芯成科技
-SINO ICT-

SINO ICT HOLDINGS LIMITED
芯成科技控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 365

PILOT DREAMS OF
FUTURE SUCCESS

Annual Report 2019

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. DU Yang *(Chairman)*
(appointed on 5 November 2019)
Mr. YUAN I-Pei
(appointed on 5 November 2019)
Mr. XIA Yuan *(Chief Executive Officer)*
Mr. ZHANG Yadong
(resigned on 4 November 2019)
Mr. ZHENG Bo
(resigned on 4 November 2019)

Non-executive Directors

Mr. LI Jinxian
(appointed on 5 November 2019)
Mr. LI Yongjun
(appointed on 5 November 2019)
Mr. LI Zhongxiang
(resigned on 4 November 2019)
Mr. QI Lian
(resigned on 4 November 2019)

Independent Non-executive Directors

Mr. CUI Yuzhi
Mr. BAO Yi
Mr. PING Fan

Audit Committee

Mr. CUI Yuzhi *(Chairman)*
Mr. LI Jinxian
(appointed on 5 November 2019)
Mr. BAO Yi
Mr. LI Zhongxiang
(resigned on 4 November 2019)

Remuneration Committee

Mr. BAO Yi *(Chairman)*
Mr. YUAN I-Pei
(appointed on 5 November 2019)
Mr. PING Fan
Mr. QI Lian
(resigned on 4 November 2019)

Nomination Committee

Mr. DU Yang *(Chairman)*
(appointed on 5 November 2019)
Mr. CUI Yuzhi
Mr. PING Fan
Mr. ZHANG Yadong
(resigned on 4 November 2019)

Company Secretary

Mr. LIU Wei

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Place of Business

Unit 02-03, 69/F
International Commerce Centre
1 Austin Road West
Tsim Sha Tsui
Kowloon
Hong Kong

Principal Banker

DBS Bank (Hong Kong) Limited
Units 1208-18 Miramar Tower
132-134 Nathan Road
Tsim Sha Tsui, Kowloon
Hong Kong

Auditor

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central, Hong Kong

Principal Share Registrar and transfer Office

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

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

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Sino ICT Holdings Limited (the "Company" or "Sino ICT"), I hereby present the report on the audited results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2019.

Overview

Looking back at 2019, the economy of Hong Kong as well as the world experienced unprecedented challenges. The ongoing China-US trade disputes affected business confidence and economic activities around the world to a certain extent, and the uncertainty of Brexit weighed on regional and EU economic growth. All of these factors caused a slowdown in the global economy, decelerating the pace of economic recovery. Fortunately, with the progress of the China-US trade negotiations, the trade disputes that have lasted for nearly two years were alleviated, bringing positive expectations for global trade. The shift of central banks' stance towards more accommodative monetary policies also mitigated the impact imposed by the global situation on the sentiment and activities of financial market, and the global economic downturn was generally improved by the end of 2019.

In the context of slowing global economic growth, the electronic equipment manufacturing industry was the out-performer in 2019. As China has officially entered the first year of 5G commercial use, technologies such as 5G communication, automotive electronics and wearable smart devices will achieve greater availability, and the SMT equipment manufacturing industry will be benefited accordingly. The development of artificial intelligence will accelerate social intelligentisation and bring new room for development for the semiconductor industry. During the year, the Group was determined to do operation and planning of its self-developed SMT equipment business, actively improved the internal management policies and reduced the operating and administrative expenses, which further enhanced the competitiveness of the Group. In the future, in line with the development trend of the industry, the Group will actively expand into the semiconductor intelligent equipment industry and develop into an integrated service provider for SMT and semiconductor intelligent equipment.

Business Review

In 2019, a number of financial data of the Group have improved significantly as compared to 2018. During the year, the Group's revenue was approximately HK$201,163,000, representing a year-on-year increase of 181.53%, and gross profit was approximately HK$84,324,000, representing a year-on-year increase of 249.06%. During the year, the Group actively improved its internal management and recorded a year-on-year decrease of approximately 4.94% and 7.33% in distribution costs and administrative costs respectively. Also, with the significant improvement in overall operation, the total comprehensive loss for the year declined to approximately HK$13,355,000, representing a year-on-year decrease of approximately 90.07%.

