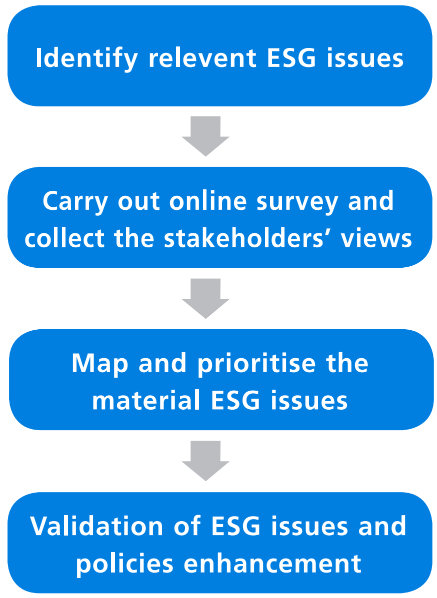
The table below outlined the communication channels adopted by the Group for engaging its stakeholders:

Types of key stakeholder group	Communication channels
Investors and shareholders	• Company website • Company's announcements • Annual general meeting • Annual and interim reports
Customers	• Company website • Customer visit • Customer feedback and complaints • Customer satisfaction surveys
Employees	• Training and orientation • Employee satisfaction survey • Email and opinion box • Regular meetings and interviews • Employee performance evaluation • Employee activities
Suppliers and business partners	• Supplier selection and performance assessment • Procurement management process • Regular communication, inspections or on-site visit
Government authorities and regulators	• Documented information submission • Compliance inspections and assessment • Conferences and workshops
Communities	• Company website • Community activities • Email • Phones • Charity donations and voluntary services
Media	• Company website • Company's announcements

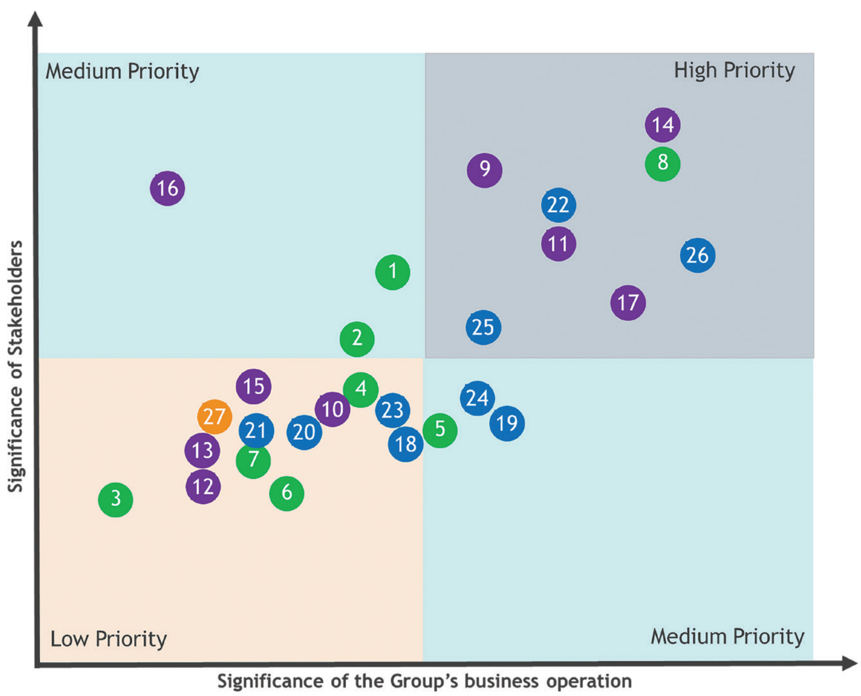
Environmental, Social & Governance Report

To identify the ESG issues that are matter most for the Group's business operation and the reporting disclosure, the Group has engaged an independent consultant to carry out a materiality assessment exercise this year through an online survey. The stakeholder groups, including those from the Board, employees, suppliers or contractors, customers, community, government body or regulators, are invited to rate 27 ESG issues based on the significance and relevance of each issue to the Group's business and stakeholder themselves respectively in the questionnaire. A materiality analysis was performed to map and prioritise the most material ESG topics to the Group based on the collected results.

Process of materiality assessment



The matrix below illustrates the result of the materiality assessment. We have mapped the materiality of 27 ESG issues and the issues which fell on the top right corner of the matrix are those identified as most important for the Group.



Environmental, Social & Governance Report

Environment	Social	
	Employment	Operation
1. Air emission	9. Labour rights	18. Customer satisfaction
2. Greenhouse gas emission	10. Labour-management relations	19. Customer service quality & complaints handling
3. Climate change	11. Employee retention	20. Customer health and safety
4. Energy efficiency	12. Diversity and equal opportunity	21. Marketing and product and service labelling compliance
5. Water & effluents	13. Non-discrimination	22. Intellectual property
6. Use of materials	14. Occupational health and safety	23. Customer privacy and data protection
7. Waste management	15. Employee training	24. Responsible supply chain management
8. Environmental compliance	16. Employee development	25. Business ethics
	17. Prevention of child labour & forced labour	26. Socio-economic compliance
		Community
		27. Community investment

According to the results of the materiality matrix, the Group should focus on the aspects of occupational health and safety ("OHS"), employee retention, labour rights, legal compliance related to environmental and socio-economic management, intellectual property as well as business ethics. The Group has disclosed its relevant management approaches and performance on the material issues in the forthcoming section of this report. The Group will continue to review the corresponding policies in order to pursue continuous improvement on its ESG performance in future.

Environmental, Social & Governance Report

MANAGEMENT APPROACH OF CORPORATE SOCIAL RESPONSIBILITY

In adherence to the Group' business philosophy – "Pursuit of Quality, Excellency, Unity and Harmony, Sustainable Development", the Group is committed to responsible business practices, enhancing the production and operational efficiency through innovation and technology and bringing positive influence to its community, customers, shareholders and employees.

Corporate mission

Responsible to the Community

Maintain harmonious public relations by actively carrying out green public welfare activities
Promote energy-saving industrialization
Improve the overall safety of production

Responsible to the Customers

Gain the highest customers' satisfactions and loyalty by high quality products
Maintain transparent and fair operations, free competition and legitimate trading activities

Responsible to the Shareholders

Create and maintain long-term values to the shareholders through sustainable business development

Responsible to the Employees

Create a inclusive and safe working environment to employees
Enhance the staff welfare, wellness and social status to achieve greater prosperity and happiness for every employee

To achieve these objectives, the Group has outlined a series of CSR policy, standards and management manuals that have embedded its commitments in the areas of environment protection, labour practices, OHS and business ethics in its business activities. Through the implementation of CSR management across its operations, the Group effectively manages its environmental and social issues with impacts in its operations, monitor and continuously improves its ESG performance.

The Group's CSR Policy
The Group is committed to

- operating legitimate business with open for public supervision
- respecting the contributions of employees and with mutual profits share
- paying close attention to environmental protection and safety issues, and supporting the sustainable development
- maintaining harmonious public relations with social integration
- manufacturing green products, reducing energy consumption and emission
- upholding integrity along all business operations

Environmental, Social & Governance Report

ENSURING THE SAFETY AND HEALTH

OHS management

The Group spares every effort to provide a safe working environment to its employees and aims to achieve zero occupational accident as its ultimate goal, in order to safeguard its operations against OHS risks, improve production efficiency and comply with relevant national laws and regulations.

The Group has put in place the OHS policy and implemented an OHS management system certified to the OHSAS 18001 international standard and GB/T 28001-2011 standard for identifying potential OHS risks along the production chain, providing appropriate management procedures and guidelines to its employees in protecting them from OHS risks as well as cultivating a safety culture in workplace. The Occupational Health and Safety Committee ("OHS Committee"), comprising with representatives from different departments, are responsible for overseeing the overall implementation of OHS management system, safety programmes and safety performance at the manufacturing facility, while mitigating the identified safety risks to prevent severe safety accidents or incidents during the business operation.

The Group's OHS Policy

"Safety first, Precaution utmost"

The Group is committed to

- complying with relevant national occupational health and safety ordinances, industrial standards and other safety requirements
- preventing occupational accidents and incidents by increasing staff competency and safety awareness, and enhancing production facilities and work control guidelines
- conducting regular inspections and audits to continuously improve the OHS management system for upgrading the overall OHS standard across the operations

The Group has introduced a series of stringent safety management procedures including operational procedures, in-house safety rules and working guidelines, in particular to high-risk activities such as lifting operations, performing high temperature works and operating special mechanical machines or equipment, to avoid and mitigate the safety risks and hazards posed to its employees.

Daily internal safety inspections are conducted by the safety officer of OHS Committee and departmental supervisors to ensure sufficient precautionary safety measures and practices are maintained. This enables the Group to identify any potential safety risks and hazards in a proactive and on-going manner for accident prevention. Moreover, the Group has commissioned qualified external parties for regular workplace occupational hazard inspections and audits. This exercise assists the Group in identifying the areas of improvement, verifying the effectiveness of safety management system as well as ensuring its operations are in compliance with the requirements of the relevant national laws and regulations (i.e. the Work Safety Law of the People's Republic of China ("PRC") (中華人民共和國安全生產法), the Law of the PRC on the Prevention and Control of Occupational Diseases (中華人民共和國職業病防治法) and the Fire Control Law of the PRC (中華人民共和國消防法)).

Raising the employees' safety awareness is vital to foster the safety-focused culture in the workplace. This can enhance their safety ownership and sense of responsibility as to the safety of their colleagues. The Group offers safety training for employees in respect of the safety management practices and measures for new hires. A variety of technical training sessions (e.g. machinery safety

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and operation, and chemical use and storage etc.) and external training programmes are offered to the employees to acquire necessary competence and qualifications for their daily work. Especially those operate mechanical equipment and work on high-risk activities. The Group provides regular OHS emergency drills to relevant employees to equip them with the capability to respond and handle emergencies such as chemical leakage and fire.

Fire Safety Promotion ("119"消防安全宣傳日)

To increase the staff awareness of fire safety, the Group organised an in-house promotion activity of fire safety on 9 November 2019 in order to respond to the fire safety promotion in town.

The safety officer educated the employees in the manufacturing facility about the types of fire equipment with its proper operation under different emergencies, in order to enhance their capability in handling such circumstances. Besides, different interactive videos clips about fire prevention and fire handling were shown during the section to raise the employee awareness and further build up their knowledge of fire safety in workplace.

Further, the safety committee members of the manufacturing facility took part in the fire safety exhibition organised by the local firefighting team. They demonstrated the latest equipment for firefighting and the information about the fire prevention and emergency preparedness skills in the community and workplace.

The Group has also launched a safety and environmental incentive programme to advocate its employees to pay close attention to the risky activities in its manufacturing facility and take proactive actions on work injuries, accidents or incidents prevention. Rewards have been given to those departments with good OHS performances based on their monthly performance evaluation. The Group also encourages its employees to report the hazardous conditions and work-related hazards in workplace to their direct supervisors for prompt correction and improvement.

Although sufficient safety preventive measures have been in place, accidents and incidents may still occur in the workplace. The Group has set out the "Work Injury and Accident Management Standard" for handling accidents happened in the workplace. The Group will carry out a comprehensive accident investigation in order to find out the root cause(s)

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of the accident, rectify and improve the existing safety conditions in workplace based on the investigation findings. If necessary, the Group refines the existing safety management approaches and safety practices in order to prevent similar accident occurrence. The Group also ensures its employees receive appropriate medical treatment and proper compensation under the social insurance after the accident. In 2019, there was no work-related fatality, while recorded seventy-eight lost days in total due to work injuries.

During the Reporting Period, the Group was not aware of any breaches of relevant laws and regulations that have a significant impact on the Group relating to providing a safe working environment and protecting employees from occupational hazards.

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CARING FOR THE EMPLOYEES

The Group treats employees as the most precious asset for its business development and success. The Group treasures their contribution and always puts their interests as its first priority. Adhering to the people-oriented management philosophy as stipulated in its CSR manual, the Group is committed to providing a inclusive, fair and harmonious working environment for its employees, nurturing their potentials, as well as complying with the relevant labour laws, regulations and industrial standard such as Responsible Business Alliance 6.0 ("**RBA**").

Key Principles of The Group's Human Resources Management Policy
Respect of human and labour rights
Compliance with all national labour laws and regulations
Enhancement of staff communication and engagement
Nurture of employee career development and personal growth

Remuneration and benefits

The Group offers competitive remuneration and benefits packages to its staff, which comply with the relevant laws, including the Labour Law of the PRC (中華人民共和國勞動法), Labour Contract Law of the PRC (中華人民共和國勞動合同法) and Regulation of Guangdong Province on the Payment of Wages (廣東省工資支付條例). Benefits to full-time employees include paid leave (including annual leave, marriage leave, maternity leave, paternity leave and compassionate leave), social insurance funds (i.e. pension insurance, medical insurance, unemployment insurance, maternity insurance, work-related injury insurance and housing funds), various allowances and educational subsidies etc. The Group sets the working hour to be 40 hours with at least one resting day per week and overtime pays will be granted to the employees for compensation of any overtime work. The Group incentivises its employees based on their capability and performance, by means of rewards and performance bonus.

