DATRONIX HOLDINGS LIMITED
連達科技控股有限公司*

(Stock Code: 889)

Annual Report

2019

* For identification purposes only

A W A R D S

ASTRONICS
"Best Value Added"

ASTRONICS
"Customer Intimacy Strategy"

MEDTRONIC
"Outstanding
Performance"

PHYSIO CONTROL
"Supplier of the Year"

LUTRON
"Preferred Supplier"

LUTRON
"Customer Service"

DATAFORTH
"Vendor of the Year"

LUTRON
"Outstanding New
Supplier"

A W A R D S

XICOM
“Outstanding Performance”

MICRO SYSTEMS ENGINEERING
“Special Recognition Award”

MEDTRONIC
“Supplier of the Year”

LUTRON
“Supplier of the Year”

VICOR
“Outstanding Supplier Achievement Award”

XICOM
“President's Award”

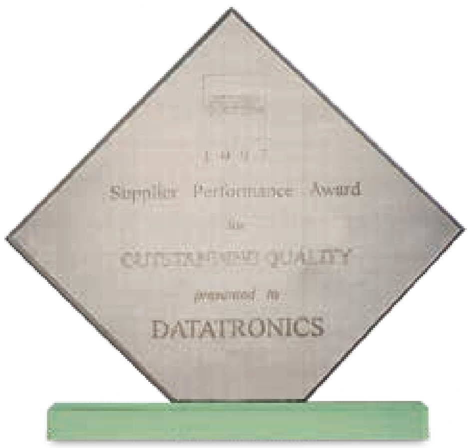
Customer Recognition For Quality, Service, Value

Polycom

Ericsson

Milwaukee

Preferred supplier
General Electric



Physio Control
(Div. of Medtronic)

Preferred supplier
Primex Aerospace

Digital Equipment corp

Xerox

United Technologies

A W A R D S

Xerox

Xerox

ICL/Fujitsu

Xerox

Xerox

Xerox

Tektronix

Sola Electric

Tektronix

Customer Recognition For Quality, Service, Value

Honeywell

Honeywell

Harris

Honeywell

Honeywell

Delco

Honeywell

Hughes Aircraft
General Motors

IBM

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

SIU Paul Y. *(Chairman)*
SHUI Wai Mei *(Vice Chairman)*
SHEUNG Shing Fai
SIU Nina Margaret

Independent Non-executive Directors

CHUNG Pui Lam
LEE Kit Wah
WONG Wah Sang, Derek

AUDIT COMMITTEE

LEE Kit Wah
CHUNG Pui Lam
WONG Wah Sang, Derek

REMUNERATION COMMITTEE

CHUNG Pui Lam
LEE Kit Wah
WONG Wah Sang, Derek
SIU Paul Y.

NOMINATION COMMITTEE

CHUNG Pui Lam
LEE Kit Wah
WONG Wah Sang, Derek
SHEUNG Shing Fai

QUALIFIED ACCOUNTANT

MOK Sim Wa

COMPANY SECRETARY

LEUNG Sau Fong

AUTHORISED REPRESENTATIVES

SIU Paul Y.
SHEUNG Shing Fai

AUDITOR

BDO Limited
25/F Wing On Centre
111 Connaught Road Central
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

19th Floor
North Point Industrial Building
499 King's Road
North Point Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

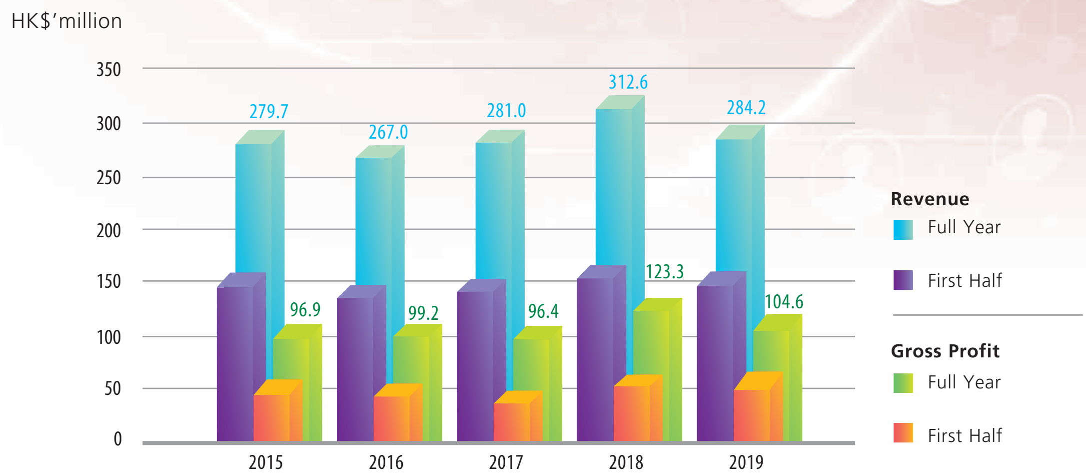
PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of Communications

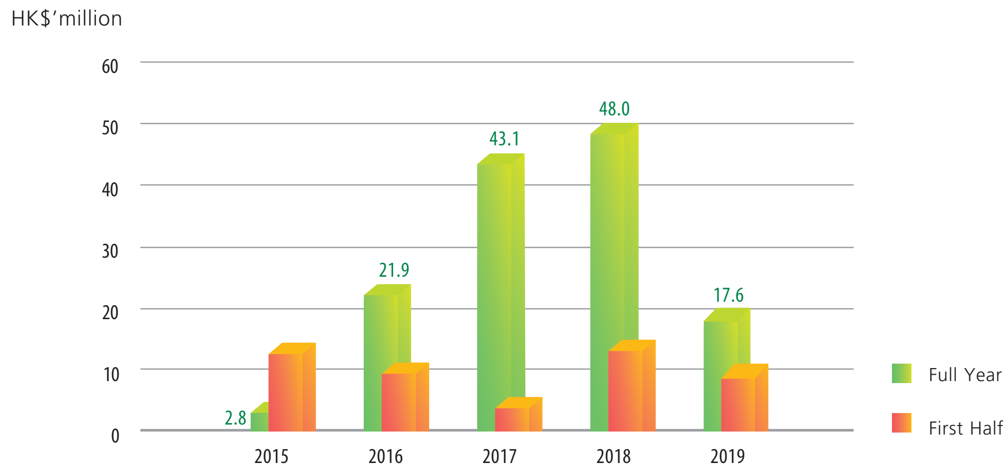
WEBSITE

www.datronixhldgs.com.hk

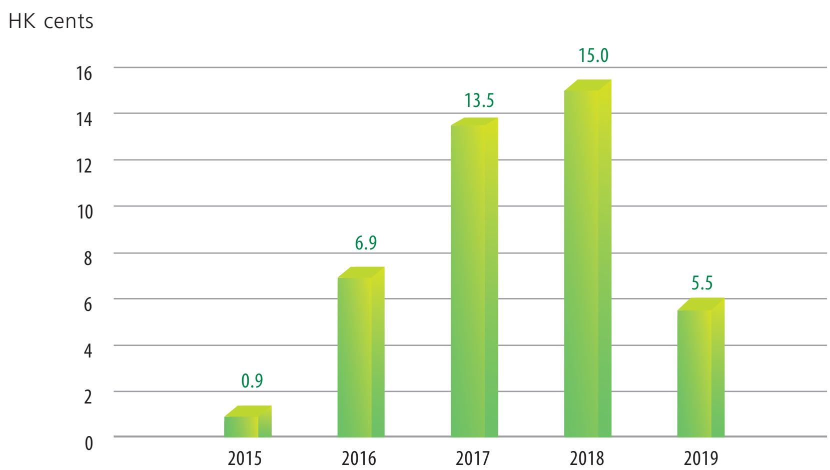
REVENUE / GROSS PROFIT



PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

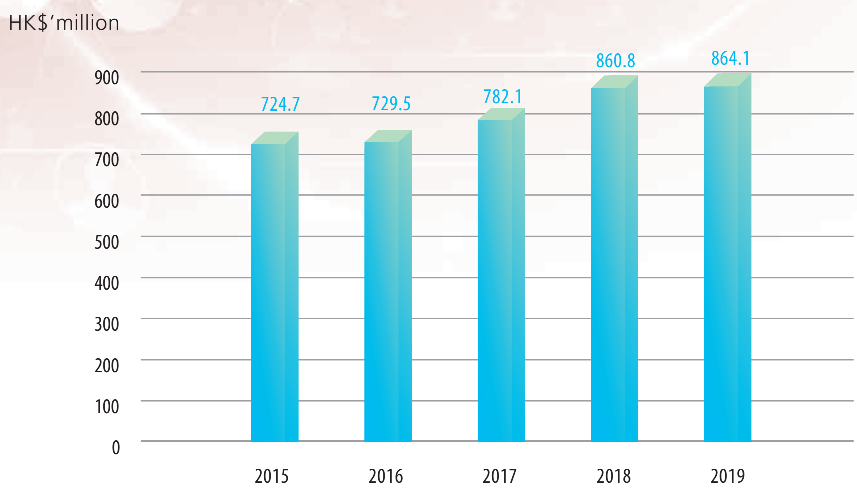


EARNINGS PER SHARE

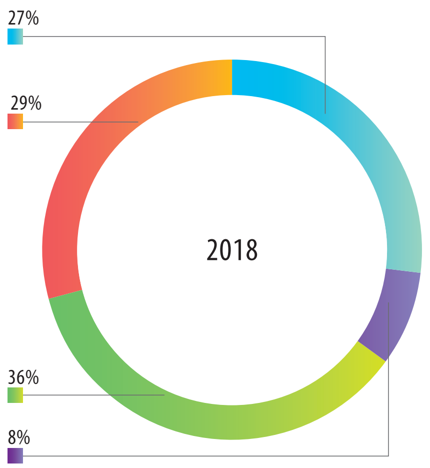


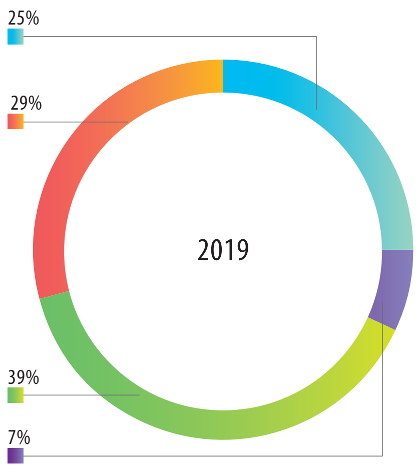
FINANCIAL HIGHLIGHTS AND KEY PERFORMANCE INDEX

NET ASSETS



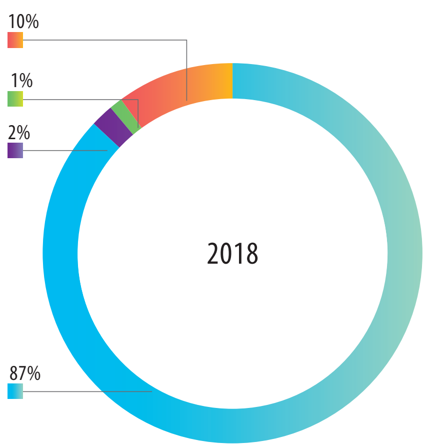
MARKET

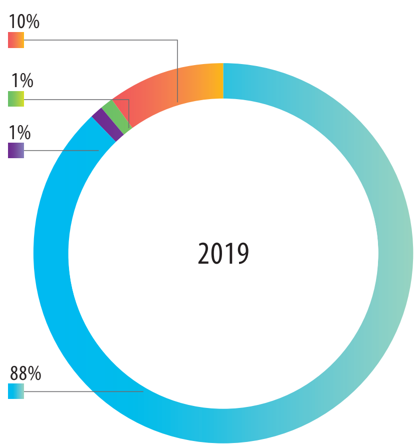




- Communication & Networking
- Data Processing
- Industrial Application
- High Precision and Reliability Segment

GEOGRAPHICAL DESTINATION OF PRODUCTS





- The US
- Europe
- Hong Kong
- Southeast Asia (other than Hong Kong)

The Group is principally engaged in the design, manufacture and sale of magnetics used in consumer electronics, data processing appliances and other electronics systems for coupling, isolation, filtering, interfacing and timing control applications. All of the Group's magnetics are sold under its own brand name "Datatronics". A majority of the Group's products are customized magnetics tailored-made according to the requirements and specifications of its customers. The Group also offered standard catalogue magnetics to its customers.

The Group focuses on the high-end segment of the magnetics industry. It has a customer base over 300 customers comprising manufacturers of telecommunication and data processing equipment, technology equipment, motor vehicles, aerospace and medical equipment.

The Group's world-class design and manufacturing capabilities, together with the breadth of its product offerings, provide her with a competitive advantage that enable her to anticipate and deliver highly customized solutions for their customers' product needs. In addition, their global presence enable them to participate in many relevant product and geographic markets and provide her with proximity to their global customer base.

THE GROUP'S PRODUCT LINE

The Company designs and manufactures both standard and customized magnetic components in a large variety of products:

- Transformers
- Lan Filter Modules
- Digital Delay Modules
- Inductors/Chokes
- ASDL Transformer
- Planar Magnetics
- Magnetics for Aviation Applications
- Magnetic Components for DC/DC Converters
- Magnetics for Hybrid Network Assemblies
- Magnetics for Power Conversion
- Magnetics for Energy Savings
- Magnetics for Medical Devices/Equipment
- Magnetics for Internet Equipment
- Magnetics for Data Acquisition/Transmitter and Signal Conditioning

GENERAL

MARKETS SERVED

The Company's products to-day find application in a wide range of state-of-the-art electronic equipment that include the following:

- Telecommunications
- Communications
- Aerospace
- Instrumentation
- Industrial Equipment
- Computers & Networking
- Internet Equipment
- Medical Devices/Equipment
- Automotive

The Group's products meet or exceed numerous performance, safety, quality specification and standard that include the following:

- TS16949
- IEC950
- UL/CSA
- ISO 9001
- VDE

The directors consider the following to be the key factors contributing to the Group's success:

- the extensive experience and expertise of the Group's management team in the magnetics industry;
- its well-established business relationship with customers;
- its forefront technology and technical know-how to assist and bridge its customers to new technologies;
- its ability to satisfy customers' needs by offering customized products that meet their reliability, quality and delivery requirements;
- its logistic center located in Southern California, U.S. to support delivery and service to customers;
- the wide range of product it offers;
- "Just-in-time" delivery and "Ship-to-stock" Program certified with numerous key customers;
- its reputation for high quality and high reliability products;
- "One stop solution";
- capacity to grow due to more demands for high reliability products in U.S. and Europe;
- cost competitive;
- the barrier of entrance for competitors is very high; and
- its established relationship with major suppliers which enables the Group to obtain a stable supply of materials for the Group's products.

CHAIRMAN'S STATEMENT

OVERVIEW

Datronix has faced numerous challenges in the year of 2019. Having experienced the trade war in early 2019, it then came to the Coronavirus outbreak. Both factors have diminished the optimism about prospects of an incipient stabilization of global growth for year 2019 and moving forward to year 2020. With the virus continuing to spread, it is still too early to make a final assessment of the impact on the global economy.

As a result, Datronix revenue recorded HK$284.2 million in year 2019, a decrease of 9.1% from year 2018 during this distressed period. Gross margin remains stable at 36.8%, totalled at HK$104.6 million, compared to last year at HK$123.3 million. Operating profit was HK$23.4 million due to revaluation loss on our investment property of HK$6 million during the year.

For the year 2019, net profit reported HK$17.6 million, compared with last year HK$48.0 million. Net profit margin at 6.2%. As at 31 December 2019, Datronix balance sheet remains stale, with cash balance at HK$333.8 million, no issuance of any bank loan.