During the year, the Group was principally engaged in SMT equipment manufacturing and related business, and securities investment business. China's high-tech industry is undergoing consolidation. With the survival of the fittest, leading players will further seize the market share. As a leading SMT equipment manufacturer in China, the Group was also benefited, and saw stabilisation in its SMT equipment manufacturing and related business as well as increase in fixed assets and overseas orders. As compared with the same period last year, the SMT equipment manufacturing and related business segment only recorded a slight decrease in revenue of approximately 0.73% to approximately HK$180,170,000, while the gross profit margin of the segment further increased to 35%.

For the securities investment business, the Group focused on investments in Hong Kong listed companies in the semiconductor and technology industries. In 2019, despite being hampered by the global economic downturn, a recovery of the Hong Kong stock market was driven by the positive signs showed in the trade negotiations between China and the US, decrease in economic uncertainties, and the monetary easing policies gradually introduced by major central banks around the world. During the year, the securities investment segment recorded a gain of approximately HK$20,234,000.

On 17 September 2019, Unis Technology Strategy Investment Limited, the former controlling shareholder of the Company, entered into a share purchase agreement with Sino Xin Ding Limited ("Sino Xin Ding") and Beijing Unis Capital Management Co., Ltd., pursuant to which Sino Xin Ding officially became the controlling shareholder of the Group, holding 67.847% interests in the Company, immediately after the abovementioned share purchase agreement completed on 4 November 2019. In the future, the Group will leverage the resources of the new shareholders in the semiconductor industry to connect internal resources at the business level to create synergies, and actively expand into the semiconductor intelligent equipment industry with higher technological content and greater economic added value.

Industry Trends

For the past ten years, the artificial intelligence industry in China has developed rapidly. Artificial intelligence technology has been looking for application opportunities in the real economy and it has been substantially integrated with the business model and business process of traditional industries, and the industrial layout of the era of intelligent economy has gradually emerged. The market size of the artificial intelligence industry has been increasing year by year since 2015, and it is forecasted that the market size of artificial intelligence in China will reach RMB71 billion by 2020, representing a five-year compound annual growth rate of 44.50%[1].

The traditional electronic equipment market is becoming saturated, but the more mature emerging technologies are gradually injecting new momentum to the growth of the industry. Mini LED and Micro LED are created in accordance with the development of LED chips, which are developing into smaller sizes. The mass production of Mini LED in small-scale was achieved in 2019[2], and the product will enter the field of small displays such as wearables, mobile phones and computers in the future. Although the sales of automobiles in China declined in 2019, with the recovery of the macro economy, it is expected to stabilise and reach 25,930,000 units in 2020[3], which will benefit the automobile electronics industry. As China has officially entered the first year of 5G commercial use, wearable devices such as smart watches and smart headsets have become another booming market after smartphones. The global shipments of smart wearable devices are expected to reach 453 million units by 2022, representing a four-year compound annual growth rate of 26.20%, which indicates a huge room for industry growth[4]. The continuous emergence of new applications have also driven the development of the semiconductor industry. The world has ushered in the data era since 2010. In the future, the development of industrial applications such as artificial intelligence, 5G mobile communication, autonomous driving and Internet of Things will take people to the real intelligent world. The semiconductor industry is expected to experience a new round of prosperity.

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1 2017 China's AI Industry Data Report by the China Academy of Information and Communications Technology

2 Huajin Securities Research Institute

3 Welcoming Strong Players; Achieving Progress amid Stability by the automobile research team of Huatai Research Institute