Promoting a fair and respectful culture

Maintaining a stable, motivated and supportive workforce underpins the diverse, fair and respectful corporate culture. The Group is committed in providing equal opportunities for every employee and job candidate in recruitment, transfer, promotion, performance appraisal, training, benefits as well as compensation. As stipulated in CSR manual, the Group forbids any discrimination against sex, sexual orientation, age, colour, nationality, disability, religion, pregnancy, political inclination, union membership, except for the positions that are considered not suitable for female as stated under the national labour laws and regulations. The Group also strictly prohibits any form of unlawful harassment and victimisation in the workplace. A whistle-blowing system is in place for employees to report any misconducts. Employees repeatedly violate the rules as listed under the "Employee Management Procedure", are subject to disciplinary actions including employment termination, after validated with responsible department head and Human Resources department.

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During the Reporting Period, the Group was not aware of any breaches of relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination, and other benefits and welfare.

Labour standard

The Group respects the human rights and enforces a zero-tolerance policy on the child and forced labour in its workplace. Human Resources department examines the identity documents, academic qualifications and work reference of each candidate in the time of recruitment process and upon employment, to ensure the candidate's age and eligibility of work meet the legal requirements, including those under the Labour Law of the PRC (中華人民共和國勞動法) and Provisions on the Prohibition of Using Child Labour (禁止使用童工規定). Regular selective employee identity checks are conducted in workplace to safeguard the possibility of child and forced labour employment. Should we unfortunately discover any child labour in the workplace, the Group will take prompt remedial actions to correct the situation, determine the root cause(s) of such case, as well as reviewing the existing management approaches where appropriate to plug the loophole.

All employees sign the labour contract on a voluntary basis and are free to leave their position with proper notifications. The Group complies with relevant legal obligations and guarantees all employees have their freedom of association to join the labour union and other organisations and collective bargaining. The Group also takes care of the well-being of employees who are teenage or in pregnancy and places special arrangement on work allocation such as no labour-intensive and high-risk activities etc.

During the Reporting Period, the Group was not aware of any breaches of relevant laws and regulations that have a significant impact on the Group relating to preventing child and forced labour.

Listening to employees

The Group recognises the importance of understanding its employees' needs and listening to their feedbacks as their constructive ideas can foster the journey of business development. The Group offers a wide range of communication channels (e.g. suggestion boxes, telephone, email and meetings) for its employees to share their views on the existing company management practices and matters related to staff wellness, welfares and benefits at all times. The Group also collects views and feedbacks on the issues of labour management through staff engagement survey. All of the information is analysed by Human Resources department to optimise the working environment and the management practices in staff management. The Group has staff complaint and grievance management system in place. In event of any employee complaints or grievances, the Group forms an investigation team to verify the situation and take rectifications immediately where appropriate, by following the "Grievances and Complaints Procedure". All of the reported information is kept in high confidentiality to protect the privacy of the complainants.

On the other hand, the Group arranges an annual meeting with the representatives of the labour union, which serves as an effective channel to maintain an open, transparent and two-way communication between the management and employees, to review the existing management policies on employment, working conditions, welfares and benefits and mutually understand the concerns, needs and expectations in these aspects.

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Work-life balance

The Group is dedicated to promoting a healthy work-life balance for its employees, as it is equally crucial to their growth and personal development. Hence, the Group organised a variety of recreational activities such as sport activities, interest workshops, mini marathon competition and festive celebrations to its staff during the year, in order to cultivate their interests and strengthen the cohesion among colleagues.

Yoga Class

This year, the Group has set up a yoga sport team at the manufacturing facility and organised yoga classes to employees in order to strengthen their mental and physical health as well as promoting positive mind and lowering stress levels.

Appreciation of Chinese Culture

To advocate the virtue, etiquette, and traditions of Chinese culture, a Han Culture Association (漢文化協會) was established and provided interesting workshops for employees to understand the culture of tea art and the etiquette of dressing historical Han clothing and qipao.

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Carnival Sport Event

Yorkey Mini-Marathon Competition

Training and development

The Group strives to facilitate the staff development and strengthen the capabilities and knowledge of its employees, through the means of offering a wide range of technical, professional training, to meet the emerging business development and keep in pace of the latest industry standard. The Group believes that when employees grow and make personal and professional advancement, the Group will make mutual progress as a whole.

Guided by the established "Education and Training Management Procedure", Human Resources department collaborates with different departments to identify the training needs of their colleagues and formulate the annual training plan.

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All new hires are required to attend an orientation training during the probationary period, which offers a brief introduction of the corporate background and culture, staff remuneration and benefits, code of conducts, operational practices and fundamental knowledge on corporate management systems. Besides, the safety production and environmental management training is also arranged to new comers. These training programmes aim to assist the new hires to adapt in the Group's working environment and to be conscientious of safety hazards and environmental protection efficiently.

Various on-job training sessions, covering ISO management standards, product and business knowledge, occupational health and safety, corporate compliance, internal control and risk management, Information Technology ("IT") security, leadership and communication skills, are offered to the employees in accordance with their position level. In order to promote continuous learning, the Group also provides financial subsidies to the eligible employees to attend specialised skills-development courses or obtain professional qualifications.

Training of Machinary Safety and Operation

ISO 9001 QMS Training

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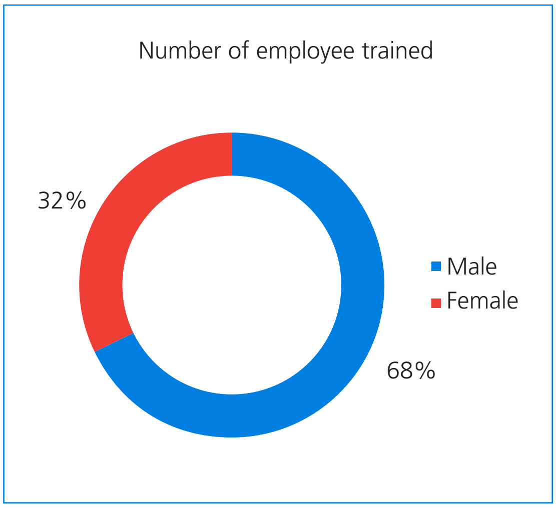
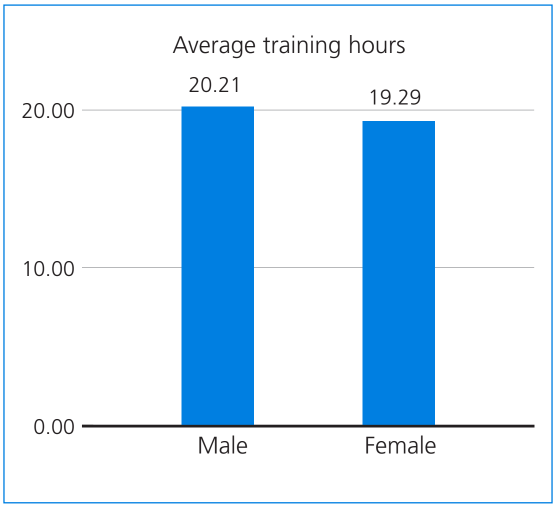
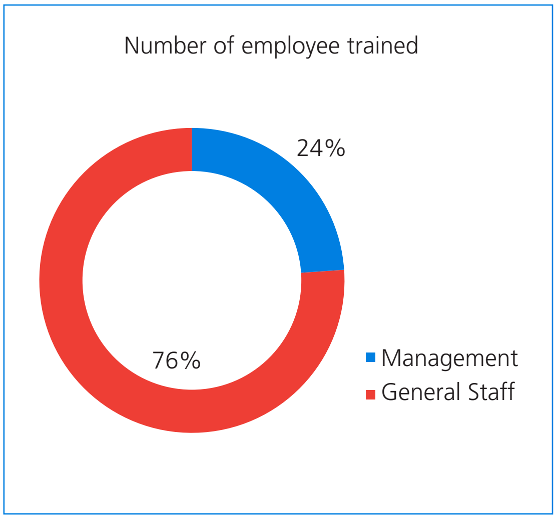
As of 31 December 2019, the staff training profile divided by gender and employee category is illustrated in the charts below:

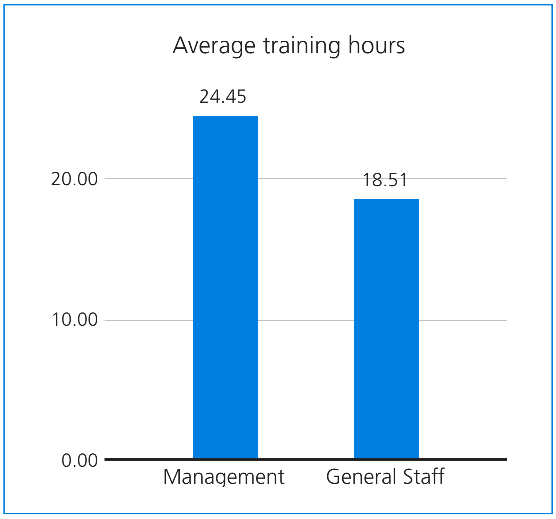
By Gender





By Employee Category





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UPHOLDING THE HIGHEST BUSINESS INTEGRITY

Anti-corruption and anti-fraud

Integrity, accountability and fairness are the core values for a sustainable and successful business. The Group is committed to upholding the highest standard of business integrity and business ethics throughout the operations at all times in protecting the stakeholder interests and corporate sustainability. The Group strictly complies with the relevant laws and regulations, including the Criminal Law of the PRC (中華人民共和國刑法) and Anti-Money Laundering Law of the PRC (中華人民共和國反洗錢法), and adopts zero-tolerance policy to corruption and fraud practices in its operations. To reinforce its commitments in combating corruption practices, the Group has promulgated a Business Ethics Standard and code of conduct with the policy on anti-corruption and anti-fraud, outlined a set of business principles on anti-corruption, avoiding conflict of interests and handling of privacy issues, for all employees to strictly abide by in day-to-day operation. For instance, all employees are strictly forbidden to solicit and/or receive, directly or indirectly, any personal benefits (e.g. gifts, entertainment and commissions) in the business relationships. In event of any suspected or actual conflict of interest found, employees are required reporting such situation in a written form to the direct supervisor. Employees who breach the rules as stated in the code of conduct are subject to disciplinary actions. Likewise, the Group expects the suppliers follow the same degree of business integrity and practices in the business dealings.

To maintain Business Ethics Standard, a code of conduct is well communicated to all employees and is fully implemented in the operation. The Group provides regular training on anti-corruption and code of conduct through induction training and refresher training to emphasise the significance of integrity in its business. For the staff in managerial level, they are required to sign the "Declaration of Integrity", which functions as a means to ensure the staff business ethics and behaviour are kept in line with the corporate standard. The Group has a whistle-blowing system in place, which enables both its internal and external stakeholders to report any unlawful misconducts and malpractices via the well-defined reporting channels such as telephone, mail and email in good faith. All of the reported case(s) is/are under comprehensive investigation by the Disciplinary Commission promptly, which will take necessary follow-up actions according to the findings. The identity of the whistle-blowers and the reported information are kept confidential in order to protect the whistle-blowers against reprisal, victimisation and unfair treatment. When the personnel is found the breach of criminal offense and/or corruption, the case will be reported to appropriate judicial authorities for further handling.

Fair operation

Fair market competition is significant to improve the Group's competitive edge and maintain the industry sustainability. The Group uses it best endeavours to comply with the relevant competition laws. To comply with the Anti-Unfair Competition Law of the PRC (中華人民共和國反不正當競爭法), the Group enacts zero tolerance to any anti-competitive practices such as cartels and market power abuse in its business dealings. The Group prevents the disclosure of false or misleading information in advertisement, financial and non-financial details by complying with the relevant national laws and regulations.

During the Reporting Period, the Group was not aware of any breaches of relevant laws and regulations that have a significant impact on the Group relating to bribery, extortion, fraud and money laundering and no concluded legal case regarding corrupt practice brought against the Group or employees was found.

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DELIVERING QUALITY PRODUCTS AND SERVICES

Adhering to the corporate mission and the principle of quality management policy – To win the trust and loyalty of customer with quality, the Group is committed to better understanding of customer needs and delivering quality, safe and environmentally-friendly products.