MARKET REVIEW

Communication and Networking

Communication segment reported HK$71.5 million for year 2019, compared to HK$85.7 million in 2018, a decrease of 17%. This segment contributed 25% of the Group's total turnover. This segment showed a steady performance for year 2019.

Data Processing

Sales for this segment were HK$19.7 million in 2019, a decrease of 16% from HK$23.5 million in 2018. Data processing segment contributed 7% of the Group's turnover.

Industrial Application

Industrial application segment sales reported at HK$112.6 million in 2019 compared to HK$111.3 million in 2018, an improvement of 1%. The industrial application segment contributed 39% of the Group revenue.

High Precision and Reliability Segment

This segment demands precise technology, advance technical know-how and good workmanship by the Group. The sophistication of workmanship aids the Group to achieve a higher margin on our products. Sales on high reliability segment reported HK$80.4 million in 2019, compare to HK$92.1 million in 2018, a decrease of 13%. This segment contributed 29% of the Group's revenue.

ACHIEVEMENT AND AWARDS

Datronix was honoured to receive the "Supplier Excellence Award" in recognition of the Group's outstanding performance for the past 20 years presented by Micro Systems Engineering during this year. In recognition of our quality, value of our products and of the Group's service and performance, Datronix has to date received 42 awards from our customers.

LOOKING FORWARD

The impact on the Coronavirus outbreak has been devastating. The fear of contagious has led to temporary shutdown of factories around the world, which also hurt our supply chain. This led to more disruption to our manufacturing and operations globally. Yet, the Group has solid financial background to weather during the difficult period and we have tried to capture this outbreak as opportunities to capture and market to our customers which our competitors were not able to survive.

Datronix is engaging to explore more opportunities during the downside of the economy. We hope the epidemic situation around the globe can come to an end and the economy can resume as soon as possible.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Revenue for year 2019 reported at HK$284.2 million, a decrease of 9.1% compared to HK$312.6 million in same period of last year. Gross profit margin was 36.8% compared to 39.5% in 2018. Our operating profit was HK$23.4 million, a decrease of 55.6% when compared to the same period of last year. Profit attribute to shareholders was HK$17.6 million in 2019 while we reported HK$48.0 million in 2018.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2019, the Group had a total equity of approximately HK$864.1 million (2018: HK$860.8 million), and cash and cash equivalents of approximately HK$333.8 million (2018: HK$405.0 million), which were predominately denominated in US dollars and Renminbi.

For the year ended 31 December 2019, the Group had not arranged for any banking facilities and other resources for financing. With the above cash on hand, the Group has adequate resources to meet its working capital needs in the near future.

The Group has strong financial position. There were no bank and other loan for the year ended 31 December 2019.

The Group had limited exposure to foreign exchange fluctuations in normal business transactions as most of its accounts receipts and payments are in US dollars.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group employed approximately 1,018 personnel around the world, with approximately 99 in Hong Kong, 877 in the PRC and 42 overseas. The Group has a staff education sponsorship program and also provides training courses to staff on operation system, product and technology development, and product safety.

The remuneration policy for the Group's employees is reviewed by management on a regular basis. Competitive remuneration packages will be offered to employees based on business performance, market practices and the performance of individual employees. The Group has adopted a mandatory provident fund scheme for its Hong Kong employees.

CONTINGENT LIABILITIES

The Group did not have any material contingent liability as at 31 December 2019 (2018: Nil).

CAPITAL COMMITMENTS

The Group has capital commitment outstanding at the year end and contracted but not provided for property, plant and equipment of HK$92.4 million in the financial statement (2018: HK$139.9 million).

EXECUTIVE DIRECTORS

Mr. Siu Paul Y., aged 79, the Chairman and Chief Executive Officer of the Group, is the founder of the Group. Mr. Siu is also a member of Remuneration Committee of the Company. He is responsible for the Group's overall business strategy and formulation of corporate plan. Mr. Siu holds a master's degree of science in engineering and a bachelor degree of science from the University of California, Los Angeles in the US. He has more than 30 years of experience in sales and manufacturing of magnetic components as well as the sales of other electronic components for telecommunication and data processing systems and other electronic systems.

Ms. Shui Wai Mei, aged 74, is the Vice Chairman of the Group responsible for the Group's general administration. She has more than 20 years of experience in business development. Ms. Shui joined the Group in 1975 and is the spouse of Mr. Siu Paul Y..

Mr. Sheung Shing Fai, aged 71, is the General Manager of the Group. Mr. Sheung is also a member of the Nomination Committee of the Company. He is responsible for the Group's business and technology development. Mr. Sheung holds a bachelor degree of science in electronic engineering from the National Taiwan University in Taiwan. He has more than 20 years of experience in sales and manufacturing of magnetic components and other electronic components for telecommunication and data processing systems and other electronic systems. Mr. Sheung joined the Group in 1988.

Ms. Siu Nina Margaret, aged 43, is an Executive Director of the Group. Ms. Siu holds a MBA degree with emphasis on Finance and Certificate in International Business in Loyola Marymount University and a bachelor degree of arts with major in business economics from the University of California, Los Angeles in the US. She has more than 3 years experience in the US syndication loan market on major listed companies in the US. Ms. Siu is responsible for the finance and marketing of the Group. Ms. Siu joined the Group as a Non-executive Director on 31 May 2000, and re-designated to Executive Director of the Group on 7 July 2005. Ms. Siu resigned on 31 December 2011 and was reappointed as Executive Director on 1 January 2013. Ms. Siu is the daughter of Mr. Siu Paul Y..

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chung Pui Lam, GBS, OBE, JP, aged 79, was appointed as an Independent Non-executive Director of the Company in March 2001. Mr. Chung is also a chairman of each of the Remuneration Committee and the Nomination Committee and a member of the Audit Committee of the Company. He is a practicing solicitor in Hong Kong. Mr. Chung is serving as consultant to numerous commercial enterprises, local district associations, trade unions, owners corporations and building management professional associations. Mr. Chung is also an independent non-executive director of S E A Holdings Limited and a non-executive director of Chow Sang Sang Holdings International Limited.

Mr. Lee Kit Wah, aged 65, was appointed as an Independent Non-executive Director of the Company in August 2011. Mr. Lee is also a chairman of the Audit Committee and a member of each of the Remuneration Committee and Nomination Committee of the Company. Mr. Lee graduated from University of Toronto in 1979 with a bachelor's degree in Commerce. He is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, the Taxation Institute of Hong Kong and a fellow member of the Institute of Chartered Accountants in England and Wales. Mr. Lee was trained at Price Waterhouse (presently PricewaterhouseCoopers) in Hong Kong from 1979 to 1984, and worked at F. S. Li & Co., Certified Public Accountants between 1985 to 1988 first as an audit supervisor and then as an audit manager. He has been practising as a certified public accountant in Hong Kong since 1988 and is the managing director of an accounting firm, Katon CPA Limited. Mr. Lee was an independent non-executive director of ITC Corporation Limited (presently PT International Development Corporation Limited) from 23 July 2004 to 28 March 2017, a company is listed on The Stock Exchange of Hong Kong Limited ("the Stock Exchange").

Mr. Wong Wah Sang, Derek, aged 64, was appointed as an independent Non-executive Director of the Company in July 2016. Mr. Wong is a member of each of the Audit Committee, Nomination Committee and Remuneration Committee of the Company. Mr. Wong graduated from The Chinese University of Hong Kong with a Bachelor of Arts degree. Mr. Wong has over 30 years of experience in Hong Kong and overseas manufacturing industry with extensive exposure to various managerial duties, including corporate management, internal control, corporate secretary, acquisitions and mergers, re-organizations, introduction of technologies, establishment and construction of new manufacturing plants, marketing and trading.

SENIOR MANAGEMENT

Mr. Bradley D. Turner, aged 63, is the Vice President and General Manager of all U.S.A. based operations for the Group. Prior to joining the company in 2013, Mr. Turner served as President for BI Technologies Components, and has over 33 years' experience of operations management, sales, and engineering of magnetic and other passive electronic components. Mr. Turner holds a BS from Azusa Pacific University, an Master Degree in Business Administration from California State Polytechnic University, and several US patents for electronic component design and manufacturing.

Ms. Mok Sim Wa, aged 41, is the Finance Manager of the Group. She is responsible for all finance and accounting functions of the Group. Ms. Mok obtained a Master Degree in Business Administration from the University of South Australia and a Higher Diploma in Accountancy from the City University of Hong Kong. She is a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institutes of Certified Public Accountants. Ms. Mok has over 9 years of experience in auditing, accounting, taxation matters. She joined the Group in 2010.

Mr. Ng Chan Chung, aged 56, is the Operation Manager of the Group. He is responsible for the management of the Group's operations in Shunde, the PRC. Mr Ng holds a Bachelor of Science in Electronics from Open University of Hong Kong and a Master Degree in Materials Engineering & Nanotechnology from City University of Hong Kong. He has over 30 years of experience in magnetic component manufacturing industry. He joined the group in 1983.

DIRECTORS' REPORT

The Directors present herewith their annual report and the audited financial statements of Datronix Holdings Limited ("the Company") and its subsidiaries (together with the Company, "the Group") for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 19 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	21%	
Five largest customers in aggregate	68%	
The largest supplier		20%
Five largest suppliers in aggregate		44%

Except that one of the five largest customers, Datatronics Romoland, Inc., is a related company in which the Company's director, Mr. Siu Paul Y., holds 100% of its issued share capital directly, none of the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major customers and suppliers noted above.

SEGMENT INFORMATION

Details of segment information are set out in note 6 to the financial statements.

FINANCIAL STATEMENTS AND DIVIDENDS

The financial performance of the Group for the year are set out in the consolidated statement of profit or loss and other comprehensive income on page 45.

The financial position of the Group and the Company as at 31 December 2019 are set out in the consolidated statement of financial position on page 46 and the statement of financial position on page 110 respectively.

The directors recommend the payment of a final dividend of HK$0.02 (2018: HK$0.015) per share, totalling HK$6,400,000 (2018: HK$4,800,000) for the year ended 31 December 2019.

DIVIDEND POLICY

The Company has adopted a dividend policy. The Board shall consider the following factors before declaring or recommending dividends:

(a) the Company's current and future operations, actual and expected financial performance;

(b) the Group's liquidity position, working capital and capital expenditure requirements and future expected capital needs;

(c) any corporate development plans;

(d) any restrictions on payments of dividends that may be imposed by the Group's lenders or other third parties;

(e) the level of the Group's debt to equity ratio, return on equity and the relevant financial covenants;

(f) retained earnings and distributable reserves of the Company and each of the members of the Group;

(g) general economic conditions, the business cycle of the Group's business and other internal and external factors that may have an impact on the business or financial performance and position of the Company; and

(h) any other factor that the Board deems appropriate and relevant.

The declaration and payment of dividends by the Company is also subject to any restrictions under the Laws of Bermuda, the Bye-Laws of the Company and any applicable laws, rules and regulations.

FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 December 2019 and of the assets and liabilities as at 31 December 2015, 2016, 2017, 2018 and 2019 is set out on page 121.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Movements in property, plant and equipment and investment property during the year are set out in note 14 and note 15 to the financial statements respectively.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2019 are set out in note 19 to the financial statements.

BUSINESS REVIEW

Details of the operation of the Company's principal business during the year, as required by Schedule 5 to the Companies Ordinance, including an indication of likely future development in the Group's business, an analysis of key performance indicators, and the Group's environmental policies and performance are set out under the section "Chairman's Statement" on pages 7 to 8, "Management Discussion and Analysis" on page 9, Environmental and Social Responsibility Report on pages 30 to 35 and Financial Highlights and Key Performance Index on pages 2 to 3 of this annual report respectively.

Other than those disclosed in note 37 to the financial statements, there is no important event affecting the Group that has occurred after the year ended 31 December 2019.

Risk and uncertainties

Our Group's faces several risk and uncertainty factors that may affect the operating results and business prospects. There may have other risks and uncertainties in addition to those listed below which are not known to the Group or which may not be material now but could turn out to be material in the future.

The markets we serve are cyclical and sensitive to domestic and foreign economic conditions and events which may cause our operating results to fluctuate.

Our products are sold in highly competitive markets that we compete in products development, product quality, competitive pricing and adapt to technologies changes better than us.

Our future success depends to a significant degree upon the continued contributions of our management team and technical personnel.

Our failure to obtain, or fully adhere to the limitations contained in, the requisite licenses, meet registration standards or comply with other government export regulations may result in monetary penalties and would have a material adverse effect on us.

Relationships with Key Stakeholders

Datronix is dedicated to create fair manner while balancing interests of various stakeholders of our Group. We engage our employees, customers, regulators, business partners and community through variety of stakeholder engagement channels.

The Group provides quality service and products to our customers. The Group also viewed our suppliers as strategic partner. Lastly the Group values its employees as one of its greatest strengths and assets and strive to provide equal opportunities to employees.

Compliance with Laws and Regulations

The Group has strictly complied with applicable laws and regulations which have a significant impact on the operations of the Group during the year.

SHARE CAPITAL AND SHARE OPTION SCHEME

Movements in share capital of the Company during the year are set out in note 26 to the financial statements. There was no change in share capital during the year. During the year, the Company did not grant any share options. The Company adopted a share option on 6 June 2001 which remained in force for a period of 10 years from the date of adoption. The share option scheme expired on 6 June 2011.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in the statements of changes in equity on pages 47 and 102, respectively.

DIRECTORS

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

Executive Directors

Mr. Siu Paul Y., Chairman
Ms. Shui Wai Mei, Vice Chairman
Mr. Sheung Shing Fai
Ms. Siu Nina Margaret

Independent Non-executive Directors

Mr. Chung Pui Lam
Mr. Lee Kit Wah
Mr. Wong Wah Sang, Derek

In accordance with Bye-laws 87(1) of the Company's Articles of Association, Mr. Lee Kit Wah and Mr. Wong Wah Sang, Derek will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Amongst the Executive Directors, Mr. Siu Paul Y., Ms. Shui Wai Mei and Mr. Sheung Shing Fai have each entered into a service contract with the Company for an initial fixed term of three years commencing from 22 June 2001. While Ms. Siu Nina Margaret has entered into a service contract with the Company for an initial fixed term of three years commencing from 1 January 2013. Such contracts will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of these directors is entitled to a basic salary, which is determined on the basis of his/her qualification, experience, involvement in and contribution to the Company and by reference to the market rate. In addition, the Executive Directors are also entitled to a management bonus of a sum at the discretion of the Directors. An Executive Director may not vote on any resolution of the Directors regarding the amount of the management bonus payable to him.

Save as aforesaid, none of the directors has any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

MANAGEMENT CONTRACTS

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

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 28 to the financial statements, no other transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries or its parent enterprise was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2019, the Directors had the following interests in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register kept by the Company pursuant to Section 352 of the SFO:

a) The Company

	Ordinary shares of HK$0.1 each			
	Personal interests	**Family interests**	**Corporate interests**	**Total**
Mr. Siu Paul Y.	–	–	231,412,000 *(Note 1)*	231,412,000

b) Associated corporation

		Non-voting deferred shares of HK$1 each			
	Name of corporation	**Personal interests**	**Family interests**	**Corporate interests**	**Total**
Mr. Siu Paul Y.	Datatronic Limited	1	–	199,999 *(Note 2)*	200,000

Notes:

1. These shares are held by Onboard Technology Limited, a company incorporated in the British Virgin Islands, and in which Mr. Siu Paul Y. and Ms. Shui Wai Mei beneficially own 90% and 10% of its issued share capital respectively, representing 72.32% of the issued share capital of the Company.