4 Guosheng Securities Research Institute

Outlook

Looking ahead to 2020, global trade will continue to face challenges. The spread of COVID-19 has gradually shown its impact on China's economy. In particular, the delay in production resumption of export and manufacturing enterprises will inevitably hinder the industry growth in the coming year and the market demand will fall simultaneously, resulting in a tightening of consumption and investment. The financial market has also been affected and high volatility has been seen in the stock market. With COVID-19 spreading over the world, its impact on the economy will also extend to overseas, and the public fear of the epidemic adds uncertainties to the global economy which had shown initial signs of recovery. The Group is also cautious about the world's economic and trading trends as well as industry development in the coming year. In response to the global economic headwinds, the Group will mainly aim to maintain stable operation in the coming year, and follow the development trends of the industry to continue to improve the SMT equipment manufacturing and related business. The Group will consolidate its advantages of independent research and development and enhance its competitiveness in the industry, with a view to minimising the impact of the epidemic and economic slowdown on the business development of the Group. At the same time, the Group will seize opportunities and leverage the huge influence and capital advantages of its shareholders in the semiconductor industry to actively expand into the semiconductor intelligent equipment industry through independent research and development, capital operation and cooperation with third parties, so as to become a leading enterprise in domestic intelligent equipment manufacturing.

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to the management, all staff members and business partners of Sino ICT for their hard work and trust, as well as the shareholders for their continuous support to the Group.

Du Yang
Chairman

Hong Kong
31 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the Group was mainly engaged in SMT equipment manufacturing and related business, and securities investment business.

During the year, the Group continued to work conscientiously in the field of SMT equipment manufacturing and worked hard to cultivate its brand value and brand culture. Meanwhile, because of the changes of the global economic environment, the management was cautious in managing securities investment business, for the purpose of achieving the goal of maximising shareholders' interest. Comparing with the previous year, the Group recorded a significantly lower consolidated net loss in the amount of approximately HK$13,355,000 for the year, representing a year-on-year decrease of 90.07%. The decrease in loss was mainly attributable to the stable operation in the SMT equipment manufacturing segment, as well as the marked improvement in the performance of the securities investment segment.

SMT Equipment Manufacturing and Related Business

SMT (Surfaced Mounting Technology) is an electronic assembly technology which uses welding devices to solder surface mount components to the surface of a printed circuit board (PCB) to achieve electrical connection. It is mainly used in the field of micro-device manufacturing with high density and high integration characteristics, such as computers, mobile communications and consumer electronic equipment. The Group is one of the first leading enterprises to enter the SMT equipment manufacturing industry in Mainland China. It focuses on the design and development of its own-brand and has accumulated technological advantages and significant brand influence.

Looking back to 2019, the overall growth of the SMT industry slowed down as a result of the decreasing demand of downstream electronics industries involving mobile phones and automotive electronics, and multiple adverse factors affecting the industry, such as macroeconomic shocks. Given that market conditions are not as expected, the management effectively controlled the operating costs from the perspective of stable operation while continued to broaden the product market, taking promoting the long-term and healthy development of the Group as its primary goal. As of 31 December 2019, the SMT equipment manufacturing segment recorded sales revenue of approximately HK$180,170,000, which was a slight decrease of 0.73% compared to approximately HK$181,497,000 in the same period last year. As for the comprehensive gross profit margin of the segment, it was 35%, representing an increase of 5% from 30% in the same period last year. It was a year-on-year increase for the second consecutive year.

SMT Equipment Manufacturing and Related Business (Continued)

In terms of operation management and control, the Group continued to focus on strictly implementing credit management policies, improving its ability of cost control, and strengthening its effective management of financial and human resources. In the current year, the distribution costs of the segment decreased by 4.94% compared with the previous year, while the average debtors turnover days and the average creditors turnover days also decreased compared with the same period of the previous year, reflecting the continuous strengthening of the management and control capabilities. The management also worked on inventory management to actively ultilise the working capital. As at 31 December 2019, the Group's inventory amounted to approximately HK$27,786,000, which was a significant decrease of 23.63% compared to approximately HK$36,385,000 of the previous year, and the average inventory turnover days were reduced by 6 days year-on-year.