The Group strictly abides by the relevant national laws and regulations such as Product Quality Law of the PRC (中華人民共和國產品質量法), industry standards and clients' specific requirements and implements a comprehensive quality management system ("QMS") certified with the international standards of ISO 9001 and IATF 16949 in its manufacturing facility. The Group has set up relevant quality assurance framework and a variety of quality management standards and guidelines to address the product quality issues along the manufacturing processes.

The Quality Control and Assurance Department conducts stringent quality control inspections at different process of the production life cycle, from the incoming materials and components controls, manufacturing processes to final product delivery. By incoming materials inspections, the Group can initially validate the types, quantity and quality of procured materials, parts and components are conformed to the specifications, quality standards as well as the relevant international standards such as Restriction of Hazardous Substances Directive ("RoHS") and Registration, Evaluation, Authorisation and Restriction of Chemicals ("REACH") to safeguard the product health and safety. The Group conducts regular sampling checks in each production process in order to verify the consistency of the product quality, sort out any products with defects and make immediate rectification in case of any abnormal circumstances occurred during the production to increase the production efficiency. The finished product checks ensure the manufactured goods are free from defects and meet the required product specifications, packaging and specific customer requirements before delivery. For the non-conformance goods observed in the several inspections, the goods are subject to return to the suppliers or re-work by following the "Non-conformity Management Procedure" to ensure the products are up to standard before use in production and delivery. In addition to product-related inspections, the Group conducts both internal and external audits on QMS regularly in order to ensure the management system is effectively maintained. Regular training sessions are also offered to the staff for the Quality Control and Assurance Department to ensure that they have knowledge and skill sets in quality inspections and standards.

During the Reporting Period, the Group was not aware of any product recalls relating to safety and health reasons.

Customer satisfaction

With a deeper understanding of the customers' needs and expectations, the Group can better manage mutual relationship and strive for the product and service excellence. Regarding this, the Group carries out customer satisfaction survey in order to obtain their valuable feedbacks on its products and services. The Group gathers the results of the surveys, together with the customer opinions received from other communication channels such as written complaints or compliments, and evaluates the performance level of its product quality, quality management system and the customer satisfaction level. This exercise not only helps the Group to identify the strength and the area(s) for improvement of its product and service provision, but also understands the reason(s) behind of changing needs of the customers in

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order to find the opportunities for product and service enhancement.

In event of receipt of any complaints, whether in verbal or written form received from the customers regarding to product quality and/or deficiencies, the Group will conduct investigation, determine relevant solutions and take the remedial actions by the respective departments in timely manner in accordance with the "Customer Complaint Handling Procedure" under the "Customer Satisfaction Management Procedure". All inspections and complaint results will be properly recorded in the complaint handing form for further determination of preventive measures. Pursuant to the "Non-conformity Management Procedure", the returned products are subject to re-work, repair or will be scrapped. The Quality Control and Assurance Department, together with the specialist engineers, will further analyse the root causes of the non-conformities, determine and implement corresponding corrective actions to prevent the reoccurrence of similar product defect(s) in the future.

Complaint Handling Process

Privacy and intellectual property protection

The Group places a great emphasis on the protection of customer data privacy and intellectual property ("IP") assets. The Group has developed a set of stringent working procedure to guide its employees in the collection, use and storage of customer sensitive or confidential information, including but not limited to trade secrets, customer business information, product designs and technology, and corporate information. The business information and assets either provided by its customers and vendors or owned by the Group are marked with proper labels and stored in designated areas or electric devices by the responsible departments. Any unauthorised access, copy, transfer or disclosure of such information to other third parties is strictly prohibited. The Group offered internal training on cyber security and corporate IT security to enhance the employee awareness and capacity to tackle with the risks on data leakage. The suppliers are also required fulfilling their obligations in protecting the confidential information with their due care and avoid the possibility of data leakage.

In respect of the intellectual property rights used by the Group, relevant laws including the Patent Law of the PRC (中華人民共和國專利法), the Trademark Law of the PRC (中華人民共和國商標法), the Copyright Law of the PRC (中華人民共和國著作權法) and the Anti-Unfair Competition Law of the PRC(中華人民共和國反

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不正當競爭法) have been complied with. The Group has set up a designated taskforce team in responsible to internal IP management and making corresponding IP applications and registrations to relevant authorities, where applicable. This aims to prevent IP rights infringement and better secure the corporate tangible and intangible IP assets (e.g. trademarks, patents and copyrights) and the potential values arose from the IP rights. All key personnel who involve in the work of the enterprise IP rights are strictly forbidden to use, transfer and leak the information in any form of impropriety.

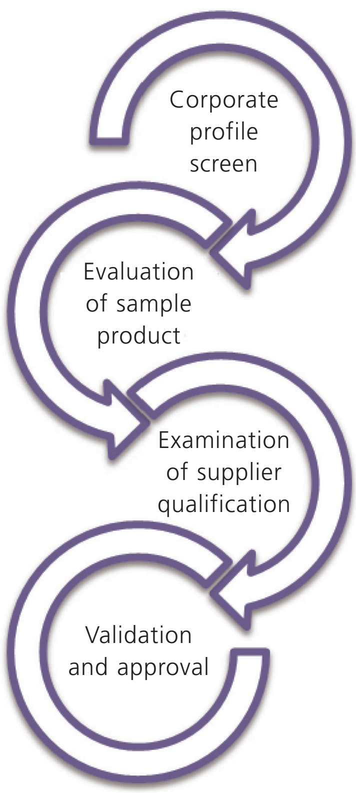
During the Reporting Period, the Group was not aware of any breaches of relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.

MANAGING THE SUPPLY CHAIN

Maintaining a sustainable supply chain is the integral part of the Group's sustainable operation. As the Group's products made with the materials provided by its suppliers, the products and services delivered by the suppliers are directly linked to the quality of products and the production effectiveness of the Group. Hence, the Group is dedicated to managing its supply chain in an environmentally and social responsible manner and encouraging the suppliers to practise the sustainability management in their own business, in order to make joint efforts in creating positive influence throughout its value chain. As of 31 December 2019, 97% of the manufacturing facility engaged suppliers are mainly from the PRC and Hong Kong.

The Group has established a thorough supplier management system, including the "Supplier Management Procedure" and "Procurement Management Procedure", to select suitable vendors and competent for material supplies, as well as monitoring their quality, environmental, social and ethics performance. New potential suppliers require undergoing the supplier assessment programme before being qualified as approved suppliers. The Group gives priority in the selection process to the suppliers who have obtained ISO 9001, ISO 14001 or other certifications recognised in the industry. Where necessary, relevant new potential suppliers are requested to provide raw material(s) or sample product(s) with relevant specifications to demonstrate the quality of supplies is aligned with the required standards. A qualification examination is then conducted on the new suppliers before they can be the on-list qualified suppliers.

Process of Supplier Selection



Key aspects of qualification examination

- Quality, safety and environmental management
- Technical competency
- Standard of on-site production
- Procurement management system
- Risk management and emergency handing

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In order to create beneficial values along the value chain and enhance mutual sustainability performance, the Group has set up a code of conduct, in which outlines the Group's expectations on the supplier activities, in terms of business ethics, environmental management, labour management and OHS management. The Group also encourages the suppliers to follow the internationally recognised management system and code of conduct such as RBA, ISO 9001, ISO 14001 and ISO 45001 in their operation to enhance the overall sustainability performance.

Responsible sourcing and ethical procurement are the issues that the customers are increasingly concerned about. The Group has developed the "Green Procurement Management Standard", which outlines an array of requirements on materials sourcing and purchases, especially on the topic of the Substances of Environmental Concern and Conflict Minerals. Suppliers have to sign the "Non-use Guarantee Statement for Prohibited Substances" or submit relevant certificates, laboratory test reports such as inductive coupled plasma ("ICP") report and/or relevant information about the internal environmental questionnaire to state and evidence the supplied materials without containing prohibited toxic and hazardous substances or without exceeding the acceptable limits set out in its management standard. Additionally, suppliers are required to fill in a specifically designed self-assessment survey and declare there is no use of conflict minerals (i.e. the minerals columbite-tantalite, wolframite, cassiterite and gold and their derivatives limited to the metals Tantalum, Tungsten, Tin, Gold) originated from conflict zones such as the Republic of the Congo and its adjacent countries). Where possible, to ensure compliance, conflict mineral investigations are conducted on potential and existing suppliers by following the RBA requirements/Global e-Sustainability Initiative ("GeSI") Conflict Minerals Reporting standards.

The Group carries out regular supplier performance evaluation including on-site inspections, audits and self-assessments for its existing suppliers based on the pre-determined criteria and rating scheme, to ensure the Group's existing suppliers uphold consistent products and services quality. Supplier(s) who fail to fulfil the required standards must rectify the non-conformity and/or deficiencies with improvement action plan(s) in the grace period, and re-assess their performance standard afterwards to validate the effectiveness of the execution of the improvement action plan(s). If the supplier(s) repeatedly fail to meet the Group's requirements, they will be disqualified and removed from the approved list.

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PROTECTING THE ENVIRONMENT

As an optical and opto-electronic product related parts and components manufacturer, the Group attaches great importance to greener production practices and environmental sustainability. The Group is dedicated to preventing pollutions, utilising the resources in an environmentally responsible manner and minimising the environmental impacts throughout its operations, as stipulated in its environmental policy.

The Group's Environmental Management Policy The Group is committed to	
	complying with all applicable environmental laws and regulations
	effectively implementing the ISO 14001 Environmental Management System ("EMS") for managing environmental issues along its operations
	preventing pollutions, improving the energy efficiency and reducing waste and emission by equipment upgrade, process design modification and cleaner production
	strengthening internal and external knowledge exchanges and increasing the staff awareness on environmental protection
	making continuous improvement of EMS to enhance the environmental performance

The Group strictly complies with the relevant national environmental laws and regulations such as the Environmental Protection Law of the PRC (中華人民共和國環境保護法) and the Environmental Protection Tax Law of the PRC (中華人民共和國環境保護稅法). The Group has implemented an Environmental Management System ("EMS"), accredited with recognised international standard of ISO 14001 in its manufacturing facility since 2005. The Group has formulated a set of environmental management procedures and working guidelines for staff to follow in the operations, in order to manage the identified significant environmental aspects and risks by exerting proper administration and engineering controls and mitigation measures.

During the Reporting Period, the Group was not aware of any breaches of relevant laws and regulations that have a significant impact on the Group relating to discharge into water and land, and generation of hazardous waste and non-hazardous waste.

Managing the emissions

Air emission

The Group is dedicated to minimising its air emissions generated during the manufacturing processes and daily operation, and strictly complies with the relevant national emissions standards and regulations set out by the local government in the PRC.

The major sources of air emissions include the air pollutants from consumption of gaseous fuels (e.g. diesel, gasoline and natural gas) from stationary and mobile combustion, the limited volatile organic compounds gases and exhausted gas with particulates. Besides, the other major emission is due to cooking fumes emitted from staff kitchen.

The Group has installed air filtration system for treatment and chimneys with suitable heights to ensure emissions from the manufacturing processes are sufficiently treated before reaching nearby residents. For the emission from staff kitchen, pollution control equipment with electrostatic

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precipitator is installed to control the cooking fumes emission.

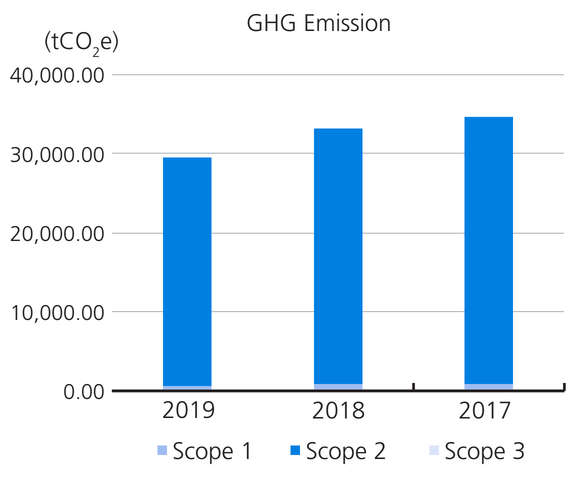
During the Reporting Period, there is one case of violation of Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治) that Dongguan Yorkey Optical Machinery Components Ltd. has suspended the production of spray painting process to upgrade its exhaust gas treatment facilities. Dongguan Yorkey paid a total of RMB3.3 million fine, including the original fine of RMB110,000 and additional fine, and has commenced the rectification works in the prescribed period. In order to reduce the exhaust gas from production discharged by the Factory to meet the air pollutant discharge standards, Dongguan Yorkey has set up a special project team to formulate rectification measures for the detected excessive pollution, and upgrade the exhaust gas treatment facilities. We have also engaged certified third parties to conduct air quality monitoring annually to monitor the Group's emission level and prevent reoccurrence.