2. These shares are held by Data Express Limited, a company incorporated in the Republic of Liberia, whose entire issued share capital is beneficially owned by Mr. Siu Paul Y..

Save as disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any director or chief executives of the Company or their respective associates in the shares and underlying shares of the Company or its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code of Securities Transactions by Directors of Listed Companies or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. Nor any of the directors and chief executives (including their spouses and children under the age of 18), had, as at 31 December 2019, any interest in, or had been granted any right to subscribe for the securities and options of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, the Company has not been notified by any persons (other than the directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in Bermuda.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company during the year.

CONNECTED TRANSACTIONS

The related party transactions disclosed in note 28, Related Party Transactions, item (a) of Sales to DRI, to the financial statements constituted connected transactions under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and that the Company has complied with the requirements under chapter 14A of the Listing Rules for such connected transaction.

The Company and its subsidiaries ("the Group") and Datatronics Romoland, Inc. ("DRI") entered into a Datronix Master Supply Agreement on 7 October 2016 ("the Datronix Master Supply Agreement") which superseded the 6th Datatronic Master Supply Agreement dated 3 September 2013 in respect of the supply of magnetics to DRI by Datatronic Limited ("DL"), a wholly owned subsidiary of the Company, and the IPI Master Supply Agreement dated 3 September 2013 in respect of the supply of magnetics to DRI by Innovative Power Inc. ("IPI"), a wholly owned subsidiary of the Company.

The Datronix Master Supply Agreement for a fixed term of three years from 1 January 2017 and on effectively the same terms and conditions of the previous master supply agreements for the supply for magnetic products entered into by the Group and DRI including the 6th Datatronic Master Supply Agreement and IPI Master Supply Agreement until terminated by either party giving to the other party not less than three months' written notice. Pursuant to the Datronix Master Supply Agreement, the selling prices of the magnetics under the Datatronic Master Supply Agreement are to be agreed between the Group and DRI. The Group will determine sale price of the magnetic product required by DRI according to the Group's pricing policy based on a cost-plus pricing basis, which takes into account the sum of all direct and indirect manufacturing costs and overhead such as raw materials costs, labor time costs and quantities of products. Due to the stringent requirements of DRI's products, involvement of the Group's top management and more experienced senior engineers would be required to provide engineering support and to resolve technical difficulties in the manufacturing process. Workers of higher ability or skill would also be assigned to handle the manufacturing process for DRI's products, whereas the products sold to other customers would carry less complications and complexity and thus require less technical and engineering support in their manufacturing procedures. As a result, the mark up margin based on the time cost and pay rate scale incurred by top management, senior engineers and skilled workers for DRI's products would yield a higher mark up than that of the products sold to other customers. When a new program or product is launched during a bid, this bidding process serves as an indication on the price in which the customers would be willing to pay. This also serves as a guidance for determining the Group's mark up margin in respect of products sold to DRI. For existing products sold to DRI, the Group's quotations issued to DRI would be based on historical prices quoted, adjustments based on current direct and indirect costs, and a mark up margin. Furthermore, end customers are price sensitive to the economy and their behavior may affect the purchase sentiment hence having an effect on the price quoted. Thus, the Group would also consider such aforementioned factors based on the prevailing market conditions to determine the mark up margin. The total purchases made by DRI under the Datronix Master Supply Agreement during the year ended 31 December 2019 was approximately HK$49,656,000 (2018: Datronix Master Supply Agreement was HK$64,112,000).

CONNECTED TRANSACTIONS – CONTINUED

The Directors, including the Independent Non-executive Directors, of the Company have reviewed the connected transactions and have confirmed that the connected transactions were entered into:

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

(ii) on terms no less favourable than those available to independent third parties; and

(iii) on terms that are fair and reasonable and in the interests of the shareholders as a whole.

In accordance with Rule 14A.56 of the Listing Rules, the auditor of the Company provided a letter to the Board of Directors confirming that the continuing connected transactions:

1. nothing has come to its attention that the transactions have not been approved by the Board;

2. nothing has come to its attention that the transactions involving the provision of goods or services were not, in all material respects, in accordance with the pricing policies of the Company;

3. nothing has come to its attention that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and

4. nothing has come to its attention that the transactions have exceeded the maximum aggregate annual value disclosed in the previous announcement date 7 October 2016 made by the Company in respect of the disclosed continuing connected transactions.

COMPETING BUSINESS

None of the Directors of the Company had any interest in any competing business with the Company or any of its subsidiaries during the year under review.

DIRECTORS' EMOLUMENTS

Details of the emoluments of the Directors and the five highest paid individuals are set out in notes 13 to the consolidated financial statements.

EMPLOYEE RETIREMENT SCHEME IN HONG KONG

The Group provides a defined contribution retirement scheme under the Mandatory Provident Fund Scheme (the "MPF Scheme") in Hong Kong to all staff. Under the MPF Scheme, employer and employees are each required to make contributions to the scheme at 5% of the employees' relevant income.

PERMITTED INDEMNITY

Pursuant to the Bye-laws, the Director(s) shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation to any affairs of the Company.

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group throughout the year.

CORPORATE GOVERNANCE

The Corporate Governance Report is set out on page 21 to 29 of this Report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, as at the date of this report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

AUDITOR

The financial statements have been audited by BDO Limited. A resolution for its reappointment as the Company's auditor for the ensuing year is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Siu Paul Y.
Chairman

Hong Kong, 25 March 2020

CORPORATE GOVERNANCE REPORT

The Directors recognise the importance of incorporating elements of good corporate governance in the management structure and internal control procedures of the Group so as to achieve effective accountability. The Directors continuously observe the principles of good corporate governance in the interests of the Company and its shareholders and devote considerable efforts to identifying and formalizing best practice.

During the year, the Company has complied with the code provisions set out in the Corporate Governance Code (the "Code") as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the following deviation:

Code Provision A.2.1

Under the provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The roles of chairman and chief executive officer of the Company have been performed by Mr. Siu Paul Y.. The Board considered that the non-segregation has the advantage of a strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently.

Code Provision A.4.1

The non-executive directors were not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-laws of the Company.

Code Provision A.4.2

Under the provision A.4.2, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with the Bye-laws of the Company, the chairman of the Company will not be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

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. All directors have confirmed, following specific enquiry of all directors, that they have fully complied with the required standard set out in the Model Code throughout the year.

THE BOARD

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances.

During the year, six board meetings were held and the attendance of each Director is set out as follows:

Director	Number of attendance
Mr. Siu Paul Y.	5/6
Ms. Shui Wai Mei	5/6
Mr. Sheung Shing Fai	6/6
Ms. Siu Nina Margaret	5/6
Mr. Chung Pui Lam	6/6
Mr. Lee Kit Wah	6/6
Mr. Wong Wah Sang, Derek	6/6

Board minutes are kept by the Company Secretary.

Each Board member is entitled to have access to board papers and enable, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

BOARD COMPOSITION

The Board currently comprises four Executive Directors, being Mr. Siu Paul Y. (Chairman), Ms. Shui Wai Mei (Vice Chairman), Mr. Sheung Shing Fai and Ms. Siu Nina Margaret, and three Independent Non-executive Directors, being Mr. Chung Pui Lam, Mr. Lee Kit Wah and Mr. Wong Wah Sang, Derek.

The Independent Non-executive Directors of the Company are persons with academic and professional qualifications in the fields of accounting, law and business management. They provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each Independent Non-executive Director gives an annual confirmation of his independence to the Company and the Company considers these directors to be independent under Rule 3.13 of the Listing Rules.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

To ensure that the Directors' contribution to the Board remains informed and relevant and in compliance with provision code A.6.5 of the Code, the Company would arrange and fund suitable continuous professional development for the Directors to participate in order to develop and refresh their knowledge and skills.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT – CONTINUED

The training of each director received during the year is summarised as below:

	Attending seminars/ workshop regarding financial, management, Legal, Regulatory or Corporate Governance	Reading newspapers, journals and other relevant materials relating to the economy and director's profession
Executive Directors		
Mr. Siu Paul Y.	✓	✓
Ms. Shui Wai Mei	✓	✓
Mr. Sheung Shing Fai	✓	✓
Ms. Nina Siu Margaret	✓	✓
Independent Non-executive Directors		
Mr. Chung Pui Lam	✓	✓
Mr. Lee Kit Wah	✓	✓
Mr. Wong Wah Sang, Derek	✓	✓

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Non-executive Directors were not appointed for specific terms but subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-laws of the Company.

According to the provisions of the Bye-laws of the Company, any Director appointed by the Board either to fill a casual vacancy or as an addition to the Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election. Furthermore, at each annual meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) shall retire from office by rotation provided that notwithstanding anything herein, the Chairman of the Board and/or the Managing Director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company comprises an Executive Director, Mr. Siu Paul Y. and three Independent Non-executive Directors, Mr. Chung Pui Lam, Mr. Lee Kit Wah and Mr. Wong Wah Sang, Derek. Mr. Chung Pui Lam is the Chairman of the Remuneration Committee.

During the year, one Remuneration Committee meeting was held. The attendance of each member is set out as follows:

Director	Number of attendance
Mr. Siu Paul Y.	1/1
Mr. Chung Pui Lam	1/1
Mr. Lee Kit Wah	1/1
Mr. Wong Wah Sang, Derek	1/1

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

1. To make recommendations with respect to the remuneration of the Executive Directors and the senior management of the Company; and

2. To review the remuneration package and recommend salaries, bonuses, including the incentive awards for Directors and senior management.

During the year, the Remuneration Committee has reviewed and recommended to the Board the overall remuneration policy and the remuneration package for the executive directors and key senior management.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. In preparing the accounts for the year ended 31 December 2019, the directors have adopted suitable accounting polices which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three Independent Non-executive Directors, Mr. Chung Pui Lam, Mr. Lee Kit Wah and Mr. Wong Wah Sang, Derek. Mr. Lee Kit Wah is the Chairman of the Audit Committee.

The Audit Committee shall meet at least twice a year. The minutes of the Audit Committee meetings were kept by the Company Secretary. The primary duties of the Audit Committee are to review and supervise the financial reporting process, internal control system and risk management system of the Group.

AUDIT COMMITTEE – CONTINUED

During the year, four Audit Committee meetings were held. The attendance of each member is set out as follows:

Director	Number of attendance
Mr. Chung Pui Lam	4/4
Mr. Lee Kit Wah	4/4
Mr. Wong Wah Sang, Derek	4/4

During the meetings held in 2019, the Audit Committee had performed the following major works:

1. reviewed and approved the financial statements of the Group for the year ended 31 December 2018 (the "2018 Financial Statements") and discussed with the external auditors on any findings in relation to the 2018 Financial Statements and audit issues;

2. reviewed the interim results for the six months ended 30 June 2019;

3. reviewed the internal control system.

There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor.

NOMINATION COMMITTEE

The Nomination Committee of the Company comprises an Executive Director, Mr. Sheung Shing Fai, and three Independent Non-executive Directors, Mr. Chung Pui Lam, Mr. Lee Kit Wah and Mr. Wong Wah Sang, Derek. Mr. Chung Pui Lam is the Chairman of the Nomination Committee.

The primary duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

During the year, one Nomination Committee meeting was held. The attendance of each member is set out as follows:

Director	Number of attendance
Mr. Sheung Shing Fai	1/1
Mr. Chung Pui Lam	1/1
Mr. Lee Kit Wah	1/1
Mr. Wong Wah Sang, Derek	1/1

NOMINATION COMMITTEE – CONTINUED

The Nomination Committee had reviewed the structure, size and the composition of the Board in consideration of re-election of retiring Directors in 2019 Annual General Meeting and reviewed the Board Diversity Policy of the Company during the year.

NOMINATION POLICY

The Company adopted a nomination policy in March 2019. In conjunction to the board diversity policy, the Board shall consider a number of criteria on the appointment of directors, and succession planning for directors, as well as re-appointment of directors. The criteria include character and integrity, professional qualifications, skills, knowledge, experience, potential contributions to the Board, as well as willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board commitment(s).

Board Diversity Policy

During the year, the Board reviewed a board diversity policy. All Board appointments will continue to be made on meritocracy and selection of candidate will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The nomination committee will review the board diversity policy, as appropriate, to ensure its continued effectiveness from time to time.

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for performing the corporate governance duties as set out in the Code which includes 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 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 and compliance manual (if any) applicable to employees and directors and to review the Group's compliance with the Code and disclosure in this Corporate Report.

AUDITOR'S REMUNERATION

During the year under review, the remuneration paid to the Company's auditor, Messrs. BDO Limited, is set out as follows:

Services rendered	**Fees paid/ payable** HK$'000
Audit services	810

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for overseeing the Company's system of internal control.

To facilitate the effectiveness and efficiency of operations and to ensure compliance with relevant laws and regulations, the Group emphasizes on the importance of a sound internal control system which is also indispensable for mitigating the Group's risk exposures. The Group's system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfilment of the business objectives.

INTERNAL CONTROL AND RISK MANAGEMENT – CONTINUED

The internal control system is reviewed by the Board in order to make it practical and effective in providing reasonable assurance in relation to protection of material assets and identification of business risks. The Board is satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory.

The Group is committed to the identification, monitoring and management of risks associated with its business activities and has implemented a practical and effective control system which includes a defined management structure with limits of authority, a sound cash management system and periodic review of the Group's performance by the Audit Committee and the Board.

The Company does not have an internal audit function and is currently of the view that there is no immediate need to set up an internal audit function within the Group in light of the size, nature and complexity of the Group's business. It was decided that the Board would be directly responsible for internal control of the Group and for reviewing its effectiveness.

The Board has conducted review of the effectiveness of the system of internal control system and risk management system and is of the view that the systems of internal control and risk management adopted for the year ended 31 December 2019 are sound and are effective to safeguard the interests of the shareholders' investment and the Company's assets. Such review is conducted annually and cycles reviewed are under rotation basis. The scope of review was previously determined and approved by the Board.

The Audit Committee has received the risk management and internal control evaluation reports submitted by the management of the Company. The reports summarised information relating to the work carried out in the following areas:

1. the results of selective testing of internal control procedures, operation, and financial records of the Company;

2. a general evaluation of risk management and internal control systems installed by the Company; and

3. an outline of major control issues, if any, noticed during the year under review.

The Audit Committee has reviewed the reports and discussed with the management. The Audit Committee acknowledged that the management has been progressively implementing adequate and effective risk management and internal control systems in order to ensure the effective functioning of the Company's operations.

COMPANY SECRETARY

Ms. Leung Sau Fong is the Company Secretary of the Company. Ms. Leung is a director of a corporate secretarial services provider in Hong Kong. The primary contact person of the Company with Ms. Leung is Mr. Siu Paul Y., the Chairman and Chief Executive Officer of the Company.

In compliance with Rule 3.29 of the Listing Rules, Ms. Leung has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2019.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene an extraordinary general meeting

The following procedures for shareholders of the Company to convene an extraordinary general meeting ("the EGM") of the Company are prepared in accordance with Bye-law 58 of the Bye-laws of the Company:

1. Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings may, by written requisition to the Board or the Company Secretary of the Company require an EGM to be called by the Board for the transaction of any business specified in such requisition.

2. The EGM shall be held within 2 months after the deposit of such requisition.

3. If the Directors fail to proceed to convene such meeting within 21 days of such deposit of requisition, 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 raising enquires

1. Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's branch share registrar in Hong Kong, details of which are set out in the section of headed "Corporate Information" of this annual report.

2. Shareholders may at any time raise any enquiry in respect of the Company via email at the email address at datronix@datronixhldgs.com.hk.

3. Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

SHAREHOLDERS' RIGHTS – CONTINUED

Procedures and contact details for putting forward proposals at shareholders' meetings

1. To put forward proposals at the general meeting of the Company, a shareholder should lodge a written notice of his/her/its proposal ("Proposal") with his/her/its detailed contact information at the Company's principal place of business at 19/F., North Point Industrial Building, 499 King's Road, North Point, Hong Kong for the attention of the Board or the Company Secretary of the Company.

2. The identity of the shareholder and his/her/its request will be verified with the Company's branch share registrar in Hong Kong and upon confirmation by the branch share registrar that the request is proper and in order and made by a shareholder, the Board will include the Proposal in the agenda for the general meeting.

3. The notice period to be given to all the shareholders for consideration of the Proposal raised by the shareholders concerned at the annual general meeting or an EGM varies according to the nature of the Proposal as follows:

   (i) At least 21 clear days' notice (the notice period must include 20 business days and excludes the date of the notice and the date of the meeting) in writing if the Proposal constitutes a special resolution of the Company in an EGM or if the Proposal is put forward at an annual general meeting of the Company; or

   (ii) At least 14 clear days' notice (the notice period must include 10 business days and excludes the date of the notice and the date of the meeting) in writing if the Proposal constitutes an ordinary resolution of the Company at an EGM.

COMMUNICATION WITH SHAREHOLDERS

The Chairman of the Board has attended at the annual general meeting to be available to answer questions at the meeting.

The Environment, Social and Governance (ESG) Report aims to give the Group's stakeholders an overall review of our performance in managing environmental and social related issues. The reporting period of this section is same as the Annual Report (from 1 January 2019 to 31 December 2019). The scope covered in this section includes our head office, warehouse and manufacturing operations in Hong Kong and Shunde, China, while our sales offices in US and France are excluded due to their limited significance from the environmental and social perspectives. The ESG Report has been prepared with reference to the ESG Reporting Guide by HKEx.

ESG MANAGEMENT

As the world's natural resources and environment continue to deteriorate, we understand that our stakeholders have increase their awareness and expectation for the Group's ESG performance. Having an effective management on the ESG issues has already become part of our business agenda.

The Group has long recognized the risks and opportunities of the ESG related issues to its business. Our ESG management is overseen by our board who meets on regular basis to review the Group's ESG performance. The implementation of ESG related programmes or actions is supported by the management of the Group with participation from all the staff across different departments.

In 2017, the Group established its ESG policy to formally convey our environmental and social commitment to internal and external stakeholders.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICY

Environment, Social and Governance are essential parts of our business. They form the pillars for our sustainable growth. At Datronix, we believe that we have an obligation – to our employees, our communities, our investors, our customers and the environment – to operate in a sustainable manner.

Sustainability at Datronix is based on our guiding principles: reducing our environmental impact through resources conservation and waste reduction, creating a healthy and safe working environment; operating profitably; fostering a culture of involvement in sustainability through stakeholder engagement; and enable our customers to become more sustainable through their use of our products.

Environment

We continue to develop our products with better environmental, health and safety performance for both employees and customers. During the manufacturing and the use of our products, we continue to find ways to reduce the pollutions and carbon emissions. Throughout our production lines and offices, we are committed to enhancing the efficiency with the use of energy, materials and other natural resources by measuring and minimizing our environmental impact wherever possible. In our product supply chain, we continue to increase the tracking of sustainability of our suppliers by using reporting metrics to ensure our suppliers are operating in a sustainable way.

Social

We engage our employees, customers, regulators, business partners and community through variety of stakeholder engagement channels. We strive to provide equal opportunities to employees regardless of gender, race, national or ethnic origin, religion, cultural background, disability, marital status, family status, sexual orientation, age or political opinion.

Compliance

We adopt a combination of self and third party audits and certifications systems to ensure the legal and corporate compliance are fulfilled and report the results of compliance together with our environmental, social and governance performance to employees, executive management and other stakeholders on regular basis.

We acknowledge that achieving our goals and objectives will require many changes to be made over time. However we strongly believe that our environmental, social and governance efforts serve the interests of both current and future generations and constitute the foundation for the long-lasting success.

MATERIALITY

In order to be more objective in identifying the Group's material ESG aspects, a formal materiality checking was conducted in 2018. Questionnaires have been sent out to some of the Group's key internal and external stakeholders which include the Group's investors, management, employees and business partners to collect their views in different ESG aspects. Their views were used to help identify the Group's material ESG aspects. The following aspects are considered material after the materiality checking.

Environment

- Emissions
- Use of Resources

Social

- Employment
- Health and Safety
- Development and Training
- Labor Standards
- Supply Chain Management
- Product Responsibility
- Anti-corruption

The Group will re-conduct the materiality checking on a regular basis so as to obtain an up-to-date views from our stakeholders and re-define our material aspects if required.

ENVIRONMENT

The Group commits to minimizing its impact on the environment during its operation. In particular, it strives to reduce carbon emissions and waste generation, and hence to promote efficient use of environmental resources.

Emissions

1. Greenhouse Gas (GHG) Emissions Indictors	2019	2018
Direct emissions (Scope 1) (tCO2)	82	114
Indirect emission (Scope 2) (tCO2)	2,447	2,572
Total GHG emissions (Scope 1 and 2) (tCO2)	2,529	2,686
Total GHG emissions intensity (t/HK$ million revenue)	8.91	8.58
2. Non-harzardous waste (kg)	3,504	3,960

The Group started measuring its carbon emissions in 2017. Majority of the Group carbon emissions is from electricity consumption which accounts for over 99% of total carbon emissions of the Group. Energy efficiency programmes and waste recycling are two majors approaches the Group adopts for minimizing its carbon emissions and waste discharge. For example, the copper wires and solder wires waste generated during the manufacturing process will all be collected and recycled to minimize waste disposal to landfill. Wastes generated by the Group are basically all non-hazardous. The Group's operational carbon emissions and discharges are fully complied with the local legislation.

Use of resources

The Group continues to improve its efficiency in the use of resources on our operations and production line through variety of operational control, technology enhancement and staff awareness raising. The Group's energy efficiency programmes include the extensive use of energy efficient lighting tubes and provision of light zoning in all the premises; and switching off air-conditioning during winter time whenever possible and lighting when not in used. These programmes are all highly supported by company staff. The Group also raises staff awareness in water saving in production and office operations through education and promotion.

	2019	2018
Natural Resources Usage		
Electricity (kWh)		
– Hong Kong	299,189	304,029
– China	2,453,375	2,602,772
Electricity consumed intensity (kWh/HK$ million revenue)	9,692	9,287
Diesel (L)	21,757	34,277
Gasoline (L)	7,119	6,286
Water (m^3)	47,447	48,503
Water consumed intensity (m^3/HK$ million revenue)	167	155
Paper packaging material (kg)	44,400	40,363
Plastic packaging material (kg)	2,510	2,791
Natural Resources Recycled		
Paper recycled (kg)	420	420
Copper recycled (kg)	3,702	4,206

SOCIAL

Employment and Labor Practices

The Group values its employees as one of its greatest strengths and assets. The Group is committed to providing the best possible working and career environment for its employees, in order to attract, develop and retain the best talents.

The Group aims to provide equal opportunities to individuals regardless of gender, race, national or ethnic origin, religion, cultural background, disability, marital status, family status, sexual orientation, age or political opinion. As part of the Group's social commitment, the Group actively employs individuals with disabilities, primarily at the operation in China, which represent 1.5% of the Group's total workforce in China.

Each of the Group's employee is protected by the local labor laws and regulations which the Group strictly complies. The Group has no legal non-compliance issues during the reporting period.

	2019	2018
Total workforce (excluding operations in USA and Vietnam)	974	1,046
By gender		
– Male	14%	15%
– Female	86%	85%
By employment type		
– Full time	100%	100%
– Part time	0%	0%
By age group		
– Below 30	15%	20%
– Between 31 and 50	78%	74%
– Above 50	8%	6%
By geographical region		
– Hong Kong	99	101
– China	875	945
Disable employees% (in Shunde)	1.5%	1.6%

Health and Safety

The Group is committed to providing a health and safe working environment for our skilled workers in factories and employees in offices. The Group places its employee's health and safety as one of the highest priority in its operation.

On the production line, the factory supervisors and managers both help to ensure all the health and safety measures are being implemented effectively. Any non-conformities will be corrected immediately. In case of high level decision is required, the factory supervisors and manager will escalate the issues to the Group's top management to seek further instruction. The Group has established a Code of Practice, in where safety and health issues are addressed, for our skilled workers to follow. Training and work instructions will be given to new workers to make sure they are capable of operating the production equipment safely. For some of the manufacturing procedures where fumes or particles may be emitted, ventilation units have been installed to minimize the potential safety and health risks. The Group is fully complied with the local legislation for its operations during the reporting period.

	2019	2018
Number of work-related fatalities	0	0
Lost days due to work injury	0	0

Development and Training

The Group recognizes the importance and value of continuous learning. All the new employees are provided with on-the-job training by their direct supervisors. By encouraging our existing employees to have a continuous lifelong learning, the Group offers education subsidies to its employee as an employee investment in variety of fields ranging from quality system management, to business management, to engineering and technology management.

Labor Standards

The Group is committed to not using child labor and forced labor in its operation. Each of the Group's employee is protected by the local labor laws and regulations which the Group strictly complies. Employee's age and identity documentation will be checked thoroughly during the recruitment and employment processes. For our factory in China, which is the Group's main manufacturing site, the Group adopts a Voluntary Overtime Working Scheme, which provide flexibility for skilled workers overtime work. The Group strictly complies with the overtime working remuneration regulations of the local laws in China. There is no occurrence of child labor and forced labor discovered during the reporting period.

The Group upholds high operating practices standard. The Group believes having a high operating practices standard increases its competitiveness and provides values to its stakeholders.

Supply Chain Management

The Group aims to ensure its supply chain as sustainable as possible. Many of the Group's suppliers are required to demonstrate they are certified or complied with internationally recognized environmental and safety related standards such as ISO or RoHS. In particular, the Group seeks to ensure all of its materials or components received from suppliers are lead free. The Group requires its suppliers to provide Certificate of Conformance to confirm the products' specification. The Group's Quality Assurance Team will conduct a throughout and rigorous due diligence on its new suppliers along with on-site audits to assess their product quality as well as their practices in managing environmental and social risks.

Product Responsibility

The Group has long been emphasizing on its product responsibility regarding its product quality, health and safety, advertising, labeling and privacy related matters as part of its core values and business strategy. The products the Group manufactured will be tested and certified by third party to make sure the products are up to the satisfactory level that the Group and its customers expect in terms of quality and health and safety. The Group is committed to ensuring all products it manufactures will comply with applicable relevant laws and regulations.

Anti-corruption

The Group is committed to the highest standards of openness, probity and accountability and to conduct business with integrity, honesty and transparency. The internal Quality Assurance Team of the Group conducts internal audit annually on the Group's operations against applicable compliances and Group internal requirements. The Group has rigorous internal control to minimize the risk of corruption, bribery, fraud and money laundering. The Group procurement process is strictly monitored by top management and suppliers are all selected from the Group's Approved Vendor List (AVL) in which vendors are assessed through the Group's due diligence procedures.

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company will be held at First Floor, Yue-Function Room II, City Garden Hotel, 9 City Garden Road, North Point, Hong Kong on Wednesday, 3 June 2020 at 2:30 p.m. for the following purposes:

1. To receive and consider the Audited Financial Statements for the year ended 31 December, 2019 and the Reports of the Directors and Auditors thereon.

2. To declare a final dividend.

3. To re-elect retiring directors and to fix directors' remuneration.

4. To re-appoint auditors and to authorise the board of directors to fix their remuneration.

5. As special business, to consider and, if thought fit, pass the following resolutions as ordinary resolutions of the Company:

   A. "**THAT**

      (a) subject to paragraph (c) of this resolution, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as defined below) of all the powers of the Company to issue, allot and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

      (b) the approval in paragraph (a) of this resolution shall be in addition to any other authorisation given to the Directors and shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

      (c) the aggregate nominal amount of shares issued, allotted, or dealt with by the Directors pursuant to the approval granted in paragraph (a) of this resolution, otherwise than the issue of shares by way of rights, scrip dividend schemes or similar arrangements in accordance with the Bye-laws of the Company or any options granted under the share option scheme of the Company, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company on the date of passing this Resolution, and the said approval shall be limited accordingly; and

(d) for the purpose of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by Bermuda laws or the Bye-laws of the Company to be held; and

(iii) the date on which the authority sets out in this resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in a general meeting."

B. "**THAT**

(a) subject to paragraph (b) of this resolution, the exercise by the directors of the Company (the "Director") during the Relevant Period (as defined below) of all the powers of the Company to repurchase issued shares in the capital of the Company in accordance with all applicable laws and requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of securities to be repurchased by the Company pursuant to the approval in paragraph (a) of this resolution shall not exceed 10% of the aggregate nominal amount of share capital of the Company in issue on the date of this resolution and the said approval shall be limited accordingly; and

(c) for the purpose of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by Bermuda laws or the Bye-laws of the Company to be held; and

(iii) the date on which the authority sets out in the Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in a general meeting."

C. "**THAT** the general unconditional mandate granted to the directors of the Company to issue, allot and deal with shares pursuant to Ordinary Resolution No. 5A set out in the notice convening this meeting be and is hereby extended by addition thereto of an amount representing the aggregate nominal amount of the shares in the capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution No. 5B set out in the notice convening this meeting, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company on the date of passing this resolution."

By order of the Board
LEUNG Sau Fong
Company Secretary

Hong Kong, 28 April 2020

Notes:

i. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

ii. To be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the branch share registrar of the Company in Hong Kong, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than Hong Kong time 2:30 p.m. on Monday, 1 June 2020 or any adjournment thereof.

iii. The register of members of the Company will be closed from Thursday, 28 May 2020 to Wednesday, 3 June 2020, both dates inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming annual general meeting, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with Hong Kong Registrars Limited, the Company's branch share registrar in Hong Kong, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 27 May 2020.

The proposed final dividend is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting. The register of members of the Company will be closed from Wednesday, 10 June 2020 to Friday, 12 June 2020, both dates inclusive, during which period no transfer of shares will be registered. To qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with Hong Kong Registrars Limited, the Company's branch share registrar in Hong Kong, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 9 June 2020. The cheques for dividend payment will be sent on about Tuesday, 23 June 2020.

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF DATRONIX HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Datronix Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 45 to 120, 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, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS – CONTINUED

Impairment assessment of goodwill

Refer to note 18 to the consolidated financial statements

The Group had goodwill of approximately HK$9,486,000 as at 31 December 2019 arising from the Company's acquisition of a business in 2012.

Management concluded that there was no impairment of the goodwill based on the recoverable amount of the cash-generating unit ("CGU") which was determined by a value-in-use calculation based on cash flow projections from formally-approved budgets covering a five-year period. The preparation of cash flow projections requires significant management judgment with respect to assumptions in relation to discount rate and underlying cash flows, in particular future operating margin and growth rate. We identified the impairment assessment of goodwill as a key audit matter as it requires management to exercise significant judgment on the cash flow projections and the goodwill is quantitatively significant to the consolidated financial statements.

Our response:

Our procedures in relation to management's impairment assessment included:

– Assessing the valuation methodology;

– Challenging the reasonableness of the key assumptions based on our knowledge of the business and industry;

– Reconciling input data to supporting evidence, such as approved budget, and considering the reasonableness of this budget; and

– Engaging independent valuation specialist to assist us in assessing the valuation methodology applied in the impairment assessment of goodwill.

We found the assumptions made by management in relation to the value-in-use calculation were reasonable based on available evidence. The significant inputs are appropriately disclosed in note 18 to the consolidated financial statements.