As an integrated service provider of SMT and semiconductor intelligent equipment, the management knows well that the strong self-developed equipment is the fundamental driver of a corporate's long-term development. Since 2018, the Group has focused on the design, research and development, production and sales of its own-brand equipment, and has continuously introduced new intelligent equipment that meets market needs. The Group has won industry-wide awareness and reputation. In response to the new trends and new requirements of the electronics manufacturing industry, the Group launched a number of new equipment during the year, including OLED linear motor modules for the OLED industry, new wave soldering machine and reflow soldering machine (oven) developed in response to manufacturers' flexibility requirements, and selective wave soldering machine with camera functions and high-speed dispensers. All these newly introduced equipment further expanded the product line of the own-brand equipment. Throughout 2019, the Group added one invention patent, five utility patents, and three authorised appearance patents. The total number of patents held by the Group was about seventy, and such patents contributed to the Group's independent innovation.

Improving equipment awareness and consolidating the dominant position in the industry are important for building the brand value. In 2019, the Group continued to adhere to the "Go Out" strategy and actively participated in large-scale domestic and foreign exhibitions, including the 29th International Electronics Manufacturing and Microelectronics Industry Exhibition (NEPCON2019) in Shanghai, the Asian Electronics Production Equipment and Microelectronics Industry Expo in Shenzhen, the South China International Industrial Automation Expo and the Shenzhen Electronic Equipment Expo, as well as the Munich Electronic Production Equipment Exhibition in Germany. Such participation in these expos has effectively promoted the Group's equipment and facilitated exchanges within the industry. Meanwhile, the Company's subsidiaries were awarded numerous titles such as "SMT Segmentation Leading Enterprise in Shenzhen's Equipment Industry", "5G Industry and Technology Association Member", "Demonstration Enterprise of the 5G Communication Manufacturing Industry Community". Such titles show that we have deepened our influence in the industry.

SMT Equipment Manufacturing and Related Business (Continued)

In 2019, affected by the atmosphere of global trade, varying degrees of adjustments were seen in the upstream and downstream of the industry. This was mainly reflected in increased industry concentration, the increasing demand for independent research and development capabilities, and the migration of some downstream manufacturers' production lines to Southeast Asia. All of the above have brought new market breakthroughs for medium and large SMT equipment manufacturers. However, in early 2020, the global economy is overshadowed by an uncertainty due to the epidemic, and the cross-border trading environment has not shown a fundamental improvement, posing challenges to business operations. However, looking at the entire electronic equipment manufacturing market, we can still see vigorous growth momentum. It includes the industry-wide equipment replacement requirements brought by 5G construction, the development of the automotive electronics industry driven by new energy vehicles, and consumption demand contributed from increasingly intelligent and miniaturised wearable devices. The management believes that short-term unfavorable factors will not undermine the foundation for the long-term development of the industry, and the Group should be adequately prepared for a market rebound in the future. Therefore, while the Group will be steadfast in developing its own-brand SMT equipment, it intends to gradually extend its business scope to semiconductor equipment manufacturing, making the Group a leading integrated semiconductor intelligent equipment service platform.

Securities Investment Business

The Group currently manages its securities business with a low-frequency trading strategy. The main investments of this business segment are in high-tech companies listed on the Stock Exchange, focusing on high-quality companies in the industries of communications equipment, semiconductor, Internet, computer and software, as such companies can bring synergy effects for the Group's core business. For the year ended 31 December 2019, the securities investment segment recorded a gain of approximately HK$20,234,000, representing a remarkable turnaround from the loss of HK$112,682,000 for the same period last year.

Securities Investment Business (Continued)

The management will continue to manage this business segment with a cautious attitude, and we will reply on a strict reporting mechanism to monitor every investment activity strictly so that the investments are safe.

Name of investee	Total investment gain/(loss) for the year ended 31 December 2019 *HK$'000*
SMIC (stock code: 981.hk)	32,963
GOME FIN TECH (stock code: 628.hk)	33
GUODIAN TECH (stock code: 1296.hk)	(44)
LEGEND HOLDINGS (stock code: 3396.hk)	(12,718)
	20,234

During the year, the Group did not dispose any of the afore-said shares.

The Group's investments in above-mentioned securities were recorded as financial assets at fair value through profit or loss on the consolidated balance sheet, which amounted to approximately HK$157,573,000 as at 31 December 2019.