During the Reporting Period, the air emissions from mobile combustion, in terms of nitrogen oxides ("NOx"), sulphur oxides ("SOx") and Particulate Matter ("PM"), are shown in the table below:

2019	Unit	NOx	SOx	PM
Diesel	kg	485.71	0.75	29.39
Petrol	kg	21.39	0.62	1.58
Total		507.10	1.37	30.97

Greenhouse Gas ("GHG") Emission

Global warming is one of the most challenging problems facing the planet nowadays and every government and corporate organisation should take effective efforts to fight against it. The direct GHG emission (Scope 1) of the Group is mainly generated from the combustion of fossil fuel for stationary and mobile sources, including the appliance of staff kitchen and the company vehicles. The indirect GHG emission (Scope 2 and 3) mainly comes from the consumption of purchased electricity for daily production and business travel where the emission is controlled by other parties. In order to manage and monitor the GHG emission controlled by the Group, in particular the energy consumption across its production chain, the Group has developed various initiatives and programmes to reduce the carbon footprint of its operations and is further elaborated in the later section headed "Managing the Resources Use – Energy Use" of this ESG report.



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Wastewater discharge

The Group has installed an on-site wastewater treatment facility and septic tank in its manufacturing facility for proper wastewater treatment from Spray processing and domestic sewage. The Group follows the established "Wastewater Management Procedure" in controlling the wastewater discharge and carries out environmental inspection and testing at least annually by certified third party to ascertain the compliance with the relevant laws and regulations such as Discharge Limits of Water Pollutants (DB44/26-2001) (水污染物排放限值 (DB44/26-2001)).

Waste management

The Group has a waste management system in place with standardised procedures to ensure that the waste disposal in its manufacturing facility meets the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法), as well as reducing the amount of waste generated from the production.

The process of waste management

Waste Segregation and Collection → **On-site Waste Storage** → **Waste Handling**

Non-hazardous waste

The major types of non-hazardous wastes generated from the Group's operations are identified as plastic, metals and general waste. The Group recognises the importance of waste reduction at source and hence requires all departments to purchase accurate amount of raw materials to avoid over-ordering, and contribution to the wastage due to materials deterioration and damage. The raw materials are reused as much as possible in its production before disposal to extend their lifespans to minimise the resources consumption. For the recyclable waste, the Group has a proper waste segregation, without mixing up with other non-recyclable wastes. The recyclable waste are stored in designated areas and consigned to qualified professional waste collectors for recycling. During the Reporting Period, the Group generated 162.18 tonnes of non-hazardous waste in its manufacturing factory.

Hazardous waste

Various types of hazardous wastes are generated from the manufacturing processes, including coating and ink, organic solvent, activated carbon and items contaminated by chemicals. Understanding that improper handling of hazardous wastes can contribute to serious land and water pollution and threaten the biodiversity of the eco-system, the Group has a "Toxic and Hazardous Waste Management Procedure" functioned as a standardised guidance for its staff to follow in the collection, storage and transport of hazardous wastes. This is to ensure that the on-site hazardous waste is handled properly in accordance with the best practices, the applicable laws and regulations. During the Reporting Period, 66.39 tonnes of hazardous waste was generated in its manufacturing factory.

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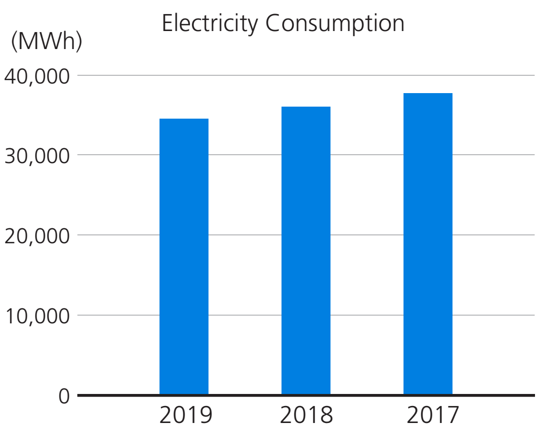
All of the hazardous waste is sorted by category to avoid mixing up with other incompatible wastes, and is stored in designated collection points. Proper chemical labels are attached on the containers for waste identification and safety caution. The hazardous waste is periodically consigned to licensed professional waste collectors for handling and treatment.

The Group also has set up an "Emergency Response and Preparedness Management Procedure" with contingency plans for coping with the potential emergency circumstances such as chemical leakage, fire and explosion or other accidents. The plans guide the staff to take timely and appropriate response actions to minimise the potential environmental and human health impacts incurred under such circumstances. The Group organises chemical leakage drills once a year to enhance staff capability and awareness of emergency handling as well as validating the feasibility of the contingency plan.

Managing the resources use

Use of energy

Electricity and gaseous fuels (e.g. diesel and gasoline) are the main sources of energy consumption in manufacturing facility. To strengthen the effective management on energy use and thus reduce GHG emissions in its operations, the Group has developed an energy management procedure and governed the performance of energy consumption throughout its operation.



The Group has formed an energy conservation committee with the responsibility in formulating the strategies, approaches and practices of energy management, and ensuring the thorough execution and implementation of management programmes along the operations.

Some key initiatives implemented by the Group on energy management are highlighted below:

- Establish clear guidelines and rules with respect to the use of energy and resources in the manufacturing facility and post up the environmental protection notices and signs to raise environmental awareness. Relevant environmental trainings are arranged to all employees in order to share the common goals on energy saving and resource conservation, and communicate the environmental protection requirements for implementation

The environmental protection notices and signs are attached in the manufacturing area

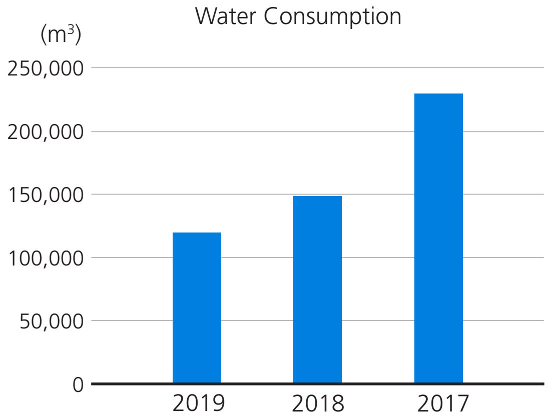
Environmental, Social & Governance Report

- Develop energy-saving plans and targets with the production departments, conduct monthly performance evaluation and regular statistical analysis on energy consumption and incentivise the corresponding departments with rewards
- Regulate the use of company vehicles by making prior applications before the vehicle use in order to have a better schedule planning and transportation routes to minimise unnecessary transportation, and provide regular maintenance service to the company vehicles to ensure optimal engine performance and efficiently use of fuel
- Control the lightings and make full use of natural lighting during day time where possible
- Optimise the air conditioning system, control the temperature of air conditioners within 24-26 degree Celsius in office and manufacturing areas, unless specific temperature conditions as required, and turn off the air conditioners before leaving work to reduce electricity consumption
- Replace traditional light bulbs by LED light bulbs to improve the energy efficiency
- Opt for more green and energy-efficient products when purchasing new office appliance, manufacturing plants and equipment, and phase out the old and lower energy-efficient one
- Advocate video conference meetings to replace business-related travels where possible to reduce the energy use and carbon footprint

The Group has implemented an incentive programme to reward the outstanding departments in recognition of their efforts in energy saving quarterly.

Use of water

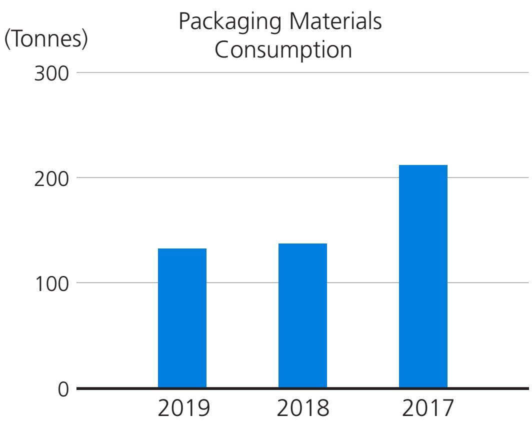
Fresh water is a finite and precious resource while it is important to every life in the planet. To conserve this precious resource, the Group conducts regular checks and maintenance on water facilities to avoid water leakage. The Group makes monthly review on the water consumption in the manufacturing facility, identifies any abnormal situation on water consumption and takes corresponding actions to rectify such situation. Furthermore, the Group phases out the old/malfunctioned equipment by replacing the new water-efficient model, to enhance the water efficiency. All the wastewater is handled by licensed collectors for further treatment. There was no water sourcing issue during the Reporting Period as all of the water purchased for manufacturing activities is supplied by the local water supply authority.



Environmental, Social & Governance Report

Use of packaging material

The Group registers the stock in-and-out record of packaging material, mainly carton boxes, and the amount of material scrap to plan and monitors the use of packaging material in different production departments. The Group also encourages all production departments to reuse the cardboard boxes as possible. In addition, the production departments are requested to determine a tailor-made plan based on their own manufacturing processes to reduce the use of packaging material and the production cost, while creating mutual benefits to the Group and the environment.



Minimising impacts on the environment and natural resources

Substances of Environmental Concern

The Group is committed to managing the presence of toxic and/or hazardous substances (e.g. heavy metals and persistent organic compounds) in its materials, components and parts used in production, to safeguard the end-users health and prevent adverse impacts on the environment.

The Group has formulated a "Green Procurement Management Standard" with a list of "Substances of Environmental Concerns"[1] for the suppliers to follow, and ensure the materials supplied are free from prohibited substances or contain toxic and hazardous substances without exceeding the acceptable level. Additionally, the potential and existing suppliers are required to submit either a signed declaration on "Non-use Guarantee Statement for Prohibited Substances" or relevant testing reports (e.g. ICP test report) or certificate by the third parties to demonstrate their products supplied to the Group are in conformance to the required standards.

[1] The list of "Substance of Environmental Concerns" is compiled with reference to applicable global industry standards such as RoHS and REACH and other national standards and regulations as required. The list is updated regularly in accordance with the changes of industry standards requirements.

Environmental, Social & Governance Report

Environmental performance

During the Reporting Period, the Group's environmental performance in relation to its operations is shown in the following table:

		Yorkey Optical International (Cayman) Limited		
	Unit	**2019**	2018	2017
Types of Resources Use				
Direct Energy(Note 1)				
– Unleaded Petrol	Litre ("**L**")	**42,272.51**	47,543.65	46,278.64
	Giga Joule ("**GJ**")	**1,385.78**	1,558.58	1,517.11
– Diesel Oil	L	**46,336.51**	45,357.04	41,706.53
	GJ	**1,673.67**	1,638.30	1,506.44
– Natural Gas(Note 2)	m^3	**175,471.00**	204,452.00	207,751.00
	GJ	**5,895.83**	6,869.59	6,980.43
Intensity(Note 3)	GJ per 1,000 unit outputs	**0.029**	0.032	0.025
Indirect Energy				
– Electricity	MWh	**34,576.28**	36,056.71	37,761.29
Intensity	MWh per 1,000 unit outputs	**0.11**	0.12	0.10
Water	m^3	**119,519.00**	148,650.00	229,375.00
Intensity	m^3 per 1,000 unit outputs	**0.39**	0.48	0.58
Packaging Materials	Tonne	**132.75**	137.65	211.86
Intensity	Tonne per 1,000 unit outputs	**0.00043**	0.00044	0.00054
Refrigerant	kg	**45.40**	136.20	113.50
Type of Waste				
– Non-hazardous Waste	Tonne	**162.18**	130.06	199.18
Intensity	Tonne per 1,000 unit outputs	**0.00053**	0.00042	0.00051
– Hazardous Waste	Tonne	**66.39**	50.71	30.18
Intensity	Tonne per 1,000 unit outputs	**0.00022**	0.00016	0.000077
Type of Emission				
Wastewater Discharge	m^3	**1,082.00**	480.00	632.60

Environmental, Social & Governance Report

		Yorkey Optical International (Cayman) Limited		
	Unit	**2019**	2018	2017
GHG Emissions				
– Direct Emission (Scope 1)(Note 4)	tCO_2e	**571.44**	861.58	835.99
– Indirect Emission (Scope 2)(Note 5)	tCO_2e	**28,929.98**	32,303.20	33,830.34
– Other Indirect Emission (Scope 3)(Note 6)	tCO_2e	**18.81**	9.64	No Disclosure
Total GHG Intensity	tCO_2e per 1,000 unit outputs	**0.10**	0.11	0.088

Note 1: The conversion factors from volumetric units of unleaded petrol, diesel oil and natural gas consumption to energy units are in reference to CDP Technical note: Conversion of fuel data to MWh in 2019.