KEY AUDIT MATTERS – CONTINUED

Write-down assessment of inventories

Refer to note 20 to the consolidated financial statements

The Group had inventories of approximately HK$79,620,000 as at 31 December 2019 which consist of raw materials, work-in-progress and finished goods.

The Group's management writes down slow-moving or obsolete inventories based on an assessment of net realisable value. Inventory will be written down where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgment and estimates. The subsequent change in estimation will impact carrying value of the inventories and lead to a revision of the amount of inventories written down in the respective period. The Group recognised a reversal of write-down of inventories of approximately HK$682,000 for the year. We identified the write-down assessment of inventories as a key audit matter as it requires management to exercise significant judgment on net realisable value of the inventories and the carrying amount of inventories is quantitatively significant to the consolidated financial statements.

Our response:

Our procedures in relation to management's write-down assessment included:

– Assessing the reasonableness of the inventory provision policy applied by the management;

– Discussing with operational staff or managers who have knowledge of the condition of inventories, utilisation pattern and turnover days and considering whether the provisions made by management are consistent with those assessments made by operational personnel;

– Assessing the ageing of inventories prepared by management;

– Observing obsolete inventories identified by performing physical inventory inspection; and

– Challenging the reasonableness of the reversal amount recognised for the year.

We found that management's estimation of net realisable value and reversal of write-down of inventories are reasonable based on the available evidence.

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors 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.

The directors are also responsible for overseeing the Group's financial reporting process.

The audit committee of the Company (the "Audit Committee") assists the directors in discharging their responsibilities in this regard.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Act 1981, 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 scepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

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

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

BDO Limited
Certified Public Accountants
Tang Tak Wah
Practising Certificate Number P06262
Hong Kong, 25 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	6	284,225	312,644
Cost of sales		(179,599)	(189,298)
Gross profit		104,626	123,346
Other revenue and gain	7	11,255	13,247
Distribution and selling expenses		(17,748)	(16,195)
Administrative expenses		(68,750)	(73,098)
Fair value (loss)/gain on investment property	15	(6,000)	5,300
Finance costs		(30)	–
Profit before income tax expense	8	23,353	52,600
Income tax expense	10		
Current tax – tax for the year		(4,751)	(4,968)
– (under)/over provision in respect of prior years, net		(20)	969
Deferred tax expense		(939)	(632)
		(5,710)	(4,631)
Profit for the year and attributable to owners of the Company		17,643	47,969
Other comprehensive income, net of tax	11		
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(1,637)	(2,759)
Item that will not be reclassified to profit or loss:			
(Deficit)/surplus on revaluation of leasehold land and buildings held for own use		(7,848)	43,674
Other comprehensive income for the year and attributable to owners of the Company, net of tax		(9,485)	40,915
Total comprehensive income for the year and attributable to owners of the Company		8,158	88,884
Earnings per share			
– Basic and diluted	12	HK$0.055	HK$0.150

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	14	361,470	278,481
Investment property	15	97,800	103,800
Payments for leasehold land held for own use under operating leases	16	–	3,311
Payments for acquisition of a land use right and a property	36	34,666	23,192
Prepayments for acquisition of property, plant and equipment		10,158	–
Goodwill	17	9,486	9,486
Deferred tax asset	25	160	1,166
		513,740	419,436
Current assets			
Inventories	20	79,620	76,186
Trade receivables	21	33,090	37,133
Prepayments, deposits and other receivables		8,231	8,608
Amount due from ultimate holding company	22	91	84
Amounts due from related companies	22	203	174
Tax prepayment		–	800
Cash and cash equivalents		333,776	404,991
		455,011	527,976
Current liabilities			
Trade and other payables	23	40,500	23,882
Amount due to a related company	22	523	–
Lease liabilities	29	436	–
Current tax liabilities		3,802	2,057
		45,261	25,939
Net current assets		409,750	502,037
Total assets less current liabilities		923,490	921,473
Non-current liabilities			
Lease liabilities	29	859	–
Employee benefits	24	18,806	19,450
Deferred tax liabilities	25	39,685	41,241
		59,350	60,691
NET ASSETS		864,140	860,782
Equity			
Share capital	26	32,000	32,000
Reserves		832,140	828,782
TOTAL EQUITY		864,140	860,782

On behalf of the Board of Directors

Siu Paul Y.
Director

Shui Wai Mei
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Equity attributable to owners of the Company						
	Issued capital (note 26) HK$'000	Share premium (note 27(c)(i)) HK$'000	Capital reserve (note 27(c)(ii)) HK$'000	Property revaluation reserve (note 27(c)(iii)) HK$'000	Exchange reserve (note 27(c)(iv)) HK$'000	Retained earnings (note 27(c)(vi)) HK$'000	Total HK$'000
At 1 January 2018	32,000	57,099	(23,724)	186,522	9,806	520,435	782,138
Profit for the year	–	–	–	–	–	47,969	47,969
Exchange differences on translating foreign operations	–	–	–	–	(2,759)	–	(2,759)
Surplus on revaluation of leasehold land and buildings held for own use	–	–	–	43,674	–	–	43,674
Total comprehensive income for the year	–	–	–	43,674	(2,759)	47,969	88,884
Dividends paid (note 27(b))	–	–	–	–	–	(10,240)	(10,240)
At 31 December 2018 and 1 January 2019	32,000	57,099	(23,724)	230,196	7,047	558,164	860,782
Profit for the year	–	–	–	–	–	17,643	17,643
Exchange differences on translating foreign operations	–	–	–	–	(1,637)	–	(1,637)
Deficit on revaluation of leasehold land and buildings held for own use	–	–	–	(7,848)	–	–	(7,848)
Total comprehensive income for the year	–	–	–	(7,848)	(1,637)	17,643	8,158
Dividends paid (note 27(b))	–	–	–	–	–	(4,800)	(4,800)
At 31 December 2019	32,000	57,099	(23,724)	222,348	5,410	571,007	864,140

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Cash flows from operating activities		
Profit before income tax expense	23,353	52,600
Adjustments for:		
Interest income	(7,912)	(9,806)
Finance costs	30	–
Fair value loss/(gain) on investment property	6,000	(5,300)
Depreciation of property, plant and equipment	7,290	5,656
(Gain)/loss on disposal of property, plant and equipment, net	(42)	5
Amortisation of payments for leasehold land held for own use under operating leases	–	115
Expected credit loss on trade receivables	117	175
Reversal of impairment loss on trade receivables	(16)	(12)
Reversal for write-down of inventories	(682)	(1,875)
Operating profit before working capital changes	28,138	41,558
(Increase)/decrease in inventories	(2,752)	6,371
Decrease/(increase) in trade receivables	3,942	(10,770)
Decrease/(increase) in prepayments, deposits and other receivables	994	(4,274)
Increase in amount due from ultimate holding company	(7)	(7)
Increase in amounts due from related companies	(29)	(23)
(Decrease)/increase in trade and other payables	(261)	739
(Decrease)/increase in employee benefits	(320)	8
CASH GENERATED FROM OPERATIONS	29,705	33,602
Income tax paid	(1,747)	(2,207)
Net cash from operating activities	27,958	31,395
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(66,498)	(2,121)
Prepayments for acquisition of property, plant and equipment	(10,158)	–
Proceeds from disposal of property, plant and equipment	46	2
Payments for acquisitions of a land use right and a property	(23,664)	(23,192)
Interest received	7,295	9,149
Net cash used in investing activities	(92,979)	(16,162)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(4,800)	(10,240)
Advance from a related party	523	–
Lease payments	(423)	–
Net cash used in financing activities	(4,700)	(10,240)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(69,721)	4,993
Cash and cash equivalents at beginning of year	404,991	402,453
Effect of foreign exchange rate changes on cash and cash equivalents	(1,494)	(2,455)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR represented by bank balances and cash	333,776	404,991

Note:

Bank balances and cash included an amount of approximately HK$111,311,000 (2018: HK$228,229,000) which is denominated in Renminbi. Included in this amount is a sum of, approximately HK$22,639,000 (2018: HK$32,755,000) deposited in the People's Republic of China (the "PRC"). Renminbi is not a freely convertible currency in the international market. The conversion of Renminbi into foreign currency and remittance of Renminbi out of the PRC are subject to the rules and regulations of exchange controls promulgated by the PRC authorities.

1. GENERAL

Datronix Holdings Limited (the "Company") was incorporated in Bermuda on 15 February 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 22 June 2001.

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacturing of electronic components in the PRC and Vietnam and trading of electronic components to customers in the United States of America (the "US"), Hong Kong and other countries. The Company and its subsidiaries are collectively referred to as the Group.

The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The address of its principal place of business is 19th Floor, North Point Industrial Building, 499 King's Road, North Point, Hong Kong.

The Company's immediate and ultimate holding company is Onboard Technology Limited, a company incorporated in British Virgin Islands. The Company's ultimate controlling party is Mr. Siu Paul Y.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/amended HKFRSs – effective 1 January 2019

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new/amended HKFRSs that are first effective for the current accounting period of the Group:

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
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

The impact of the adoption of HKFRS 16 "Leases" have been summarised in below. The other new/amended HKFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

(a) Adoption of new/amended HKFRSs – effective 1 January 2019 – Continued

HKFRS 16 – Leases

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 "Leases" ("HKAS 17"), HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease", HK(SIC)-Int 15 "Operating Leases-Incentives" and HK(SIC)-Int 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". From a lessee's perspective, almost all leases are recognised in the statement of financial position as a right-of-use assets and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (v) of this note.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The following tables summarised the impact of transition to HKFRS 16 on consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

	HK$'000
Consolidated statement of financial position as at 1 January 2019	
Right-of-use assets presented in property, plant and equipment	250,717
Payments for leasehold land held for own use under operating leases	(3,311)
Lease liabilities (non-current)	386
Lease liabilities (current)	320

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

(a) Adoption of new/amended HKFRSs – effective 1 January 2019 – Continued

HKFRS 16 – Leases – Continued

(i) Impact of the adoption of HKFRS 16 – Continued

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

	HK$'000
Reconciliation of operating lease commitment to lease liabilities	
Operating lease commitment as of 31 December 2018	430
Less: short-term leases for which lease terms end within 31 December 2019	(20)
Add: leases included in extension option which the Group considers reasonably certain to exercise	335
Less: future interest expenses	(39)
Total lease liabilities as of 1 January 2019	706

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 is 4.75%.

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset; and (b) the right to direct the use of the identified asset.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

(a) Adoption of new/amended HKFRSs – effective 1 January 2019 – Continued

HKFRS 16 – Leases – Continued

(ii) The new definition of a lease – Continued

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate 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, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases; and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

(a) Adoption of new/amended HKFRSs – effective 1 January 2019 – Continued

HKFRS 16 – Leases – Continued

(iii) Accounting as a lessee – Continued

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right-of-use asset that meets the definition of an investment property, they are carried at fair value and for right-of-use asset that meets the definition of a class of property, plant and equipment to which the Group applies the revaluation model, they are carried at fair value.

For the Group, leasehold land and buildings that were held for rental or capital appreciation purpose would continue to be accounted for under HKAS 40 and would be carried at fair value. For leasehold land and buildings which is held for own use would continue to be accounted for under the revaluation model of HKAS 16 and would be carried at fair value. The adoption of HKFRS 16 therefore does not have any significant impact on these right-of-use assets. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises it judgment and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease; and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int 4.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

(a) Adoption of new/amended HKFRSs – effective 1 January 2019 – Continued

HKFRS 16 – Leases – Continued

(iii) Accounting as a lessee – Continued

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g. a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Accounting as a lessor

The Group has leased out its investment property to a tenant. As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirements under HKAS 17, the adoption of HKFRS 16 does not have significant impact on these financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

(a) Adoption of new/amended HKFRSs – effective 1 January 2019 – Continued

HKFRS 16 – Leases – Continued

(v) Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected, on a lease-by-lease basis, to measure the right-of-use assets at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of 1 January 2019. For all these right-of-use assets, the Group has relied on its assessment of whether leases are onerous applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" immediately before the date of 1 January 2019 as an alternative to performing an impairment review. Right-of-use assets at the date of 1 January 2019 are adjusted by the amount of any provision for onerous leases recognised in the statement of financial position immediately before that date.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases; (iii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019; and (iv) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

(a) Adoption of new/amended HKFRSs – effective 1 January 2019 – Continued

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

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

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

Amendments to HKAS 19 – Plan Amendment, Curtailment or Settlement

The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company should use updated actuarial assumptions to determine its current service cost and net interest for the period. Additionally, the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

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

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

(a) Adoption of new/amended HKFRSs – effective 1 January 2019 – Continued

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

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

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 11, Joint Arrangements

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

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

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

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

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKFRS 3	Definition of a Business[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]

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

Amendments to HKFRS 3 – Definition of a Business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process".

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions. An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKAS 1 and HKAS 8 – Definition of Material

The amendments clarify the definition and explanation of "material", aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 – Interest Rate Benchmark Reform

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

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

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rule").

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for certain leasehold land and buildings and investment property, which are measured at revalued amounts or fair values as explained in the accounting policies set out below.

(c) Functional and presentation currency

The functional currency of the Company is Hong Kong dollars ("HK$"). Each entity in the Group maintains its books and records in its own functional currency. The consolidated financial statements are presented in HK$. The board of directors considered that it is more appropriate to present the consolidated financial statements in HK$ as the shares of the Company are listed on the Main Board of the Stock Exchange.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(a) Business combination and basis of consolidation – Continued

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Research and development costs

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss and included in cost of sales.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

(d) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(d) Goodwill – Continued

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(e) Property, plant and equipment

Leasehold land and buildings in Hong Kong and buildings in the PRC are stated at valuation less accumulated depreciation. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. Increases in value arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of property revaluation reserve. Decreases in value arising on revaluation are first offset against increases on earlier valuations in respect of the same property and thereafter recognised in profit or loss. Any subsequent increases are recognised in profit or loss up to the amount previously charged and thereafter to the property revaluation reserve.

Upon disposal, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the property revaluation reserve to retained earnings.

Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(e) Property, plant and equipment – Continued

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

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The annual depreciation rates are as follows:

Leasehold land and buildings	4% to 4.5% or over the lease terms, whichever is shorter
Interests in leasehold land	Over the lease terms
Machinery and equipment	15% to 30%
Furniture and fixtures	15%
Motor vehicles	18% to 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are revised annually.

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(f) Investment property

Investment property is property held or right to use asset held by the Group as a lessee either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

(g) Revenue recognition

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

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

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(g) Revenue recognition – Continued

The Group is principally engaged in manufacturing and trading electronic components in both Hong Kong and oversea markets. Customers obtain control of the Group's products when the goods are delivered to and have been accepted by customers. Revenue from sale of goods is recognised at the point in time when control of the assets is transferred to the customers according to the terms of contracts. Revenue is thus recognised when the products are delivered and accepted by customers and invoice is issued when the customers accepted the products. There is generally only one performance obligation and the consideration includes no variable amount. Invoices are usually payable ranging from 30 days to 90 days.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

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

Contract costs

The Group recognises an asset from the costs incurred to fulfil a contract when those costs meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;

(b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

The asset recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the cost relate. The asset is subject to impairment review.

(h) Payments for leasehold land held for own use under operating leases (accounting policies applied until 31 December 2018)

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(i) Leasing

Leasing (accounting policies applied from 1 January 2019)

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases; and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right-of-use asset that meets the definition of an investment property, they are carried at fair value and for right-of-use asset that meets the definition of a leasehold land and buildings held for own use, they are carried at fair value.