Name of investee	Financial assets at fair value through profit or loss as at 31 December 2019 *HK$'000*	Percentage of total financial assets at fair value through profit or loss %
SMIC	77,323	49.07
GOME FIN TECH	272	0.17
GUODIAN TECH	241	0.15
LEGEND HOLDINGS	79,737	50.61
	157,573	100

FINANCIAL REVIEW

Income

In 2019, the Group recorded a total income of approximately HK$201,163,000. An analysis of the income by business segments is as follows:

	Year ended 31 December 2019 (Audited) *HK$'000*	Year ended 31 December 2018 (Audited) *HK$'000*
SMT equipment manufacturing and related business	180,170	181,497
Terminated operations	—	23
Securities investment	20,234	(112,682)
Unallocated activities	759	2,615
Total	201,163	71,453

Other gains

During the year, the Group recorded other gains of approximately HK$14,401,000, representing an increase of approximately 134.81% compared to that of last year. The increase was mainly generated from newly added rental income of approximately HK$5,917,000 and government grants of approximately HK$6,925,000. Other gains also included revenue from sales of scraps of approximately HK$85,000, cash dividends of approximately HK$1,384,000, and other income of approximately HK$90,000.

Distribution costs

During the year, the Group recorded distribution costs of approximately HK$35,534,000, representing a decrease of approximately 4.94% compared to that of last year.

Administrative costs

During the year, the administrative costs amounted to approximately HK$61,813,000, representing a decrease of approximately 7.33% compared to that of last year. The administrative costs were mainly consisted of labour costs of approximately HK$23,000,000 and rental of approximately HK$9,425,000.

FINANCIAL REVIEW (Continued)

Finance costs

During the year, the net finance costs amounted to approximately HK$17,484,000, representing an increase of approximately HK$5,034,000 compared to that of last year, mainly attributable to the amortisation of interest expense on bonds, and the interest expenses on borrowings.

Loss for the year

As a result of the foregoing, the loss attributable to the equity holders of the Company for the year was approximately HK$13,573,000, representing a significant decrease of approximately 88.96% compared with the loss of approximately HK$122,919,000 for year 2018.

Profit/(loss) before interest, tax, depreciation and amortization

The following table illustrates the Group's profit/(loss) before interest, tax, depreciation and amortisation for the respective years. The Group's profit before interest, tax, depreciation and amortisation ratio was approximately 8.97% for the year.

	Year ended 31 December 2019 *HK$'000*	Year ended 31 December 2018 *HK$'000*
Loss for the year attributable to equity holders of the Company	(13,573)	(122,919)
Finance costs, net	17,484	12,450
Income tax expense/(credit)	4,068	(20,822)
Depreciation and amortisation	10,074	9,200
Profit/(loss) before interest, tax, depreciation and amortisation	18,053	(122,091)

Liquidity, financial resources and gearing ratio

The Group has maintained sufficient operating capital. As at 31 December 2019, the net current assets of the Group amounted to approximately HK$300,225,000, and the liquidity ratio of the Group was maintained at about 1.18, which was sufficient to support the ordinary operation of the Group. With reference to total borrowings over equity attributable to the equity holders of the Company as at 31 December 2019, the gearing ratio of the Group was 32.07%.

As of 31 December 2019, the borrowings balance of the Group was approximately HK$100,958,000.

FINANCIAL REVIEW (Continued)

Operating capital management

As at 31 December 2019, the Group held cash and cash equivalents of approximately HK$43,408,000, representing an increase of approximately HK$103,000 compared with HK$43,305,000 as at the beginning of the year. The Group's average inventory turnover days were approximately 100 days, representing a decrease of 6 days compared with that of last year (31 December 2018: 106 days), the average debtors turnover days were 57 days, representing a decrase of 13 days compared with that of last year (31 December 2018: 70 days), and the average creditors turnover days were approximately 104 days, representing a decrease of 10 days compared with that of last year (31 December 2018: 114 days).

Capital expenditure on property, plant and equipment

During the year, the total capital expenditure was approximately HK$4,191,000, in which approximately HK$123,000 was on the purchase of machinery and equipment, and approximately HK$2,918,000 was on the renovation and decoration of office.