Note 2: The consumption of natural gas applies to staff kitchen and dormitory only.

Note 3: The intensity unit refers to the total number of outputs produced in the Reporting Period.

Note 4: The direct emission (Scope 1) covered the emission from the stationary and mobile sources combustion, and fugitive emissions from the use of refrigerants. The calculation is made reference to the published emission factors from 2006 IPCC Guidelines for National Greenhouse Gas Inventories, GHG Protocol for Energy Consumption in China and the guidance worksheets of World Resources Institute's GHG Protocol Tool for Mobile Combustion.

Note 5: The indirect emission (Scope 2) covered the emission from the purchased electricity from Power Company. The calculation is based on the emission factors from 2017 Emission Factors for purchased electricity within Mainland China (2017年度減排項目中國區域電網基準線排放因子), published by Climate Change Info-Net.

Note 6: The other indirect emission (Scope 3) covered the emission from the business travel of employees only.

Environmental, Social & Governance Report

CONTRIBUTING TO THE COMMUNITY

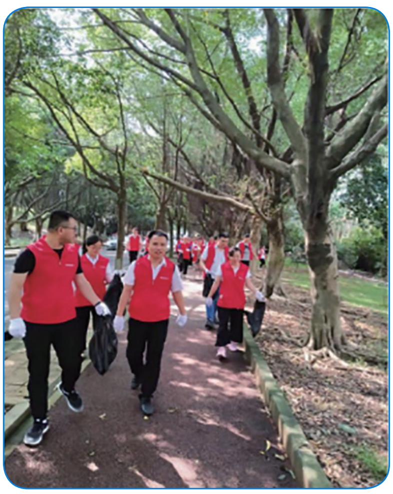
The Group is committed to fulfilling its corporate responsibility and strives to leverage its resources to thrive the steady community growth and create a sustainable, inclusive and harmonious society for people to live in.

Promoting the green and caring community

Followed by the "Social Engagement Management Standard", the Group strives for social integration by taking part in the social events, organised either by the Group or by the local authorities, which foster the green and healthy lifestyle in the community. In 2019, the Group recorded 281 attendances and 1,056 services hours in total. The Group will continue to care for the interests of the community and exert its positive influence to help the people in need in the future.

In order to combat the global warming and protect the biodiversity, the Group continued to organise tree-planting activity this year with its 110 volunteers and their family members. The Group has planted about 300 saplings during this activity. Besides, the Group hosted a Country Park Clean-up in June 2019 at Dalingshan Forest Park (大嶺山森林公園). The activity aims to increase the environmental awareness of its employees, so as to change their behaviour in advocacy to promote a green and low carbon lifestyle and keep the clean and harmonious planet.


Tree Planting




Country Park Clean-up

Environmental, Social & Governance Report

In March 2019, the Group arranged a community visit to Dongguan Chang'an Care Home for the Aged. A team of 12 volunteers chatted and accompanied the senior citizens with low mobility to understand their needs, offered a performance show and presented gift packs with daily necessities to express the home-like warmth and blessings to the elderly.

The Group continued to support the "Happy Dongguan tours" organised by Dongguan Women Federation in March 2019 to celebrate the International Women's Day and promote the equal opportunity and rights of women in Dongguan. The female colleagues can enjoy their leisure time with their family members and visit to the Opium War Museum (鴉片戰爭博物館), Guangdong Dongjiang Column Memorial Hall (廣東東江縱隊紀念館) and Shengxin Gaodian Museum (聖心糕點博物館). Through this activity, the Group expresses the Group's appreciation and recognition of female accomplishments to the sustainable community development and strive to enhance the female social status and facilitate their integration in the community.

Environmental, Social & Governance Report

HKEx ESG REPORTING GUIDE INDEX

HKEx ESG Reporting Guide General Disclosures & KPIs		Explanation/Reference Section
Aspect A: Environment		
A1 Emissions	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. Note: Air emissions include NOx, SOx, and other pollutants regulated under national laws and regulations. Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. Hazardous wastes are those defined by national regulations.	PROTECTING THE ENVIRONMENT – Managing the emissions
KPI A1.1	The types of emissions and respective emissions data.	PROTECTING THE ENVIRONMENT – Managing the emissions PROTECTING THE ENVIRONMENT – Environmental performance
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	PROTECTING THE ENVIRONMENT – Environmental performance
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	PROTECTING THE ENVIRONMENT – Environmental performance
KPI A1.4	Total non-hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).	PROTECTING THE ENVIRONMENT – Environmental performance
KPI A1.5	Description of measures to mitigate emissions and results achieved.	PROTECTING THE ENVIRONMENT – Managing the emissions

Environmental, Social & Governance Report

HKEx ESG Reporting Guide General Disclosures & KPIs Aspect A: Environment		Explanation/Reference Section
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	PROTECTING THE ENVIRONMENT – Managing the emissions
A2 Use of Resources	Policies on efficient use of resources including energy, water and other raw materials. Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.	PROTECTING THE ENVIRONMENT – Managing the resources use
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	PROTECTING THE ENVIRONMENT – Environmental performance
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	PROTECTING THE ENVIRONMENT – Environmental performance
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	PROTECTING THE ENVIRONMENT – Managing the resources use
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	PROTECTING THE ENVIRONMENT – Managing the resources use
KPI A2.5	Total packaging material used for finished products (in tonnes), and, if applicable, with reference to per unit produced.	PROTECTING THE ENVIRONMENT – Environmental performance
A3 The Environment and Natural Resources	Policies on minimising the issuer's significant impact on the environment and natural resources.	PROTECTING THE ENVIRONMENT – Minimising impacts on the environment and natural resources
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	PROTECTING THE ENVIRONMENT – Minimising impacts on the environment and natural resources

Environmental, Social & Governance Report

HKEx ESG Reporting Guide General Disclosures & KPIs Aspect B: Social		Explanation/Reference Section
B1 Employment	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	CARING FOR THE EMPLOYEES
B2 Health and Safety	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	ENSURING THE SAFETY AND HEALTH
KPI B2.1	Number and rate of work-related fatalities.	ENSURING THE SAFETY AND HEALTH
KPI B2.2	Lost days due to work injury.	ENSURING THE SAFETY AND HEALTH
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	ENSURING THE SAFETY AND HEALTH
B3 Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. Note: Training refers to vocational training. It may include internal and external courses paid by the employer.	CARING FOR THE EMPLOYEES – Training and development
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	CARING FOR THE EMPLOYEES – Training and development

Environmental, Social & Governance Report

HKEx ESG Reporting Guide General Disclosures & KPIs Aspect B: Social		Explanation/Reference Section
KPI B3.2	The average training hours completed per employee by gender and employee category.	CARING FOR THE EMPLOYEES – Training and development
B4 Labour Standards	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	CARING FOR THE EMPLOYEES – Labour standard
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	CARING FOR THE EMPLOYEES – Labour standard
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	CARING FOR THE EMPLOYEES – Labour standard
B5 Supply Chain Management	Policies on managing environmental and social risks of the supply chain.	MANAGING THE SUPPLY CHAIN
KPI B5.1	Number of suppliers by geographical region.	MANAGING THE SUPPLY CHAIN
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	MANAGING THE SUPPLY CHAIN
B6 Product Responsibility	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	DELIVERING QUALITY PRODUCTS AND SERVICES
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	DELIVERING QUALITY PRODUCTS AND SERVICES

Environmental, Social & Governance Report

HKEx ESG Reporting Guide General Disclosures & KPIs Aspect B: Social		Explanation/Reference Section
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	DELIVERING QUALITY PRODUCTS AND SERVICES – Privacy and intellectual property protection
KPI B6.4	Description of quality assurance process and recall procedures.	DELIVERING QUALITY PRODUCTS AND SERVICES
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	DELIVERING QUALITY PRODUCTS AND SERVICES – Privacy and intellectual property protection
B7 Anti-corruption	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	UPHOLDING THE HIGHEST BUSINESS INTEGRITY
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	UPHOLDING THE HIGHEST BUSINESS INTEGRITY
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	UPHOLDING THE HIGHEST BUSINESS INTEGRITY
B8 Community Investment	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	CONTRIBUTING TO THE COMMUNITY
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	CONTRIBUTING TO THE COMMUNITY
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	CONTRIBUTING TO THE COMMUNITY

Independent Auditor's Report

Deloitte. 德勤

TO THE SHAREHOLDERS OF YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.

(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Yorkey Optical International (Cayman) Ltd. (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 84 to 141, 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 the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
Revenue recognition is identified as a key audit matter because of its financial significance to the consolidated financial statements and is one of key performance indicators of the Group. Accordingly, there may be risk of material misstatements related to revenue recognition. For the year ended 31 December 2019, revenue from components of optical and opto-electronic products amounted to US$60,917,000 as shown in the consolidated statement of profit or loss and other comprehensive income.	Our procedures in relation to revenue recognition included: • Obtaining an understanding on the revenue business processes and testing key controls over revenue recognition; • Checking recorded revenue, on a sample basis, to relevant sales invoices and shipping documents; and • Performing data analysis to identify unusual pattern of revenue.

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.

Independent Auditor's Report

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.

Independent Auditor's Report

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

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

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

We communicate with 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 Lo Kin Cheong.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

20 March 2020

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2019

	NOTES	2019 US$'000	2018 US$'000
Revenue	5	**60,917**	69,703
Cost of goods sold		**(46,455)**	(51,760)
Gross profit		**14,462**	17,943
Other income, other gains and losses		**3,384**	4,027
Distribution costs		**(1,591)**	(1,635)
Administrative expenses		**(8,874)**	(9,590)
Research and development expenses		**(1,555)**	(1,532)
Interest expense on lease liabilities		**(131)**	–
Profit before taxation	6	**5,695**	9,213
Taxation	8	**(659)**	(1,505)
Profit for the year		**5,036**	7,708
Other comprehensive expense for the year			
Item that may be reclassified subsequently to profit or loss:			
– exchange difference arising from translation of financial statements of foreign operation		**(734)**	(2,140)
Total comprehensive income for the year		**4,302**	5,568
Earnings per share			
– Basic	10	**US0.61 cent**	US0.94 cent

Consolidated Statement of Financial Position

At 31 December 2019

	NOTES	2019 US$'000	2018 US$'000
Non-current assets			
Investment properties	11	**5,540**	5,768
Property, plant and equipment	12	**6,029**	7,537
Right-of-use assets	13	**2,269**	–
Prepaid lease payments	14	**–**	197
Deposits paid for acquisition of property, plant and equipment		**183**	101
		14,021	13,603
Current assets			
Inventories	15	**3,011**	2,550
Trade and other receivables	16	**11,384**	13,512
Amount due from a related company	17	**–**	23
Bank balances and cash	18	**83,641**	93,945
		98,036	110,030
Current liabilities			
Trade and other payables	19	**17,798**	19,156
Contract liabilities		**366**	141
Lease liabilities	20	**1,102**	–
Taxation payable		**2,797**	3,505
		22,063	22,802
Net current assets		**75,973**	87,228
Total assets less current liabilities		**89,994**	100,831
Capital and reserves			
Share capital	21	**1,056**	1,057
Reserves		**87,866**	99,774
Total equity		**88,922**	100,831
Non-current liabilities			
Lease liabilities	20	**1,072**	–
		89,994	100,831

The consolidated financial statements on pages 84 to 141 were approved and authorised for issue by the Board of Directors on 20 March 2020 and are signed on its behalf by:

Lai I-Jen
CHAIRMAN

Kurihara Toshihiko
EXECUTIVE DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company						
	Share capital US$'000	Share premium US$'000	Special reserve US$'000	Translation reserve US$'000	Statutory surplus reserve fund US$'000	Retained profits US$'000	Total US$'000
At 1 January 2018	1,058	62,982	19,350	9,795	3,636	16,364	113,185
Profit for the year	–	–	–	–	–	7,708	7,708
Other comprehensive expense for the year	–	–	–	(2,140)	–	–	(2,140)
Total comprehensive (expense) income for the year	–	–	–	(2,140)	–	7,708	5,568
Transfers	–	–	–	–	432	(432)	–
Repurchase and cancellation of ordinary shares (note 21)	(1)	(79)	–	–	–	–	(80)
Dividends recognised as distribution (note 9)	–	(10,504)	–	–	–	(7,338)	(17,842)
At 31 December 2018	1,057	52,399	19,350	7,655	4,068	16,302	100,831
Profit for the year	–	–	–	–	–	5,036	5,036
Other comprehensive expense for the year	–	–	–	(734)	–	–	(734)
Total comprehensive (expense) income for the year	**–**	**–**	**–**	**(734)**	**–**	**5,036**	**4,302**
Transfers	**–**	**–**	**–**	**–**	**81**	**(81)**	**–**
Repurchase and cancellation of ordinary shares (note 21)	**(1)**	**(73)**	**–**	**–**	**–**	**–**	**(74)**
Dividends recognised as distribution (note 9)	**–**	**(10,476)**	**–**	**–**	**–**	**(5,661)**	**(16,137)**
At 31 December 2019	**1,056**	**41,850**	**19,350**	**6,921**	**4,149**	**15,596**	**88,922**

The special reserve represents the difference between the nominal amount of the shares issued by the Company and the aggregate amount of share capital of the subsidiaries acquired pursuant to the group reorganisation in 2005.