The Group accounts for leasehold land and buildings that are held for rental or capital appreciation purpose under HKAS 40 and are carried at fair value. The Group accounts for leasehold land and buildings which is held for own use under HKAS 16 and are carried at fair value. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises it judgment and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(i) Leasing – Continued

Leasing (accounting policies applied from 1 January 2019) – Continued

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. Lease payments to be made under reasonably certain extension options are also included in the measurement of the lease liability.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

Accounting as a lessor

The Group has leased out its investment property to a tenant. Rental income from operating lease is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(i) Leasing – Continued

Leasing (accounting policies applied until 31 December 2018)

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(j) Financial instruments

(i) Financial assets

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

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

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

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments including trade and other receivables, amounts due from ultimate holding company and related companies, at amortised cost as follows:

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

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(j) Financial instruments – Continued

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss ("ECL") on trade receivables.

The ECLs are measured on either of the following bases: (1) 12 months ECL: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECL: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

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

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

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criteria is more appropriate.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(j) Financial instruments – Continued

(iii) Financial liabilities

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

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

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

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

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

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

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(k) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered and impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment, including right-of-use assets (other than property carried at revalued amounts);
- investments in subsidiaries (recognised in the Company's statement of financial position (see note 31)); and
- payments for leasehold land held for own use under operating leases.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value-in-use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent 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 in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

(l) Employee benefits

(i) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(ii) Long service payments

The Group's net obligations in respect of long service payments are the amounts of future benefits that employees have earned in return for their services in the current and prior periods.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(m) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in-first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(o) Income taxes – Continued

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 Investment Property. Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, 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.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(p) Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(p) Foreign currency – Continued

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the exchange reserve.

(q) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(q) Related parties – Continued

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

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

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

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

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

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

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

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

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

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated 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 ongoing 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.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – CONTINUED

(a) Critical judgments in applying accounting policies

(i) Current taxation and deferred taxation

Judgment is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

(ii) Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the group entities, judgment is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the group entities are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

(b) Key sources of estimation uncertainty

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

(i) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the deprecation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(ii) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – CONTINUED

(b) Key sources of estimation uncertainty – Continued

(iii) Estimated net realisable value of inventories

The Group's management writes down for slow moving or obsolete inventories based on an assessment of the net realisable value of the inventories. Inventory will be written down where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgment and estimates in inventory provision policy. Where the expectation is different from the original estimate, such difference will impact carrying value of the inventories and revision on the amount of inventories written down in the period in which such estimate has been changed. In making this estimation, the Group evaluates the usage and extent by all means to which the amount will be recovered. During the year, certain inventories written down in prior years have been used and sold. The Group recognised reversal of write-down of inventory of approximately HK$682,000 (2018: HK$1,875,000) for the year.

(iv) Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value. The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs;
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures a number of items at fair value:

- Revalued land and buildings – Property, plant and equipment (note 14); and
- Investment property (note 15).

For more detailed information in relation to the fair value measurement of the items above, please refer to the applicable notes.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – CONTINUED

(b) Key sources of estimation uncertainty – Continued

(v) Impairment of trade receivables

The Group recognised an ECL on trade receivables using a provision matrix. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. If the financial condition of the debtor were to deteriorate, actual write-offs would be higher than estimated. Details of movements in provision for impairment of trade receivables are disclosed in note 21.

6. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group is principally engaged in manufacturing and trading electronic components in both Hong Kong and oversea markets. The Group's chief operating decision-maker regularly reviews the consolidated financial information of the Group as a whole to assess the performance and consider there is only one operating segment for the Group.

(a) Geographical information

The following table sets out the information about the geographical location of the Group's revenue from external customers and non-current assets other than financial instruments ("Specified non-current assets").

The Group comprises the following main geographical segments:

	Revenue from contracts with external customers (by customers' location)		Specified non-current assets (by assets' location)	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
Hong Kong (place of domicile)	970	743	335,862	354,352
The PRC	22,610	25,889	116,011	53,900
The US	250,102	273,487	11,828	11,184
Vietnam	–	–	50,039	–
European Union	4,441	5,891	–	–
Other countries	6,102	6,634	–	–
	283,255	311,901	177,878	65,084
Total	284,225	312,644	513,740	419,436

6. SEGMENT INFORMATION – CONTINUED

(b) Disaggregated revenue information

In the following table, revenue is disaggregated by major products and timing of revenue recognition.

	2019 HK$'000	2018 HK$'000
Major products		
Electronic components	284,225	312,644
Timing of revenue recognition		
At a point in time	284,225	312,644

Disaggregation of revenue from contracts with customers by geographical markets is disclosed in note 6(a) above.

The following table provides information about trade receivables from contracts with customers:

	2019 HK$'000	2018 HK$'000
Trade receivables from sale of electronic components	33,090	37,133

As at 31 December 2019, there was no contract assets as the Group has no unbilled revenue or retention money retained by its customers at the end of the reporting period.

Under HKFRS 15, advance receipts from customers in respect of the Group's sale contracts included in trade and other payables shall be reclassified to contract liabilities. The Group considers the amount of advance receipts from customers is immaterial to the financial statements and therefore the amount is not separately disclosed as contract liabilities.

6. SEGMENT INFORMATION – CONTINUED

(c) Information about major customers

Revenue from contract with external customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	2019 HK$'000	2018 HK$'000
Customer A	58,905	71,111
Customer B	50,125	64,112
Customer C	45,985	39,037
	155,015	174,260

7. OTHER REVENUE AND GAIN

	2019 HK$'000	2018 HK$'000
Bank interest income	7,912	9,806
Income from disposal of scrap materials	–	244
Gain on disposal of property, plant and equipment, net	42	–
Rental income under operating lease	2,976	2,976
Sundry income	325	221
	11,255	13,247

8. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging/(crediting):

	2019 HK$'000	2018 HK$'000
Carrying amount of inventories sold	180,281	191,173
Reversal for write-down of inventories	(682)	(1,875)
Cost of inventories recognised as expenses	179,599	189,298
Auditor's remuneration	810	965
Amortisation of payments for leasehold land held for own use under operating leases (note 16)	–	115
Depreciation charge of:		
– owned property, plant and equipment	2,730	5,656
– right-of-use assets included within		
– ownership interests in leasehold land and buildings held for own use carried at fair value	3,445	–
– ownership interests in leasehold land held for own use carried at cost	710	–
– other properties leased for own use carried at cost	405	–
Exchange loss, net	15	10,852
(Gain)/loss on disposal of property, plant and equipment, net	(42)	5
Expected credit loss on trade receivables	117	175
Research and development expenditure	5,424	5,380
Direct operating expense arising from investment property that generated rental income during the year	471	465

9. STAFF COSTS

	2019 HK$'000	2018 HK$'000
Staff costs (including directors' remuneration as set out in note 13) comprise:		
Wages and salaries	100,759	101,555
Contributions to defined contribution retirement plan	6,759	6,510
	107,518	108,065

The staff costs included an amount of HK$4,724,000 (2018: HK$4,904,000) which is classified as research and development expenditure.

10. INCOME TAX EXPENSE

	2019 HK$'000	2018 HK$'000
Current tax – Hong Kong Profits Tax		
– Provision for the year	1,521	2,782
– Over provision in respect of prior years	(81)	(566)
	1,440	2,216
Current tax – overseas		
– Provision for the year	3,230	2,186
– Under/(over) provision in respect of prior years	101	(403)
	3,331	1,783
Deferred tax expense (note 25)	939	632
	5,710	4,631

Hong Kong Profits Tax is calculated at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong, except for the first HK$2,000,000 of qualified entity's assessable profit is calculated at 8.25%, which is in accordance with the two-tiered profits tax rates regime with effect from the year of assessment 2018/19.

The PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2018: 25%).

The US subsidiaries are subject to US Federal Corporate Income Tax at 21% (2018: 21%).

The Vietnam subsidiary is subject to Vietnam Corporate Income Tax at 20%. No provision for Vietnam Corporate Income Tax has been made as the Vietnam subsidiary has no assessable profits for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

10. INCOME TAX EXPENSE – CONTINUED

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

	2019 HK$'000	2018 HK$'000
Profit before income tax expense	23,353	52,600
Effect of tax at Hong Kong Profits Tax rate of 16.5% (2018: 16.5%)	3,853	8,679
Effect of election of the two-tier profits tax rates	(165)	(165)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(51)	1,199
Tax effect of revenue not taxable for tax purposes	(3,377)	(7,349)
Utilisation of tax losses previously not recognised	(28)	–
Tax effect of expenses not deductible for tax purposes	5,458	3,236
Under/(over) provision in respect of prior years	20	(969)
Income tax expense	5,710	4,631

In addition to the amount charged to the profit or loss, deferred tax relating to the revaluation of the Group's certain leasehold land and buildings for own use during the year has been charged to other comprehensive income.

11. OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income:

	2019			2018		
	Before-tax amount HK$'000	Decrease in deferred tax liabilities (note 25) HK$'000	Net-of-tax amount HK$'000	Before-tax amount HK$'000	Increase in deferred tax liabilities (note 25) HK$'000	Net-of-tax amount HK$'000
Exchange differences on translating foreign operations	(1,637)	–	(1,637)	(2,759)	–	(2,759)
(Deficit)/surplus on revaluation of leasehold land and buildings held for own use	(9,337)	1,489	(7,848)	52,735	(9,061)	43,674
	(10,974)	1,489	(9,485)	49,976	(9,061)	40,915

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following data:

	2019 HK$'000	2018 HK$'000
Profit attributable to owners of the Company	17,643	47,969

	Number of shares	
	2019	2018
Number of ordinary shares in issue	320,000,000	320,000,000

Diluted earnings per share is the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding for both years.

13. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' AND SENIOR MANAGEMENTS' EMOLUMENTS

(a) Details of Directors' remuneration are set out below:

	Year ended 31 December 2019			
	Fees HK$'000	Basic salaries, allowance and other benefits HK$'000	Contributions to defined contribution retirement plan HK$'000	Total HK$'000
Executive directors				
Siu Paul Y. *(Chairman)*	–	7,690	–	7,690
Shui Wai Mei	–	650	–	650
Sheung Shing Fai	–	1,650	–	1,650
Siu Nina Margaret	–	1,500	18	1,518
Independent non-executive directors				
Chung Pui Lam	125	–	–	125
Lee Kit Wah	125	–	–	125
Wong Wah Sang, Derek	80	–	–	80
	330	11,490	18	11,838

13. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' AND SENIOR MANAGEMENTS' EMOLUMENTS – CONTINUED

(a) Details of Directors' remuneration are set out below: – Continued

	Year ended 31 December 2018			
	Fees HK$'000	Basic salaries, allowance and other benefits HK$'000	Contributions to defined contribution retirement plan HK$'000	Total HK$'000
Executive directors				
Siu Paul Y. *(Chairman)*	–	7,690	–	7,690
Shui Wai Mei	–	650	–	650
Sheung Shing Fai	–	1,650	–	1,650
Siu Nina Margaret	–	1,575	18	1,593
Independent non-executive directors				
Chung Pui Lam	125	–	–	125
Lee Kit Wah	125	–	–	125
Wong Wah Sang, Derek	80	–	–	80
	330	11,565	18	11,913

No directors waived any remuneration during the year. No incentive payment or compensation for loss of office was paid or payable to any directors for the year ended 31 December 2019 (2018: Nil).

Basic salaries, allowance and other benefits paid to or payable to the executive directors are generally emoluments paid or payable in connection with the management of the affairs of the Company and its subsidiaries.

13. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' AND SENIOR MANAGEMENTS' EMOLUMENTS – CONTINUED

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments in the Group, four (2018: four) were directors of the Company whose emoluments are included in the disclosures in note 13(a) above. The emoluments of the remaining one (2018: one) individual were as follows:

	2019 HK$'000	2018 HK$'000
Salaries and other benefits	810	817
Contributions to defined contribution retirement plan	18	18
	828	835

During the year, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office.

The emoluments paid or payable to members of senior management excluding directors were within the following band:

	Number of employees	
	2019	2018
Nil to HK$1,000,000	3	2

14. PROPERTY, PLANT AND EQUIPMENT

	Ownership interests in leasehold land and buildings held for own use carried at fair value HK$'000	Ownership interests in leasehold land held for own use carried at cost HK$'000	Other properties leased for own use carried at cost HK$'000	Construction in progress HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation								
At 1 January 2018	222,170	–	–	–	35,375	28,054	7,060	292,659
Additions	–	–	–	–	1,413	708	–	2,121
Disposals	–	–	–	–	(389)	(152)	–	(541)
Surplus on revaluation	49,700	–	–	–	–	–	–	49,700
Exchange adjustment	(733)	–	–	–	(121)	(121)	(13)	(988)
At 31 December 2018	271,137	–	–	–	36,278	28,489	7,047	342,951
Impact of the adoption of HKFRS 16 (note 2(a)(i))	–	6,620	706	–	–	–	–	7,326
At 1 January 2019	271,137	6,620	706	–	36,278	28,489	7,047	350,277
Additions	–	27,089	978	65,133	2,588	359	399	96,546
Disposals	–	–	–	–	(259)	(339)	–	(598)
Deficit on revaluation	(12,951)	–	–	–	–	–	–	(12,951)
Exchange adjustment	(549)	(431)	4	–	(87)	(67)	(8)	(1,138)
At 31 December 2019	257,637	33,278	1,688	65,133	38,520	28,442	7,438	432,136
Accumulated depreciation								
At 1 January 2018	–	–	–	–	32,386	24,967	5,218	62,571
Charge for the year	3,035	–	–	–	1,351	707	563	5,656
Disposals	–	–	–	–	(383)	(151)	–	(534)
Written back on revaluation	(3,035)	–	–	–	–	–	–	(3,035)
Exchange adjustment	–	–	–	–	(110)	(68)	(10)	(188)
At 31 December 2018	–	–	–	–	33,244	25,455	5,771	64,470
Impact of the adoption of HKFRS 16 (note 2(a)(i))	–	3,309	–	–	–	–	–	3,309
1 January 2019	–	3,309	–	–	33,244	25,455	5,771	67,779
Charge for the year	3,614	710	405	–	1,326	666	569	7,290
Disposals	–	–	–	–	(259)	(335)	–	(594)
Written back on revaluation	(3,614)	–	–	–	–	–	–	(3,614)
Exchange adjustment	–	(82)	–	–	(71)	(34)	(8)	(195)
At 31 December 2019	–	3,937	405	–	34,240	25,752	6,332	70,666
Carrying amount								
At 31 December 2019	257,637	29,341	1,283	65,133	4,280	2,690	1,106	361,470
At 31 December 2018	271,137	–	–	–	3,034	3,034	1,276	278,481
Representing:								
2019								
At cost	–	33,278	1,688	65,133	38,520	28,442	7,438	174,499
At valuation	257,637	–	–	–	–	–	–	257,637
	257,637	33,278	1,688	65,133	38,520	28,442	7,438	432,136
2018								
At cost	–	–	–	–	36,278	28,489	7,047	71,814
At valuation	271,137	–	–	–	–	–	–	271,137
	271,137	–	–	–	36,278	28,489	7,047	342,951

14. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

The leasehold land and buildings held by the Group for own use located in Hong Kong and the PRC were valued at 31 December 2019 (2018: 31 December 2018) by qualified valuers from Asset Appraisal Limited, an independent firm of chartered surveyors. The valuations were carried out in accordance with guidance set by the International Valuation Standards 2017 published by the International Valuation Standards Council as well as the HKIS Valuation Standards on Properties, 2017 Edition published by the Hong Kong Institute of Surveyors. The revaluation surplus/(deficit) net of applicable deferred income taxes was credited/(debited) to property revaluation reserve.