Charges on the Group's assets

As at 31 December 2019, the Group's banking facilities including its import/export loan, letter of credit, documentary credits, trust receipt and bank borrowings were secured by:

(i) a first legal charge on certain of the Group's land and properties, which had an aggregate net carrying value at the balance sheet date of approximately HK$81,171,000.

Equity and liabilities

As at 31 December 2019, the Group's net assets amounted to HK$314,769,000. The decrease in net assets during the year as compared with the net assets of HK$328,124,000 as at 31 December 2018 was mainly attributed to loss for the year.

PRINCIPAL RISKS AND UNCERTAINTIES

Operational risk

The Group is exposed to operational risk in relation to each business segment of the Group. To manage operational risk, the management of each business segment is responsible for monitoring the operation and assessing operational risk of their respective business segments. They are responsible for implementing the Group's risk management policies and procedures and shall report any irregularities in connection with the operation of the projects to the Directors and seek directions.

The Group emphasises on ethical value and prevention of fraud and bribery, and has established a whistleblower program, including communication with other departments and business segments and units, to report any irregularities. In this regard, the Directors consider that the Group's operational risk is effectively mitigated.

Financial risk

The Group is exposed to credit risk, liquidity risk, foreign exchange risk, and price risk, etc,.

Credit risk

In order to minimise credit risk, the Directors closely monitor the overall level of credit exposure and the management is responsible for the determination of credit approvals and monitoring the implementation of the collection procedure to ensure that follow-up actions are taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses have been made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk has been significantly reduced.

Liquidity risk

The Directors have built an appropriate liquidity risk management framework to meet the Group's short, medium and long-term funding and liquidity management requirements. In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In this regard, the Directors consider that the Group's liquidity risk has been effectively managed.

PRINCIPAL RISKS AND UNCERTAINTIES (Continued)

Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency risks as its certain business, assets and liabilities are denominated in Renminbi, Hong Kong dollar, and US dollar. During the year, the Group did not utilise any financial instruments for hedging purposes, and the Group will continue to closely monitor its foreign exchange risk associated to the currencies, and will take appropriate hedging measures when necessary.

Price risk

Since the business of the Group's securities investment segment is derived from the investment in stocks listed on the Main Board of the Stock Exchange, the price fluctuations of the shares held by the Group will affect the Group's after-tax profits. In order to manage the risk of fluctuations of securities price, the Group will diversify its investment portfolio according to the historical fluctuations of the stocks held and the risk control policies of the Company to avoid or reduce the risks arising from stock price fluctuations.

HUMAN RESOURCES

As at 31 December 2019, the Group employed approximately 304 full-time employees and workers in Mainland China, and employed approximately 22 employees in Hong Kong. The Group continues to maintain and enhance the capability of its employees by providing sufficient regular training to them. The Group remunerates its employees based on the industry's practice. In Mainland China, the Group provides employee benefits and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, the Group provides staff benefits including retirement scheme and performance related bonuses.

Corporate Governance Practices

The Company acknowledges the importance of good corporate governance practices and procedures and regards a pre-eminent board of directors, sound internal controls and accountability to all shareholders as the core elements of its corporate governance principles. The Company endeavours to ensure that its businesses are conducted in accordance with rules and regulations, and applicable codes and standards. The Company has adopted the Code Provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules.

The Board periodically reviews the corporate governance practices of the Company to ensure its continuous compliance with the Code. The Company was in compliance with the Code for the year ended 31 December 2019, except for the following deviation.

Code Provision A.6.7

Pursuant to Code Provision A.6.7, generally independent non-executive directors and other non-executive directors shall attend general meetings to gain and develop a balanced understanding of the views of shareholders. The Company held the annual general meeting on 30 May 2019, however, the independent non-executive Directors Mr. Cui Yuzhi, Mr. Bao Yi and Mr. Ping Fan, and the non-executive Directors Mr. Li Zhongxiang (former Director) and Mr. Qi Lian (former Director) were absent from the meeting due to other business commitments. The afore-mentioned three independent non-executive Directors and non-executive Directors Mr. Li Jinxian and Mr. Li Yongjun were abstained from the special general meeting held on 25 November 2019 due to other business commitments. To ensure compliance with the Code in the future and to enhance the communication between the Directors and the shareholders, the Company had arranged and will continue to arrange to furnish all Directors with appropriate information on all general meetings and take all reasonable measures to arrange the meeting schedule in such a cautious way that all Directors can attend the general meetings.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors of the Company. Having made specific enquiry of all Directors, the Company confirmed that they had complied with the required standard as set out in the Model Code for the year.