As stipulated by the relevant laws and regulations for foreign investment enterprises in Mainland China, the subsidiary of the Company in Mainland China is required to maintain a statutory surplus reserve fund which is non-distributable. Appropriation to such reserve is allocated based on 10% of the profit after taxation of the statutory financial statements of the subsidiary in Mainland China. Pursuant to the relevant laws and regulations in Mainland China, appropriation to the statutory surplus reserve is required until the balance reaches 50% of the registered capital. The statutory surplus reserve fund can be used by the subsidiary in Mainland China to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 US$'000	2018 US$'000
Operating activities		
Profit before taxation	5,695	9,213
Adjustments for:		
Interest income	(1,827)	(1,879)
Interest expense on lease liabilities	131	–
Depreciation on investment properties	228	234
Depreciation on property, plant and equipment	2,130	2,659
Depreciation of right-of-use assets	1,174	–
(Gain) loss on disposal of property, plant and equipment	(15)	16
Amortisation of land use rights	–	6
(Reversal of allowance) allowance for obsolete inventories	(7)	117
Reversal of impairment loss on trade receivables, net	(1)	(39)
Operating cash flows before movements in working capital	7,508	10,327
(Increase) decrease in inventories	(503)	274
Decrease (increase) in trade and other receivables	2,092	(761)
Decrease in amount due from a related company	23	–
Increase in contract liabilities	229	145
Decrease in trade and other payables	(1,082)	(764)
Cash from operations	8,267	9,221
Income tax paid	(1,352)	(2,101)
Net cash from operating activities	6,915	7,120
Investing activities		
Interest received	1,827	1,879
Proceeds from disposal of property, plant and equipment	136	–
Purchase of property, plant and equipment	(744)	(1,469)
Deposits paid for acquisition of property, plant and equipment	(185)	(100)
Net cash from investing activities	1,034	310
Financing activities		
Dividends paid	(16,137)	(17,842)
Repayment of lease liabilities	(1,167)	–
Interest paid	(131)	–
Payments on repurchase and cancellation of ordinary shares	(74)	(80)
Net cash used in financing activities	(17,509)	(17,922)
Net decrease in cash and cash equivalents	(9,560)	(10,492)
Cash and cash equivalents at 1 January	93,945	104,827
Effect of foreign exchange rate changes	(744)	(390)
Cash and cash equivalents at 31 December	83,641	93,945
Analysis of the balance of cash and cash equivalents		
Bank balances and cash	83,641	93,945

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. GENERAL

Yorkey Optical International (Cayman) Ltd. (the "Company") is incorporated in the Cayman Islands and registered as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company acts as an investment holding company. The principal activities of its subsidiaries (the Company and its subsidiaries are collectively referred to as the "Group") are set out in note 29. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements are presented in United States dollars ("US$"), which is the functional currency of the Company.

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

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

The Group has applied the following new and amendments to HKFRSs and Hong Kong Accounting Standards ("HKASs") 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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

HKFRS 16 "Leases" ("HKFRS 16")

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases" ("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 standard 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 adjusted by any accrued lease payments 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

HKFRS 16 "Leases" ("HKFRS 16") (continued)

As a lessee (continued)

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. relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review;

ii. 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;

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

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties and motor vehicles in Mainland China was determined on a portfolio basis; and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

The Group recognised lease liabilities of US$3,385,000 and right-of-use assets of US$3,582,000 as at 1 January 2019. There was no material impact of transition to HKFRS 16 on retained profits as at 1 January 2019.

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 4.75%.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

HKFRS 16 "Leases" ("HKFRS 16") (continued)

As a lessee (continued)

	At 1 January 2019 US$'000
Operating lease commitments disclosed as at 31 December 2018	3,758
Add: Accruals for rental payable as at 31 December 2018	98
Less: Recognition exemption – short-term leases	(57)
	3,799
Lease liabilities discounted at relevant incremental borrowing rate relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	3,385
Analysed as	
Current	1,220
Non-current	2,165
	3,385

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

	Right-of-use assets US$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	3,385
Reclassified from prepaid lease payments *(note)*	197
	3,582
By class:	
Leasehold land	197
Leasehold land and buildings	3,219
Motor vehicles	166
	3,582

Note: Upfront payments for leasehold land in Mainland China were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the prepaid lease payments amounting to US$197,000 were reclassified to right-of-use assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

HKFRS 16 "Leases" ("HKFRS 16") (continued)

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but accounts for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

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 combinations and asset acquisitions 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.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

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 positions 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

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

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 annual periods beginning on or after 1 January 2020, with earlier application permitted. 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.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis.

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 these consolidated financial statements is 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".

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Where 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 and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service, being at the point the goods are delivered to the customer. Delivery occurs when the goods have been shipped to the customer's specific location.

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.

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

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, modification date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

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, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of motor vehicles and other assets that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. 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.

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, unless those costs are incurred to produce inventories.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (continued)

Right-of-use assets (continued)

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 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 that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within "investment properties".

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 payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (continued)

Lease liabilities (continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, 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 lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

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 commensurates 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Lease modification (upon application of HKFRS 16 in accordance with transitions in note 2)

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" (upon application of HKFRS 16) or "prepaid lease payments" (before application of HKFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined using the weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses on property, plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets to determine whether there is any indication that these 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 amounts of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amounts 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 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 the 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 to the 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instruments. 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 "Revenue from contracts with customers". Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

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.

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. 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 and other receivables, amount due from a related company and bank balances) which are subject to impairment under HKFRS 9 "Financial Instruments" ("HKFRS 9"). 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 collectively using a provision matrix with appropriate grouping based on past due status.

For all other instruments, including other receivables, amount due from a related company and bank balances, 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 Group 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 for other instruments (including other receivables, amount due from a related company and bank balances), 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk (continued)

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;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(ii) Definition of default

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:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) 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;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) 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. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. 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 Group 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 (i.e. the Group's trade receivables assessed as a group);
- 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. 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.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity 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 instrument 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) 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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents 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 taxation because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liabilities 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 financial statements 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 differences 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 (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 the 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 the 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

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.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

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 exchange 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 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. US$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that 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 the heading of translation reserve.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits costs

Payments to defined contribution retirement benefits plans or state-managed retirement benefits schemes are recognised as an expense when employees have rendered services entitling them to the contributions.

Short-term and other long-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.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

Research and development expenditure

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

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make 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.

The following is the key source of estimation uncertainty at the end of the reporting period, that has a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

4. KEY SOURCE OF ESTIMATION UNCERTAINTY (continued)

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on past due status 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 Group's trade receivables and the ECL are disclosed in notes 16 and 26, respectively.

5. REVENUE AND OPERATING SEGMENT

Revenue

Revenue represents the fair value of the consideration received or receivable for goods sold by the Group to outside customers during the year. Revenue is recognised at a point in time when control of the goods has transferred, being when the goods have been shipped to the customers.

Disaggregation of revenue from contracts with customers by types of products

	2019 US$'000	2018 US$'000
Parts and components of		
– digital still cameras, action cameras and copiers	**44,327**	48,553
– surveillance cameras and projectors	**9,552**	10,561
– others	**7,038**	10,589
	60,917	69,703

The Group applies the practical expedient that information regarding the transaction prices allocated to the remaining performance obligation for contracts with customer is not disclosed as the original expected duration of the contracts are less than one year.

Operating segment

The chief executive officer ("Chief Executive Officer"), being the chief operating decision maker of the Group, regularly reviews revenue analysis of the components of optical and opto-electronic products and considers them as one single operating segment on an aggregate basis. Other than revenue analysis, no operating results and other discrete financial information are available for the assessment of performance of the respective business divisions. For these reasons, no separate segment information is presented.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

5. REVENUE AND OPERATING SEGMENT (continued)

Operating segment (continued)

The Chief Executive Officer reviews the profit for the year of the Group as a whole to make decisions about performance assessment and resource allocation. The operation of the Group constitutes one single operating segment under HKFRS 8 "Operating Segments" and accordingly, no separate segment information is prepared.

Other segment information

Geographical information

The Group's operations are located in the People's Republic of China ("PRC") (country of domicile), including Mainland China and Hong Kong.

The Group's revenue from external customers and information about its non-current assets by geographical location of the customers and the assets, respectively, are detailed below:

	Revenue from external customers		Non-current assets	
	2019	2018	**2019**	2018
	US$'000	US$'000	**US$'000**	US$'000
Japan	**28,323**	37,192	**–**	–
PRC	**25,679**	26,046	**14,021**	13,603
Others	**6,915**	6,465	**–**	–
	60,917	69,703	**14,021**	13,603

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2019	2018
	US$'000	US$'000
Customer A	**9,654**	9,359
Customer B	**8,654**	10,512
Customer C	**6,185**	7,369

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

6. PROFIT BEFORE TAXATION

	2019 US$'000	2018 US$'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments (note 7)	**232**	230
Staff's retirement benefits scheme contributions	**1,939**	1,781
Other staff costs	**19,739**	20,535
	21,910	22,546
Less: Staff costs capitalised in inventories	**(15,394)**	(16,196)
Less: Staff costs included in research and development expenses	**(670)**	(608)
	5,846	5,742
Amortisation of land use rights	**–**	6
Depreciation of property, plant and equipment	**2,130**	2,659
Depreciation of investment properties	**228**	234
Depreciation of right-of-use assets	**1,174**	–
Total depreciation and amortisation	**3,532**	2,899
Less: Depreciation capitalised in inventories	**(1,679)**	(2,106)
Less: Depreciation included in research and development expenses	**(169)**	(30)
	1,684	763
Allowance for obsolete inventories (included in cost of goods sold)	**–**	117
Auditor's remuneration	**297**	295
Cost of inventories recognised as an expense	**46,462**	51,643
Loss on disposal of property, plant and equipment	**–**	16
Operating lease rentals in respect of		
– motor vehicles	**–**	283
– rented premises	**–**	1,321
and after crediting:		
Exchange gain, net (included in other income, other gains and losses)	**968**	1,586
Gain on disposal of property, plant and equipment (included in other income, other gains and losses)	**15**	–
Interest income from bank deposits (included in other income, other gains and losses)	**1,827**	1,879
Property fixed rental income before deduction of negligible outgoings (included in other income, other gains and losses)	**492**	504
Reversal of allowance for obsolete inventories (included in cost of goods sold)	**7**	–
Reversal of impairment loss on trade receivables, net	**1**	39

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

7. DIRECTORS', CHIEF EXECUTIVE OFFICER'S AND EMPLOYEES' EMOLUMENTS

Details of emoluments paid by the Group to the directors and the Chief Executive Officer are as follows:

	2019				2018			
	Fees US$'000	Salaries and other benefits US$'000	Retirement benefits scheme contributions US$'000	Total US$'000	Fees US$'000	Salaries and other benefits US$'000	Retirement benefits scheme contributions US$'000	Total US$'000
Executive directors								
Mr. Lai I-Jen	15	–	–	15	15	–	–	15
Mr. Kurihara Toshihiko *(note)*	15	137	–	152	15	135	–	150
Non-executive director								
Ms. Wu Shu-Ping	15	–	–	15	15	–	–	15
Independent non-executive directors								
Mr. Lin Meng-Tsung	15	–	–	15	15	–	–	15
Mr. Liu Wei-Li	20	–	–	20	20	–	–	20
Mr. Wang Yi-Chi	15	–	–	15	15	–	–	15
	95	137	–	232	95	135	–	230

Note: Mr. Kurihara Toshihiko acts as the Chief Executive Officer. The remuneration of Mr. Kurihara Toshihiko as the Chief Executive Officer of the Company was JPY15,000,000 (approximately equivalent to US$137,000 in total) (2018: JPY15,000,000 (approximately equivalent to US$135,000 in total)) for the year ended 31 December 2019.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

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

The non-executive director's emoluments shown above was for her services as director of the Company or its subsidiaries.

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 the Chief Executive Officer waived or agreed to waive any remuneration during the year.