The following table analyses the leasehold land and buildings by valuation method:

Fair value hierarchy

	Fair value measurements using significant unobservable inputs (Level 3)	
	31 December 2019 HK$'000	31 December 2018 HK$'000
Recurring fair value measurement		
Property, plant and equipment:		
Leasehold land and buildings in Hong Kong	233,300	246,700
Buildings in the PRC	24,337	24,437
	257,637	271,137

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between Levels 1, 2 and 3 during the year.

14. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

The fair value of leasehold land and buildings is a level 3 recurring fair value measurement using significant unobservable inputs. A reconciliation of the opening and closing fair value balance is provided below.

	Leasehold land and buildings in Hong Kong HK$'000	Buildings in the PRC HK$'000	Total HK$'000
At 1 January 2018	200,900	21,270	222,170
Depreciation charge on revaluation of properties held for own use	(2,702)	(333)	(3,035)
Unrealised gains included in other comprehensive income	48,502	4,233	52,735
Exchange adjustment	–	(733)	(733)
At 31 December 2018 and 1 January 2019	246,700	24,437	271,137
Depreciation charge on revaluation of properties held for own use	(3,445)	(169)	(3,614)
Unrealised (losses)/gains included in other comprehensive income	(9,955)	618	(9,337)
Exchange adjustment	–	(549)	(549)
At 31 December 2019	233,300	24,337	257,637

For leasehold land and buildings in Hong Kong, the valuation was determined using a market comparison approach. The fair value of leasehold land and buildings is based on prices for recent market transactions in similar properties and adjusted to reflect the conditions and locations of the Group's properties. The significant input into this valuation approach is price per square feet, which has been adjusted to reflect the time of transaction, location, size, level and age of property, site view and building quality.

For buildings in the PRC, the valuation was determined using depreciated replacement cost approach. The fair value of buildings is based on estimation of new replacement cost of the buildings and other site works of which adjustments are then made to account for age, condition, and functional obsolescence, while taking into account the site formation cost and those public utilities connection charges to the properties. These adjustments are based on unobservable inputs. The key inputs are estimated cost of construction per square meter and age adjustment on the cost of buildings.

14. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

Information about fair value measurements using significant unobservable inputs (Level 3) is provided below.

Description	Fair value at 31 December 2019	Valuation technique(s)	Significant unobservable inputs	Range of unobservable inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Leasehold land and buildings in Hong Kong	HK$233,300,000 (2018: HK$246,700,000)	Market comparison approach	Age of property factor	(1%)-1% (2018: 0%-1%)	Lower age, higher quality and transaction dates close to valuation date will result in correspondingly higher fair value.
			Quality factor	0% (2018: 0%)	
			Time of transaction factor	(8.3%)-(5.7%) (2018: 0%-11%)	
Buildings in the PRC	HK$24,337,000 (2018: HK$24,437,000)	Depreciated replacement cost approach	Age adjustment on the cost of buildings, taking into account the remaining useful life of buildings.	86% (2018: 58%-84%)	Lower age of buildings will result in correspondingly higher fair value.

There were no changes to the valuation techniques during the year.

The fair value measurements are based on the above properties' highest and best use, which does not differ from their actual use.

Had the Group's leasehold land and buildings been carried at cost less accumulated depreciation, the carrying amount of the Group's leasehold land and buildings as at 31 December 2019 would have been approximately HK$13,975,000 (2018: HK$15,276,000).

14. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

Right-of-use assets

The analysis of the carrying amount of right-of-use assets by class of underlying asset is as follows:

	31 December 2019 HK$'000	1 January 2019 HK$'000
Ownership interests in leasehold land and buildings, carried at fair value in Hong Kong, with remaining lease terms of 50 years or more	233,300	246,700
Ownership interests in leasehold land, carried at depreciated cost in PRC and Vietnam, with remaining lease terms of between 10 and 50 years	29,341	3,311
Other properties leased for own use, carried at depreciated cost	1,283	706
	263,924	250,717

15. INVESTMENT PROPERTY

	2019 HK$'000	2018 HK$'000
Fair value		
At 1 January	103,800	98,500
Change in fair value	(6,000)	5,300
At 31 December	97,800	103,800

The investment property of the Group is held under long-term leases in Hong Kong.

There was no deferred tax for the fair value change of investment property located in Hong Kong as capital gain tax on sale of the investment property is not applicable in Hong Kong and the deferred tax for the fair value change of investment property is dealt with in accordance with the accounting policy set out in note 4(o).

15. INVESTMENT PROPERTY – CONTINUED

The investment property held by the Group was valued by qualified valuers from Asset Appraisal Limited, an independent firm of chartered surveyors. The valuation was carried out in accordance with guidance set by the International Valuation Standards 2017 published by the International Valuation Standards Council as well as the HKIS Valuation Standards on Properties, 2017 Edition published by the Hong Kong Institute of Surveyors.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between Levels 1, 2 and 3 during the year.

The valuation was determined using a market comparison approach. The fair value is based on the prices for recent market transactions in similar properties and adjusted to reflect the condition and location of the Group's investment property. The significant input of this valuation approach is price per square feet, which has been adjusted to reflect the time of transaction, location, size, level and age of the property, site view and building quality.

Information about fair value measurement using significant unobservable inputs (Level 3) is provided below.

Description	Fair value at 31 December 2019	Valuation technique	Significant unobservable inputs	Range of unobservable inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Investment property in Hong Kong	HK$97,800,000 (2018: HK$103,800,000)	Market comparison approach	Floor adjustment factor	(11.5%)-(1.5%) (2018: (5%)-0.5%)	Higher floor will result in correspondingly higher fair value.
			Location adjustment factor	0% (2018: 0%)	Higher rate of location adjustment will result in correspondingly higher fair value.

There were no changes to the valuation methodology during the year.

The fair value measurement is based on the above property's highest and best use, which does not differ from its actual use.

16. PAYMENTS FOR LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

	2019 HK$'000	2018 HK$'000
At 1 January	3,311	3,544
Impact of the adoption of HKFRS 16 (note 2(a)(i))	(3,311)	–
Amortisation for the year	–	(115)
Exchange adjustment	–	(118)
At 31 December	–	3,311
Leases of between 10 to 50 years, held in the PRC	–	3,311

17. GOODWILL

	2019 HK$'000	2018 HK$'000
Cost		
At 1 January and 31 December	9,486	9,486

18. IMPAIRMENT TESTING ON GOODWILL

For the purpose of impairment testing, goodwill is allocated to the single cash-generating unit ("CGU") identified, the magnetic components production.

The recoverable amounts of the CGU have been determined from value-in-use calculations based on cash flow projections from formally approved budgets covering a five-year period. Cash flow beyond the five-year period are extrapolated using an estimated weighted average growth rate of 0% (2018: 0%), which does not exceed the long-term growth rate for the magnetic component production industry. The cash flows are discounted using a discount rate of 16% (2018: 15%). The discount rate used is pre-tax and reflects specific risks relating to the CGU. The growth rate within the five-year period ranging from 0% to 3% (2018: 0% to 3%) have been based on estimation on the Group's similar products.

Based on result of the impairment testing, no impairment loss has been recognised since initial recognition of goodwill.

19. PARTICULARS OF SUBSIDIARIES

The following list contains the particulars of all subsidiaries of the Group:

Name	Place of incorporation	Place of operation	Principal activities	Issued and fully paid share capital/ registered capital	Percentage of ownership interests Directly 2019	Directly 2018	Indirectly 2019	Indirectly 2018
Guardsafe Technology Limited	British Virgin Islands	Hong Kong	Investment holding	US$1,000	100%	100%	–	–
Great Vigour Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	100%	100%	–	–
Musthave Technology Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	–	100%	100%
Think Machine Technology Limited	British Virgin Islands	Hong Kong	Investment holding	US$2	–	–	100%	100%
Century Electronics Trading Limited	Hong Kong	Hong Kong	Trading of electronic components	HK$2	–	–	100%	100%
Datatronic Limited	Hong Kong	Hong Kong	Investment holding and manufacturing and trading of electronic components	HK$10,000 ordinary HK$200,000 non-voting deferred (i)	–	–	100%	100%
連達(廣東)電子有限公司(ii)	The PRC	The PRC	Manufacturing of electronic components	US$8,665,000	–	–	100%	100%
Datatronic Distribution, Inc.	California, the USA	California, the USA	Trading of electronic components	US$1,000	–	–	100%	100%
Champ Asset Limited	Hong Kong	Hong Kong	Property holding	HK$1	–	–	100%	100%
Maxgain Venture Limited	Hong Kong	Hong Kong	Property holding	HK$2	–	–	100%	100%
Datatronic Technology Limited	Hong Kong	Hong Kong	Investment holding	HK$1	–	–	100%	100%
Datatronic Excel Limited	Hong Kong	Hong Kong	Investment holding	HK$1	–	–	100%	100%
連達(中山)科技有限公司(iii)	The PRC	The PRC	Manufacturing of electronic components	US$10,000,000	–	–	100%	100%

19. PARTICULARS OF SUBSIDIARIES – CONTINUED

Name	Place of incorporation	Place of operation	Principal activities	Issued and fully paid share capital/ registered capital	Percentage of ownership interests Directly 2019	Directly 2018	Indirectly 2019	Indirectly 2018
Pulse Tek Trading Limited	Hong Kong	Hong Kong	Trading of electronic components	HK$2	–	–	100%	100%
Innovative Power, Inc.	California, the USA	California, the USA	Manufacturing and trading of electronic components	US$1,000	–	–	100%	100%
Novotech Company Limited (iv)	Socialist Republic of Vietnam	Socialist Republic of Vietnam	Manufacturing of electronic components	VND116,500,000,000	–	–	100%	–

(i) The non-voting deferred shares have no voting rights and are not entitled to any dividend on distribution upon winding up unless a sum of HK$1,000,000,000 has been distributed to each holder of the ordinary shares.

(ii) 連達(廣東)電子有限公司 is a wholly foreign owned enterprise established in the PRC for a term of 30 years up to September 2023.

(iii) 連達(中山)科技有限公司 is a wholly foreign owned enterprise established in the PRC.

(iv) Novotech Company Limited (formerly knowns as Datatronic Vietnam Company Limited), an indirectly wholly owned subsidiary, was incorporated on 14 January 2019.

20. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	49,367	45,078
Work-in-progress	4,868	4,840
Finished goods	25,385	26,268
	79,620	76,186

The Group's inventories with an aggregate carrying amount of approximately HK$6,053,000 (2018: HK$7,034,000) was stated at net realisable value.

21. TRADE RECEIVABLES

Customers are generally offered a credit period ranging from 30 days to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

(a) An ageing analysis of trade receivables, based on invoice dates, as at the end of the reporting period is as follows:

	2019 HK$'000	2018 HK$'000
Within 30 days	18,057	21,629
31 to 60 days	9,177	10,893
61 to 90 days	4,442	4,216
Over 90 days	1,931	854
	33,607	37,592
Less: Loss allowances for impairment	(517)	(459)
	33,090	37,133

(b) The movements in the loss allowances for impairment of trade receivables are as follows:

	2019 HK$'000	2018 HK$'000
At 1 January	459	296
Uncollectible amounts written off	(43)	–
Recovery of impairment loss previously recognised	(16)	(12)
Expected credit loss	117	175
At 31 December	517	459

The Group recognised impairment loss based on the accounting policy stated in note 4(j)(ii). Further details of impairment analysis under HKFRS 9 performed on the Group's trade receivables are set out in note 32(i).

22. AMOUNTS DUE FROM/(TO) ULTIMATE HOLDING COMPANY AND RELATED COMPANIES

Particulars of the amounts due from ultimate holding company and related companies, disclosed are as follows:

	31 December		Maximum amount outstanding during the year ended 31 December	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
Ultimate holding company				
Onboard Technology Limited	91	84	91	84
Related companies				
Data Express Limited*	105	89	105	89
Citicheer Enterprise Inc*	98	85	98	85
	203	174		

The amounts due from/(to) ultimate holding company and related companies are unsecured, interest-free and repayable on demand.

* Mr. Siu Paul Y., a director of the Company, has controlling interest in Data Express Limited and Citicheer Enterprise Inc.

23. TRADE AND OTHER PAYABLES

	2019 HK$'000	2018 HK$'000
Trade payables	11,171	13,524
Other payables and accruals	12,450	10,358
Fee and retention payables for construction of manufacturing plants	16,879	–
	40,500	23,882

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

	2019 HK$'000	2018 HK$'000
Within 30 days	5,795	6,448
31 to 60 days	3,378	4,340
61 to 90 days	1,062	1,858
Over 90 days	936	878
	11,171	13,524

24. EMPLOYEE BENEFITS

Details of the employee benefits and movements thereof:

	Provision for long service payments	
	2019 HK$'000	2018 HK$'000
At the beginning of the year	19,450	19,985
Exchange adjustments	(324)	(543)
Add: Additional provision made	426	134
Less: Reversal of provision	(746)	(126)
At the end of the year	18,806	19,450
Categorised as:		
Due after more than one year	18,806	19,450

The provision for long service payments of Hong Kong and the PRC employees is provided based on the actual number of years of services rendered by the employee and the relevant laws and regulations. The provision will be settled at the time when the respective employee left the Group.

25. DEFERRED TAX

Details of the deferred tax liabilities and assets recognised and movements thereof:

	Revaluation of leasehold land and buildings for own use HK$'000	Depreciation allowances in excess of the related depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2018	31,591	982	(2,191)	30,382
(Credit)/debit to profit or loss (note 10)	(404)	11	1,025	632
Debit to other comprehensive income (note 11)	9,061	–	–	9,061
At 31 December 2018 and 1 January	40,248	993	(1,166)	40,075
(Credit)/debit to profit or loss (note 10)	(610)	543	1,006	939
Credit to other comprehensive income (note 11)	(1,489)	–	–	(1,489)
At 31 December 2019	38,149	1,536	(160)	39,525

For the purpose of presentation in consolidated statement of financial position. The following is the analysis of the deferred tax balances for financial reporting purpose:

	2019 HK$'000	2018 HK$'000
Deferred tax asset	160	1,166
Deferred tax liabilities	(39,685)	(41,241)
	(39,525)	(40,075)

26. SHARE CAPITAL

	2019 HK$'000	2018 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.1 each	100,000	100,000
Issued and fully paid:		
320,000,000 ordinary shares of HK$0.1 each	32,000	32,000

27. RESERVES

(a) Company

	Share premium (note (c)(i)) HK$'000	Contributed surplus (note (c)(v)) HK$'000	Accumulated losses (note (c)(vi)) HK$'000	Total HK$'000
At 1 January 2018	57,099	89,606	(79,811)	66,894
Changes in equity for 2018:				
Dividends paid (note b(i))	–	–	(10,240)	(10,240)
Profit and total comprehensive income for the year	–	–	8,938	8,938
At 31 December 2018 and 1 January 2019	57,099	89,606	(81,113)	65,592
Changes in equity for 2019:				
Dividends paid (note b(i))	–	–	(4,800)	(4,800)
Profit and total comprehensive income for the year	–	–	6,800	6,800
At 31 December 2019	57,099	89,606	(79,113)	67,592

27. RESERVES – CONTINUED

(b) Dividends

(i) Dividends paid during the year:

	2019 HK$'000	2018 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK$0.015 (2018: HK$0.022) per ordinary share	4,800	7,040
Interim, declared and paid, of Nil (2018: HK$0.01) per ordinary share	–	3,200
	4,800	10,240

(ii) Dividend proposed in respect of the current year:

	2019 HK$'000	2018 HK$'000
Final, proposed, of HK$0.02 (2018: HK$0.015) per ordinary share	6,400	4,800

The final dividend for the year proposed after the end of the reporting period is subject to shareholders' approval in the forthcoming general meeting. It has not been recognised as a liability at the end of the reporting period.