Board of Directors

The Board, headed by the Chairman, is responsible for the oversight of the management of the business and affairs of the Company with the objective of enhancing shareholder value. It is responsible for the formulation and the approval of the Group's development and business strategies and policies, approval of annual budgets and business plans, recommendation of dividend, and supervision of management in accordance with the governing rules. The management of the Company is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

The Board of the Company comprises a total of eight Directors, with three executive Directors, two non-executive Directors and three independent non-executive Directors. More than one-third of the Board members are independent non-executive Directors and not less than one of them have appropriate professional qualifications of accounting or related financial management expertise. The composition of the Board is shown on page 23 under the section "Attendance Record at Meetings" in this report. Biographies of the Directors are set out on pages 30 to 32 under the section "Directors Profile" in this annual report.

Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the independent non-executive Directors are independent in accordance with the Listing Rules.

Directors are provided with complete, adequate explanation and information to enable them to make an informed decision or assessment of the Company's performance, position and prospects and to discharge their duties and responsibilities on a timely basis. The Directors, to properly discharge their duties, are given access to independent professional advisers, when necessary, at the expense of the Company.

Regular board meetings are scheduled to be held at approximately quarterly intervals for reviewing and approving the financial statements and operating performance, and considering and approving the strategies and policies of the Company.

Corporate Governance Functions

The Board is responsible for performing the corporate governance functions set out in the Code Provision D.3.1 of the Code.

Board of Directors (Continued)

Corporate Governance Functions (Continued)

The Board has reviewed the Company's corporate governance policies and practices, trainings and continuing professional development of Directors and the senior management personnel, the Company's policies and practices on compliance with legal and regulatory requirements, and the Company's compliance with the Code and disclosure in this report.

Continuing Professional Development

The Directors have undergone satisfactory training throughout the year and provided the training record to the Company. During the year ended 31 December 2019, the training record of the Directors are set out below:

	Corporate Governance/ update on laws, rules and regulations	
Directors	Reading Materials	Attend Seminars, Briefings and Conferences
Executive Directors		
Mr. DU Yang *(Chairman)**	✓	✓
Mr. YUAN I-Pei*	✓	✓
Mr. XIA Yuan *(Chief Executive Officer)*	✓	✓
Mr. ZHANG Yadong (resigned) *	✓	✓
Mr. ZHENG Bo (resigned) *	✓	✓
Non-executive Directors		
Mr. LI Jinxian*	✓	✓
Mr. LI Yongjun*	✓	✓
Mr. LI Zhongxiang (resigned) *	✓	✓
Mr. QI Lian (resigned) *	✓	✓
Independent Non-executive Directors		
Mr. CUI Yuzhi	✓	✓
Mr. BAO Yi	✓	✓
Mr. PING Fan	✓	✓

Note:

According to the announcement of the Company dated 4 November 2019, Mr. ZHANG Yadong, Mr. LI Zhongxiang, Mr. QI Lian and Mr. ZHENG Bo had resigned their directorships with effect from 11:59 p.m. on Monday, 4 November 2019, and Mr. DU Yang, Mr. YUAN I-Pei, Mr. LI Jinxian and Mr. LI Yongjun had been appointed as Directors of the Company with effect from 12:00 a.m. on Tuesday, 5 November 2019.

Board of Directors (Continued)

Directors' and officers' insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Chairman and Chief Executive Officer

The Company complies with the Code Provision A.2.1 which stipulates that the role of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual at the same time.

For the year ended 31 December 2019, the role of Chairman of the Group was served by Mr. Du Yang (since 5 November) and Mr. Zhang Yadong (resigned on 4 November 2019), respectively, and the role of Chief Executive Officer of the Group was served by Mr. Xia Yuan.