The five highest paid individuals of the Group included one (2018: one) director, whose emoluments are disclosed above. The emoluments of the remaining four (2018: four) individuals in the Group were as follows:

	2019 US$'000	2018 US$'000
Employees		
– basic salaries and allowances	**150**	139
– performance related bonus	**–**	67
– retirement benefits scheme contributions	**7**	3
	157	209

The emoluments of each of these highest paid individuals are less than HK$1,000,000 (equivalent to US$128,000).

During the year ended 31 December 2019 and 31 December 2018, no emolument was paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

8. TAXATION

	2019 US$'000	2018 US$'000
The tax charge comprises:		
PRC income tax calculated at the applicable income tax rate on the estimated assessable profit for the year	492	1,547
Hong Kong Profits Tax	125	–
Under(over)provision in prior years	42	(42)
	659	1,505

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduced 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 for the current year.

No provision for Hong Kong Profits Tax had been made during the year ended 31 December 2018 as the Group's profit neither arises in nor was derived from Hong Kong in that year.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% for both years.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. No deferred tax liability has been recognised in respect of temporary differences associated with undistributed earnings of subsidiaries from 1 January 2008 onwards of approximately US$6,927,000 (2018: US$6,282,000) as at the end of the reporting period because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

8. TAXATION (continued)

Tax charge for the year is reconciled to profit before taxation as follows:

	2019 US$'000	2018 US$'000
Profit before taxation	**5,695**	9,213
Tax at the PRC Enterprise Income Tax rate of 25% (2018: 25%)	**1,424**	2,303
Tax effect of expenses not deductible for tax purposes	**301**	328
Tax effect of income not taxable for tax purposes	**(482)**	(515)
Tax effect of different tax rates of subsidiaries	**(626)**	(569)
Under(over)provision in prior years	**42**	(42)
Tax charge for the year	**659**	1,505

9. DIVIDENDS

	2019 US$'000	2018 US$'000
Dividends recognised as distribution during the year		
– Interim dividend for 2019 of HK1.9 cents (equivalent to US0.243 cent) (2018: HK3.5 cents; equivalent to US0.446 cent) per share	**1,995**	3,662
– Final dividend for 2018 of HK3.5 cents (equivalent to US0.447 cent) (2018: final dividend for 2017 of HK3.5 cents; equivalent to US0.448 cent) per share	**3,666**	3,676
– Special dividend for 2018 of HK10 cents (equivalent to US1.28 cents) (2018: special dividend for 2017 of HK10 cents; equivalent to US1.28 cents) per share	**10,476**	10,504
	16,137	17,842

A final dividend of HK2.5 cents (2018: HK3.5 cents) per share (which in aggregate amounts to approximately US$2,632,000 (2018: US$3,666,000)) and a special dividend of nil (2018: HK10 cents) per share have been proposed by the Board of Directors for the year and are subject to approval by the shareholders in the forthcoming annual general meeting. They are calculated on the basis of 819,840,000 shares (2018: 820,540,000 shares) in issue at the date of issuance of these consolidated financial statements.

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10. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the consolidated profit for the year attributable to owners of the Company of US$5,036,000 (2018: US$7,708,000) and on the weighted average number of 820,363,835 (2018: 820,964,899) shares.

No diluted earnings per share is presented as there were no dilutive potential ordinary shares during both years.

11. INVESTMENT PROPERTIES

	2019 **US$'000**	2018 US$'000
COST		
At 1 January	**7,786**	7,860
Currency realignment	**(24)**	(74)
At 31 December	**7,762**	7,786
DEPRECIATION		
At 1 January	**2,018**	1,858
Currency realignment	**(24)**	(74)
Provided for the year	**228**	234
At 31 December	**2,222**	2,018
CARRYING VALUE		
At 31 December	**5,540**	5,768

The carrying amount of the Group's investment properties comprises:

	2019 **US$'000**	2018 US$'000
Leasehold land and buildings in Hong Kong	**5,540**	5,767
Buildings in the PRC	**–**	1
	5,540	5,768

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11. INVESTMENT PROPERTIES (continued)

The fair value of the Group's investment properties, including leasehold land portion, at the end of the reporting period was US$8,696,000 (2018: US$8,560,000). The fair value has been arrived at based on a valuation at the end of the reporting period, determined by the directors of the Company. No valuation has been performed by independent qualified professional valuers. The valuation performed by the directors of the Company was carried out with reference to recent market prices for similar properties in similar locations and conditions, which was classified as level 3 under HKFRS 13 "Fair Value Measurement". There has been no change from the valuation techniques used in the prior year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

All the Group's investment properties are held for rental purpose under operating leases and/or for capital appreciation.

The Group leases out factories and offices under operating leases with rentals receivable monthly. The leases typically run for an initial period of 3 to 5 years. The Group is not exposed to foreign currency risk as a result of the lease arrangement as the leases are denominated in the respective functional currency of the group entity or denominated in Hong Kong dollars which is pegged to respective functional currency of another group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

The above investment properties are depreciated using the straight-line method, after taking into account their estimated residual value, over 10 – 30 years.

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12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings US$'000	Furniture, fixtures and equipment US$'000	Leasehold improvements US$'000	Motor vehicles US$'000	Plant and machinery US$'000	Total US$'000
COST						
At 1 January 2018	6,447	11,504	3,685	152	51,997	73,785
Currency realignment	(300)	(566)	(176)	(6)	(2,487)	(3,535)
Additions	–	801	25	–	674	1,500
Disposals	–	(173)	(20)	(32)	(495)	(720)
At 31 December 2018	6,147	11,566	3,514	114	49,689	71,030
Currency realignment	(98)	(189)	(57)	(2)	(814)	(1,160)
Additions	–	348	–	–	497	845
Disposals	–	(373)	–	–	(808)	(1,181)
At 31 December 2019	**6,049**	**11,352**	**3,457**	**112**	**48,564**	**69,534**
DEPRECIATION						
At 1 January 2018	5,089	10,470	3,253	151	45,719	64,682
Currency realignment	(243)	(501)	(166)	(6)	(2,228)	(3,144)
Provided for the year	149	354	354	1	1,801	2,659
Eliminated on disposals	–	(172)	(19)	(32)	(481)	(704)
At 31 December 2018	4,995	10,151	3,422	114	44,811	63,493
Currency realignment	(89)	(166)	(57)	(2)	(744)	(1,058)
Provided for the year	325	447	92	–	1,266	2,130
Eliminated on disposals	–	(354)	–	–	(706)	(1,060)
At 31 December 2019	**5,231**	**10,078**	**3,457**	**112**	**44,627**	**63,505**
CARRYING VALUES						
At 31 December 2019	**818**	**1,274**	**–**	**–**	**3,937**	**6,029**
At 31 December 2018	1,152	1,415	92	–	4,878	7,537

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12. PROPERTY, PLANT AND EQUIPMENT (continued)

	2019 US$'000	2018 US$'000
The carrying amount of the Group's property interests comprises:		
Leasehold land and buildings in Hong Kong	81	86
Buildings in the PRC	737	1,066
	818	1,152

The cost of leasehold land and buildings in Hong Kong is depreciated over the lease term of 50 years, using the straight-line method.

The cost of buildings in the PRC is depreciated over 20 years, using the straight-line method.

The cost of leasehold improvements is depreciated on a straight-line basis over the period of the respective leases or 5 years, whichever is shorter.

Depreciation is recognised so as to write off the cost of other items of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Furniture, fixtures and equipment	20%
Motor vehicles	20%
Plant and machinery	10%

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13. RIGHT-OF-USE ASSETS

	Leasehold lands US$'000	Leased land and buildings US$'000	Motor vehicles US$'000	Total US$'000
As at 1 January 2019				
Carrying amount	197	3,219	166	3,582
As at 31 December 2019				
Carrying amount	188	2,047	34	2,269
For the year ended 31 December 2019				
Depreciation charge	6	1,037	131	1,174
Expense relating to short-term leases with lease terms end within 12 months of the date of initial application of HKFRS 16				302
Total cash outflow for leases				1,600

For both years, the Group leases various offices, warehouses, factories, staff quarters and motor vehicles for its operations. Lease contracts are entered into for fixed term of 2 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located, and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold land. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

The Group regularly entered into short-term leases for motor vehicles and other assets. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases existed during the year.

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14. PREPAID LEASE PAYMENTS

	2018 US$'000
CARRYING VALUE	
At 1 January	213
Currency realignment	(10)
Charged to profit or loss	(6)
At 31 December	197

Prepaid lease payments represent prepayment of rentals for land use rights situated in the PRC for a period of 50 years.

15. INVENTORIES

	2019 US$'000	2018 US$'000
Raw materials	**1,216**	1,126
Work in progress	**523**	421
Finished goods	**1,272**	1,003
	3,011	2,550

16. TRADE AND OTHER RECEIVABLES

	2019 US$'000	2018 US$'000
Trade receivables		
– companies over which certain shareholders of the Company have significant influence	**3**	2
– others	**9,738**	11,503
	9,741	11,505
Less: Allowance for credit losses	**–**	(1)
	9,741	11,504
Other receivables, prepayments and deposits	**1,643**	2,008
	11,384	13,512

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16. TRADE AND OTHER RECEIVABLES (continued)

As at 1 January 2018, trade receivables from contracts with customers amounted to US$12,680,000.

Payment terms with customers are mainly on credit. Invoices to outside customers are normally payable within 60 days to 120 days of issuance, while invoices to long-established customers are normally payable within one year.

The following is an aging analysis of trade receivables net of allowance for credit losses presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2019 US$'000	2018 US$'000
Age		
0 to 60 days	**8,308**	9,267
61 to 90 days	**1,327**	1,879
91 to 120 days	**45**	307
121 to 180 days	**61**	44
181 to 365 days	**–**	7
	9,741	11,504

Before accepting any new customers, the Group will assess the potential customer's credit quality and define credit limits by customer. More than 92% (2018: 89%) of the trade receivables are not past due.

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of US$750,000 (2018: US$1,256,000) which are past due as at the reporting date. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables are set out in note 26.

Included in trade and other receivables are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2019 US$'000	2018 US$'000
Japanese Yen	**49**	164
Hong Kong dollars	**1,910**	1,914

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17. AMOUNT DUE FROM A RELATED COMPANY

The amount was due from a company over which certain shareholders of the Company have significant influence. The amount was unsecured, interest-free, and not past due. The age of the amount as at 31 December 2018 was within 60 days.

18. BANK BALANCES AND CASH

The bank deposits carry interest at prevailing market rates up to 3.20% (2018: 3.64%) per annum. The bank deposits are with original maturity of not more than three months.

Included in bank balances and cash are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2019 US$'000	2018 US$'000
Japanese Yen	**2,004**	1,604
Hong Kong dollars	**7,063**	8,698

For the year ended 31 December 2019 and 31 December 2018, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

Details of impairment assessment of bank balances are set out in note 26.

19. TRADE AND OTHER PAYABLES

	2019 US$'000	2018 US$'000
Trade payables		
– companies over which certain shareholders of the Company have significant influence	**3**	7
– companies controlled by shareholders of the Company which have significant influence over the Company	**1,035**	1,156
– others	**9,345**	10,512
	10,383	11,675
Payroll and welfare payables	**3,192**	3,227
Other payables and accruals	**4,223**	4,254
	17,798	19,156

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19. TRADE AND OTHER PAYABLES (continued)

The following is an aging analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2019 US$'000	2018 US$'000
Age		
0 to 60 days	6,897	7,873
61 to 90 days	1,763	2,036
91 to 180 days	1,677	1,721
181 to 365 days	46	45
	10,383	11,675

The average credit period on purchases of goods is 60 days.

Accruals for rental payable as at 31 December 2018 were adjusted upon the initial application of HKFRS 16. Details of the adjustments are set out in note 2.

Included in trade and other payables are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2019 US$'000	2018 US$'000
Japanese Yen	47	92
Hong Kong dollars	62	26

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20. LEASE LIABILITIES

	31.12.2019 US$'000
Lease liabilities payable:	
Within one year	1,102
Within a period of more than one year but not more than two years	1,072
	2,174
Less: Amount due for settlement within 12 months shown under current liabilities	(1,102)
Amount due for settlement after 12 months shown under non-current liabilities	1,072

As at 31 December 2019, lease liabilities include an amount due to a company controlled by shareholders of the Company which have significant influence over the Company of US$2,095,000.

21. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares '000	Amount HK$'000	Number of shares '000	Amount HK$'000
Ordinary shares of HK$0.01 each				
At 1 January 2018	1,000,000	10,000	821,102	8,211
Repurchase and cancellation of shares	–	–	(562)	(6)
At 31 December 2018	1,000,000	10,000	820,540	8,205
Repurchase and cancellation of shares	–	–	(700)	(7)
At 31 December 2019	1,000,000	10,000	819,840	8,198

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21. SHARE CAPITAL (continued)

	US$'000
Shown in the consolidated statement of financial position	
At 31 December 2019	**1,056**
At 31 December 2018	1,057

During the year ended 31 December 2019, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchases	No. of ordinary shares '000	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$'000
September	**700**	**0.84**	**0.82**	**583**

	US$'000
Equivalent to	**74**

During the year ended 31 December 2018, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchases	No. of ordinary shares '000	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$'000
September	508	1.14	1.09	569
November	54	1.16	1.10	61
	562			630

	US$'000
Equivalent to	80

The above ordinary shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during that year.

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22. OPERATING LEASE ARRANGEMENTS

The Group as lessee

The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	31.12.2018	
	Motor vehicles US$'000	Rented premises US$'000
Within one year	197	1,175
In the second to fifth year inclusive	38	2,348
	235	3,523

At 31 December 2018, the leases are negotiated for a term ranged from 1 to 3 years and rentals are fixed over the contracted lease terms.

The Group as lessor

All of the properties held for rental purpose have committed leases for the next 2 years.

Minimum lease payments receivables on leases are as follows:

	31.12.2019 US$'000
Within one year	**503**
In the second year	**464**
	967

The Group had contracted with leases for the following future minimum lease payments in respect of investment properties:

	31.12.2018 US$'000
Within one year	508
In the second to fifth year inclusive	975
	1,483

At 31 December 2018, the investment properties held have committed tenants for periods of an average lease term of 4 years.

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23. CAPITAL COMMITMENTS

	2019 US$'000	2018 US$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**456**	11

24. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group and each of the employees make monthly mandatory contributions to the scheme.

The employees employed in the PRC subsidiary are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiary is required to contribute a certain percentage of payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

No forfeited contributions are available to reduce the contribution payable in future years.

25. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to its owners.

The capital structure of the Group consists primarily of equity attributable to owners of the Company, comprising share capital and reserves, including retained profits.

At the end of the reporting period, no external debts are raised by the Group.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs of the Company. The Group's overall strategy remains unchanged from the prior year.

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26. FINANCIAL INSTRUMENTS

The Group's major financial instruments include trade and other receivables, amount due from a related company, bank balances and cash and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis of measurement, in respect of each class of financial assets and financial liabilities are disclosed in note 3.

Categories of financial instruments

	2019 **US$'000**	2018 US$'000
Financial assets		
Financial assets at amortised cost	**94,845**	107,056
Financial liabilities		
Amortised cost	**10,656**	12,075

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 statement of financial position.

Trade receivables arising from contracts with customers

The Group's credit risk is primarily attributable to its trade receivables. In order to minimise the credit risk, the management of the Group continuously monitors to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model on trade receivables based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as 13% (2018: 14%) and 51% (2018: 57%) of the total trade receivables are due from the Group's largest customer and the five largest customers, respectively. In addition, the Group has concentration of credit risk by geographical location as 38% (2018: 39%) and 47% (2018: 52%) of the total trade receivables are due from customers located in Japan and the PRC, respectively.

Notes to the Consolidated Financial Statements

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26. FINANCIAL INSTRUMENTS (continued)

Credit risk and impairment assessment (continued)

Bank balances

The credit risk on bank balances is limited because majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation. The Group assessed 12m ECL for bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on bank balances is considered to be insignificant.

Amount due from a related company and other receivables

The directors of the Company make periodic individual assessment on the recoverability of amount due from a related company and other receivables based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The directors of the Company believe that there is no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the year ended 31 December 2019 and 2018, the Group assessed the ECL for amount due from a related company and other receivables were insignificant and thus no loss allowance was recognised.

	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount 2019 US$'000	2018 US$'000
Financial assets at amortised cost						
Other receivables	*16*	N/A	*(note a)*	12-month ECL	**1,463**	1,584
Amount due from a related company	*17*	N/A	*(note a)*	12-month ECL	**–**	23
Bank balances	*18*	BBB – AAA	N/A	12-month ECL	**83,641**	93,945
Trade receivables	*16*	N/A	*(note b)*	Lifetime ECL (not credit-impaired)	**9,741**	11,505

Notes:

(a) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

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26. FINANCIAL INSTRUMENTS (continued)

Credit risk and impairment assessment (continued)

Amount due from a related company and other receivables (continued)

Notes: (continued)

(b) For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items by using a provision matrix, grouped by past due status.

As part of the Group's credit risk management, the Group uses debtors' past due status to assess the impairment for its customers because these customers consist of a large number of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

Average loss rates of up to 0.22% were applied by the Group to the trade receivables with carrying amount of US$750,000 (2018: US$1,256,000) which are past due at the reporting period end.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL US$'000
As at 1 January 2018	40
Impairment losses recognised	1
Impairment losses reversed	(40)
As at 31 December 2018	1
Impairment losses reversed	(1)
As at 31 December 2019	–

Changes in the loss allowance for trade receivables are mainly due to:

	2019 Decrease in lifetime ECL US$'000	2018 Decrease in lifetime ECL US$'000
Settlement in full of trade debtors with gross carrying amount of US$163,000 (2018: US$10,532,000)	**1**	40

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26. FINANCIAL INSTRUMENTS (continued)

Market risk

Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cash flows. The Group has certain transactions denominated in foreign currencies, which expose the Group to foreign currency risk. Approximately 12% (2018: 12%) of the Group's sales are denominated in currencies other than the functional currency of the group entities making the sale whilst all costs are denominated in the group entities' functional currency. In addition, a group entity whose functional currency is Renminbi, has intra-group receivable amounting to US$42,976,000 (2018: US$38,185,000) from its holding company, denominated in US$. The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are disclosed in respective notes. Although the Group currently does not use any derivative contracts to hedge against its exposure to currency risk, the Group actively utilises natural hedge technique, such as managing the currencies used in transactions, to manage its foreign currency exposures. However, the management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table details the Group's sensitivity to a 10% increase and decrease in the functional currency of respective group entities against relevant foreign currencies. Since Hong Kong dollars is pegged to US$, the management considers that the exchange rate fluctuation between Hong Kong dollars and US$ is not significant and therefore has not been included in the sensitivity analysis. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates. The sensitivity rate used is the rate when reporting foreign currency risk internally to key management personnel and represent management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes trade receivables, trade payables, bank balances and intra-group balances. The number below indicates an increase in post-tax profit for the year where the functional currency of respective group entities weakens against relevant foreign currencies. If the functional currency of respective group entities strengthens against relevant foreign currencies, there would be an equal and opposite impact on the post-tax profit.

Foreign currency	**2019 Post-tax profit US$'000**	2018 Post-tax profit US$'000
Japanese Yen	**150**	126
US$	**3,223**	2,864

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

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26. FINANCIAL INSTRUMENTS (continued)

Market risk (continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to lease liabilities (see note 20 for details) and cash flow interest rate risk through the impact of rate changes on variable-rate interest bearing financial assets, mainly bank balances at prevailing market interest rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rates for bank balances at the end of the reporting period. The analysis is prepared assuming the bank balances outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2018: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2019 would increase/decrease by US$418,000 (2018: US$470,000).

Liquidity risk management

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities at the end of the reporting period. The table 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 principal cash flows only as the financial liabilities are non interest-bearing.

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26. FINANCIAL INSTRUMENTS (continued)

Liquidity risk management (continued)

	Weighted average interest rate %	Repayable on demand or less than 3 months US$'000	3 months to 1 year US$'000	1 – 5 years US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
At 31 December 2019						
Trade and other payables	–	10,656	–	–	10,656	10,656
Lease liabilities	4.75	201	935	1,100	2,236	2,174
		10,857	935	1,100	12,892	12,830
At 31 December 2018						
Trade and other payables	–	12,075	–	–	12,075	12,075

27. 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 used in financing activities.

	Dividend payables US$' 000	Lease liabilities US$' 000 (Note 20)
At 1 January 2018	–	–
Dividends recognised as distribution	17,842	–
Financing cash flows	(17,842)	–
At 31 December 2018	–	–
Adjustments upon application of HKFRS 16	–	3,385
As at 1 January 2019 (restated)	–	3,385
Dividends recognised as distribution	16,137	–
Financing cash flows	(16,137)	(1,298)
Exchange realignment	–	(44)
Interest expenses	–	131
At 31 December 2019	–	2,174

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28. RELATED PARTY TRANSACTIONS

Other than the amounts due from/to related companies as disclosed in notes 16, 17 and 19, the Group has the following significant transactions and balances with related parties during the year:

Nature of transactions/balances	2019 US$'000	2018 US$'000
Revenue:		
Sales of goods	29	55
Property rental income	257	268
Cost and expenses:		
Purchases of raw materials	31	69
Processing charges paid	3,090	3,601
Interest expenses on lease liabilities	126	–
Operating lease expenses	–	1,159

The related parties are companies over which certain shareholders of the Company have control or significant influence. The Company's directors represent the Group's key management and their emoluments for the year are set out in note 7.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

29. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries, all of which are wholly-owned by the Company, at 31 December 2019 and 2018 are as follows:

Name of subsidiary	Country of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Principal activities
Directly held:			
Yorkey Optical Technology Limited	Samoa/Hong Kong	US$550,001	Investment and property holding and trading of plastic and metallic parts and components of optical and opto-electronic products and provision of after-sale services
Indirectly held:			
Click Away Services Limited*	British Virgin Islands/ Mainland China	US$1	Provision of technical training and after-sales services
東莞精熙光機有限公司 (Dongguan Yorkey Optical Machinery Components Ltd. ("Dongguan Yorkey"))	Mainland China, wholly foreign owned enterprise established for a term of 30 years commencing 11 December 1995	US$20,680,000	Manufacture and sales of plastic and metallic parts and components of optical and opto-electronic products

* The subsidiary was deregistered on 25 November 2019.

None of the subsidiaries had any debt securities outstanding at the end of the reporting period or at any time during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

30. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2019 **US$'000**	2018 US$'000
Non-current assets		
Investments in subsidiaries	**19,417**	19,417
Current assets		
Dividend receivables	**1,700**	3,550
Prepayments and other debtors	**1,407**	1,545
Bank balances and cash	**44,038**	53,964
	47,145	59,059
Current liabilities		
Other payables	**634**	709
Net current assets	**46,511**	58,350
Total assets less current liabilities	**65,928**	77,767
Capital and reserves		
Share capital (see note 21)	**1,056**	1,057
Reserves	**64,872**	76,710
Total equity	**65,928**	77,767

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

30. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Movement in the Company's reserves

	Share premium US$'000	Special reserve US$'000	Retained profits US$'000	Total US$'000
At 1 January 2018	62,982	19,350	8,301	90,633
Profit and total comprehensive income for the year	–	–	3,998	3,998
Repurchase and cancellation of ordinary shares (note 21)	(79)	–	–	(79)
Dividends recognised as distribution	(10,504)	–	(7,338)	(17,842)
At 31 December 2018	52,399	19,350	4,961	76,710
Profit and total comprehensive income for the year	**–**	**–**	**4,372**	**4,372**
Repurchase and cancellation of ordinary shares (note 21)	**(73)**	**–**	**–**	**(73)**
Dividends recognised as distribution	**(10,476)**	**–**	**(5,661)**	**(16,137)**
At 31 December 2019	**41,850**	**19,350**	**3,672**	**64,872**

31. EVENTS AFTER THE REPORTING PERIOD

The outbreak of respiratory illness caused by novel coronavirus (the "COVID-19") has been expanding across the PRC and globally. Up to the date of the report, the COVID-19 is expected to adversely affect the Group's revenue.

The directors of the Company will continue to assess the impact of the COVID-19 on the Group's operation and financial performance and closely monitor the Group's exposure to the risks and uncertainties in connection with the COVID-19.

Financial Summary

	Year ended 31 December				
	2015 US$'000	2016 US$'000	2017 US$'000	2018 US$'000	**2019** **US$'000**
RESULTS					
Revenue	77,553	73,491	87,329	69,703	**60,917**
Profit before taxation	5,026	6,149	7,624	9,213	**5,695**
Taxation	(993)	(1,481)	(1,844)	(1,505)	**(659)**
Profit for the year	4,033	4,668	5,780	7,708	**5,036**

	At 31 December				
	2015 US$'000	2016 US$'000	2017 US$'000	2018 US$'000	**2019** **US$'000**
ASSETS AND LIABILITIES					
Total assets	155,308	146,701	138,037	123,633	**112,057**
Total liabilities	(20,670)	(27,848)	(24,828)	(22,802)	**(23,135)**
Net assets	134,638	118,853	113,209	100,831	**88,922**