(c) Nature and purpose of reserves

(i) Share premium

The share premium account represents the excess of the nominal value of the ordinary shares issued by the Company and the net proceeds from the issuance of ordinary shares after deduction of the share issuing expenses.

(ii) Capital reserve

Capital reserve of the Group represents the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of subsidiaries acquired through exchanges of shares pursuant to the reorganisation.

27. RESERVES – CONTINUED

(c) Nature and purpose of reserves – Continued

(iii) Property revaluation reserve

Property revaluation reserve represents gains/losses arising on the revaluation of properties held for own use.

(iv) Exchange reserve

The reserve represents the exchange difference arising from the translation of foreign operations. The reserve is dealt with accordance with the accounting policy set out in note 4(p).

(v) Contributed surplus

Contributed surplus of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the reorganisation.

(vi) Retained earnings/accumulated losses

Cumulative net gains and losses recognised in profit or loss.

Under the Companies Act 1981 of Bermuda (as amended), retained earnings and contributed surplus are distributable to owners of the Company, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of retained earnings and contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

28. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

(a) Related party transactions, which also constitute connected transactions as defined in Chapter 14A of the Listing Rules, included in the consolidated statement of comprehensive income as follows:

	2019 HK$'000	2018 HK$'000
Datatronics Romoland, Inc. ("DRI")#		
Sales to DRI	49,656	64,112
Reimbursement of expenses to DRI	8,378	4,132

Mr. Siu Paul Y., a director of the Company, has controlling interest in DRI.

(b) Related party balances included in the consolidated statement of financial position:

	2019 HK$'000	2018 HK$'000
Year-end balance included in trade receivables arising from sales of goods to DRI	426	556
Year-end balance arising from advance payment due from ultimate holding company		
– Onboard Technology Limited (Note 22)	91	84
Year-end balance arising from advance payment due from related companies:		
– Data Express Limited (Note 22*)	105	89
– Citicheer Enterprise Inc (Note 22*)	98	85
Year-end balance arising from advance from DRI	523	–

(c) Key management personnel remuneration of the Group

	2019 HK$'000	2018 HK$'000
Short-term employee benefits	11,490	11,565
Post-employment benefits	18	18
	11,508	11,583

The key management personnel of the Group are the executive directors of the Group.

29. LEASES

HKFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see note 2(a). The accounting policies applied subsequent to the date of initial application, 1 January 2019, as disclosed in note 4(i).

Nature of leasing activities (in the capacity as lessee)

The Group leases a number of properties in the jurisdictions from which it operates. Leases of property comprise only fixed payments over the lease term.

Lease liabilities

	Buildings HK$'000
At 1 January 2019	706
Additions	978
Interest expense	30
Lease payments	(423)
Exchange adjustment	4
At 31 December 2019	1,295

29. LEASES – CONTINUED

Lease liabilities – Continued

Future lease payments are due as follows:

31 December 2019	Minimum lease payments HK$'000	Interest HK$'000	Present value HK$'000
Not later than one year	480	(44)	436
Later than one year and not later than two years	479	(25)	454
Later than two years and not later than five years	412	(7)	405
	1,371	(76)	1,295

1 January 2019 (note)	Minimum lease payments HK$'000	Interest HK$'000	Present value HK$'00
Not later than one year	410	(24)	386
Later than one year and not later than two years	186	(8)	178
Later than two years and not later than five years	149	(7)	142
	745	(39)	706

Note:

The Group has initially applied HKFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. See note 2(a) for further details about transition.

29. LEASES – CONTINUED

Lease liabilities – Continued

The present value of future lease payments are analysed as:

	2019 HK$'000
Current liabilities	436
Non-current liabilities	859
	1,295

	2019 HK$'000
Interest on lease liabilities	30
Short-term leases expenses	604

Operating lease – lessee

The Group leased its office premises under operating leases during the year. The leases run for an initial period of 1 to 4 years. Lease payments are negotiated to reflect market rentals. There are no contingent rentals under the operating lease.

The lease payments recognised as an expense are as follows:

	2018 HK$'000
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	439

The total future minimum lease payments are due as follows:

	2018 HK$'000
Within one year	207
In the second to the fifth year	223
	430

29. LEASES – CONTINUED

Operating lease – lessor

The Group's investment property is leased to a tenant under an operating lease. At the end of the year, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2019 HK$'000	2018 HK$'000
Within one year	2,976	2,976
In the second to the fifth year	192	3,168
	3,168	6,144

30. CAPITAL COMMITMENTS

	2019 HK$'000	2018 HK$'000
Commitment in respect of manufacturing plants	91,104	114,943
Commitment for acquisition of a property	–	24,494
Commitments for purchases of machinery and equipment	1,320	484
	92,424	139,921

31. THE COMPANY'S STATEMENT OF FINANCIAL POSITION

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Interests in subsidiaries		113,606	113,606
		113,606	113,606
Current assets			
Prepayments, deposits and other receivables		134	108
Cash and cash equivalents		92	115
		226	223
Current liabilities			
Amounts due to subsidiaries		14,137	16,135
Trade and other payables		103	102
		14,240	16,237
Net current liabilities		(14,014)	(16,014)
NET ASSETS		99,592	97,592
Equity			
Share capital	26	32,000	32,000
Reserves	27	67,592	65,592
TOTAL EQUITY		99,592	97,592

On behalf of the Board of Directors

Siu Paul Y.
Director

Shui Wai Mei
Director

32. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include, cash and cash equivalents, trade and other receivables, trade and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk and currency risk. The Group does not hold or issue derivative financial instruments either for hedging or trading purposes. The policies on how to mitigate these risks are set out as below.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Credit risk

As at 31 December 2019, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

Trade receivables

In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industries and countries in which customers operate and therefore significant concentration of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, the Group has a certain concentration of credit risk as approximately 14% (2018: 19%) and 71% (2018: 66%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

In order to minimise risk, the management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is performed on all customers periodically. These evaluations focus on the customer's past history of making payments when due and current liability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not require collateral in respect of its financial assets. Debts are usually due within 90 days from the date of billing.

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

32. FINANCIAL RISK MANAGEMENT – CONTINUED

(i) Credit risk – Continued

Trade receivables – Continued

The following table provides information about the Group's maximum exposure to credit risk and ECLs for trade receivables:

2019	Expected loss rate (%)	Gross carrying amount (HK$'000)	Loss allowance (HK$'000)
Current (not past due)	0.18%-3.11%	19,334	199
1-30 days past due	0.67%-3.61%	8,245	122
31-60 days past due	1.16%-4.10%	4,121	92
61-90 days past due	3.13%-6.07%	29	1
More than 90 days past due	5.10%-8.04%	1,878	103
		33,607	517

2018	Expected loss rate (%)	Gross carrying amount (HK$'000)	Loss allowance (HK$'000)
Current (not past due)	0%-3.1%	23,841	224
1-30 days past due	0.5%-3.6%	9,681	146
31-60 days past due	1.0%-4.1%	3,437	52
61-90 days past due	3.0%-6.0%	479	26
More than 90 days past due	5.0%-8.0%	154	11
		37,592	459

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the group's view of economic conditions over the expected lives of the receivables.

Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with the financial institutions with established credit rating. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

32. FINANCIAL RISK MANAGEMENT – CONTINUED

(ii) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demand, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient amount of cash to meet its liquidity requirements in the short and longer term.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be demanded for repayment. The table includes both interest and principal cash flows.

	2019			
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 5 year HK$'000
Trade and other payables	38,486	38,486	38,486	–
Amount due to a related party	523	523	523	–
Lease liabilities	1,295	1,371	480	891
	40,304	40,380	39,489	891

	2018			
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 5 year HK$'000
Trade and other payables	23,882	23,882	23,882	–

32. FINANCIAL RISK MANAGEMENT – CONTINUED

(iii) Fair value and cash flow interest rate risks

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Group has no interest-bearing liabilities, the Group's expenses and financing cash flows are independent of changes in market interest rates.

The Group is exposed to cash flow interest rate risks as the Group has cash at banks which are interest-earning at variable rates. The management monitors interest rate exposures and considered that there is no significant impact on cash flow interest rate risk.

At 31 December 2019, it is estimated that a general increase/decrease of 30 basis points in interest rates, with all other variables held constant, would have insignificant impact on the profit after tax or equity of the Group at the end of respective reporting periods. The 30 basis points increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period.

(iv) Currency risk

Presently, there is no hedging policy with respect to the foreign exchange exposure. The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of operation to which they relate.

(a) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The Group is mainly exposed to the fluctuation of United States dollars, Renminbi, Euro and Pound Sterling. For presentation purposes, the amounts of the exposure are shown in HK$, translated using the spot rate at the year-end date.

32. FINANCIAL RISK MANAGEMENT – CONTINUED

(iv) Currency risk – Continued

(a) Exposure to currency risk – Continued

	2019			
	United States dollars HK$'000	Renminbi HK$'000	Pound Sterling HK$'000	Euro HK$'000
Cash and cash equivalents	191,674	88,672	1,135	2,155
Trade and other receivables	13,500	169	–	–
Trade and other payables	(3,262)	(25)	–	–
Overall exposure arising from recognised assets and liabilities	201,912	88,816	1,135	2,155

	2018			
	United States dollars HK$'000	Renminbi HK$'000	Pound Sterling HK$'000	Euro HK$'000
Cash and cash equivalents	151,089	195,474	1,106	2,523
Trade and other receivables	8,349	25,619	–	–
Trade and other payables	(2,680)	(53)	–	–
Overall exposure arising from recognised assets and liabilities	156,758	221,040	1,106	2,523

(b) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained earnings) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period.

32. FINANCIAL RISK MANAGEMENT – CONTINUED

(iv) Currency risk – Continued

(b) Sensitivity analysis – Continued

	2019		2018	
	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained earnings HK$'000	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained earnings HK$'000
Monetary net assets denominated in Renminbi	3%	2,664	3%	5,863
	(3%)	(2,664)	(3%)	(5,863)

Other components of consolidated equity would not be affected (2018: Nil) by the changes in foreign exchange rates.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to currency risk for non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next annual reporting period. In this respect, it is assumed that the pegged rate between the HK$ and the United States dollars would be materially unaffected by any changes in movement in value of the United States dollars against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities profit after tax and equity measured in the respective functional currencies, translated into HK$ at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2018.

The foreign exchange rates movement between Pound Sterling, Euro and HK$ has insignificant impact to the results and financial positions of the Group.

(v) Fair values

The directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

33. CAPITAL RISK MANAGEMENT

The Group regards the equity attributable to the Company's owners, comprising issued share capital, share premium, retained earnings and other reserves as its capital structure. The Group's objective when managing capital structure is to ensure that entities in the Group will be able to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Total debt is calculated as the total of trade and other payables, amount due to a related party, lease liabilities and provision of employee benefits. Capital includes equity attributable to owners of the Company.

	2019 HK$'000	2018 HK$'000
Total debt	61,124	43,332
Less: Cash and cash equivalents	(333,776)	(404,991)
Net debt	(272,652)	(361,659)
Equity attributable to the owners of the Company	864,140	860,782
Total capital plus net debt	591,488	499,123
Gearing ratio	(46%)	(73%)

34. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amount of financial assets and liabilities as defined in notes 4(j)(i) and 4(j)(iii):

	Carrying amount	
	2019 HK$'000	2018 HK$'000
Financial assets		
Financial assets measured at amortised cost		
– Cash and cash equivalents	333,776	404,991
– Trade receivables	33,090	37,133
– Deposits and other receivables	1,626	3,185
– Amount due from ultimate holding company	91	84
– Amounts due from related companies	203	174
	368,786	445,567
Financial liabilities		
Financial liabilities measured at amortised cost		
– Trade and other payables	38,486	23,882
– Amount due to a related company	523	–
– Lease liabilities	1,295	–
	40,304	23,882

35. NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Amount due to a related party HK$'000	Lease liabilities (note 29) HK$'000	Dividend payable (note 27(b)) HK$'000	Total HK$'000
At 1 January 2018	–	–	–	–
Changes from cash flow:				
Dividends paid	–	–	(10,240)	(10,240)
Non-cash change:				
Dividends declared	–	–	10,240	10,240
At 31 December 2018	–	–	–	–
Impact of the adoption of HKFRS 16 (note 2(a)(i))	–	706	–	706
At 1 January 2019	–	706	–	706
Changes from cash flows:				
Dividends paid	–	–	(4,800)	(4,800)
Lease payments	–	(423)	–	(423)
Advance from	523	–	–	523
Non-cash changes:				
Dividends declared	–	–	4,800	4,800
Interest expenses	–	30	–	30
Increase in lease liabilities from entering into new leases during the period	–	978	–	978
Exchange adjustment	–	4	–	4
At 31 December 2019	523	1,295	–	1,818

36. PAYMENTS FOR ACQUISITION OF A LAND USE RIGHT AND A PROPERTY

	Notes	2019 HK$'000	2018 HK$'000
Payment for acquisition of a land use right	(a)	–	12,190
Payments for acquisition of a property	(b)	34,666	11,002
		34,666	23,192

Notes:

(a) The Group entered into a contract to acquire a land use right in respect of a piece of land located in Zhongshan City, the PRC, on 21 December 2018. The acquisition was completed on 4 January 2019 and the land use right certificate was issued to the Group on 24 January 2019. The payment of HK$12,190,000 was then transferred to "Ownership interests in leasehold land held for own use carried at cost" under "Property, plant and equipment".

(b) The payments represent a sum of approximately HK$34,282,000 (2018: HK$10,617,000) paid for acquisition of a property in the district of Foshan, Guangdong Province, the PRC, and payment amounting to approximately HK$384,000 (2018: HK$384,000) in respect of non-refundable building maintenance and repair fund for such property.

37. EVENTS AFTER THE REPORTING DATE

The Coronavirus outbreak poses a serious public health threat. In response, the Chinese Government has taken a number of actions, including the isolation of certain cities in areas most significantly affected, an extension of public holidays, and restrictions on the movement of people. The operation of factory located in Shunde has been affected and suspended for a period of time in February 2020. Up to the date of approval of these financial statements, the operation of factory has been resumed.

38. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25 March 2020.

FINANCIAL SUMMARY

For the year ended 31 December 2019

The consolidated statements of profit or loss and other comprehensive income of the Group for the financial years 2015 to 2019 and the consolidated statements of financial position of the Group as at 31 December 2015, 2016, 2017, 2018 and 2019 are as follows:

	Year ended 31 December				
Results	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	2019 HK$'000
Revenue	279,696	266,967	280,964	312,644	284,225
Profit before taxation	5,826	25,769	43,134	52,600	23,353
Income tax	(3,024)	(3,845)	(43)	(4,631)	(5,710)
Profit for the year	2,802	21,924	43,091	47,969	17,643
Attributable to:					
Owners of the Company	2,802	21,924	43,091	47,969	17,643

	At 31 December				
Assets and liabilities	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	2019 HK$'000
Total assets	791,593	796,149	858,948	947,412	968,751
Total liabilities	(66,918)	(66,679)	(76,810)	(86,630)	(104,611)
Total equity	724,675	729,470	782,138	860,782	864,140

Major land and buildings held by the Group

Location	Existing usage	Term of lease	Percentage of interest
Hong Kong			
499 King's Road North Point Hong Kong	Office	Long term	100%
8 Russell Street Causeway Bay	Investment property	Long term	100%
Overseas			
A parcel of industrial land at Lun Jian Town, Shunde District, Fushan City, Guangdong Province, PRC	Industrial	Medium term	100%
A parcel of industrial land at Banfu Town, Zhongshan City, Guangdong Province, PRC	Industrial	Medium term	100%
A parcel of industrial land at Ba Thien II Industrial Park, Binh Xuyen District, Vinh Phuc Province, Vietnam	Industrial	Medium term	100%