Nomination Committee

The Company has established a Nomination Committee in accordance with the requirements of the Code for the purpose of reviewing the structure, size and composition of the Board on an annual basis to ensure the composition of the Board meets the requirements of board diversity and is commensurate with the corporate governance needs necessary for the Company's development; identifying suitable candidates to become Directors and making recommendation to the Board; assessing the independence of independent non-executive Directors; advising the Board in respect of the appointment or re-appointment of Directors; and regularly reviewing the Nomination Policy for Directors.

The Nomination Committee currently comprise three members, namely executive Director Mr. Du Yang (serving as the committee chairman since 5 November 2019), and independent non-executive Directors Mr. Cui Yuzhi and Mr. Ping Fan. Mr. Zhang Yadong, the former chairman of the committee, resigned as a Director of the Company on 4 November 2019.

During the year ended 31 December 2019, the Nomination Committee met four times and the attendance records of each member are set out in the section "Attendance Record at Meetings" in this report. The Nomination Committee has considered and provided the Board with the following proposals:

(a) Review on the structure, size and composition of the Board of the Company with a view to making recommendations on the Nomination Policy for Directors and the Board Diversity Policy;

(b) Recommendations on the appointment and re-appointment of Directors and the signing of contracts in connection therewith;

Board of Directors (Continued)

Nomination Committee (Continued)

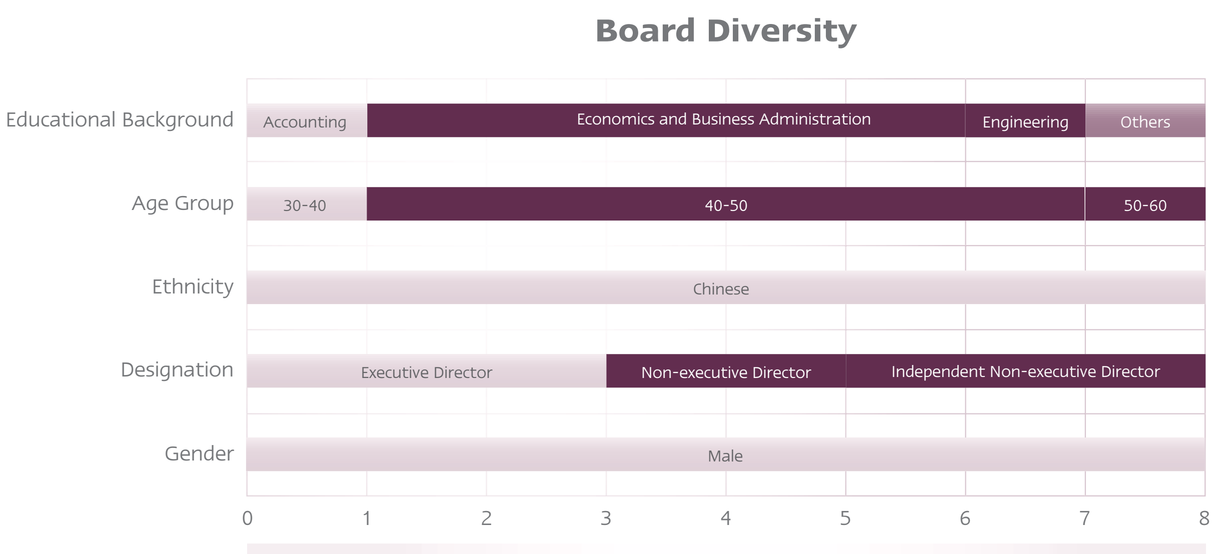
(c) Assessment on the independence of the independent non-executive Directors; and

(d) Recommendations on the remuneration and appointment of senior management.

The Board Diversity Policy and the Nomination Policy have been adopted by the Board since 2018 to reflect the new Code requirements effective from 1 January 2019 under the Listing Rules.

Board Diversity Policy

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, the Board diversity has been considered from a wide range of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, and any other factors that the Board may consider relevant and applicable from time to time. High emphasis is placed on ensuring a balanced composition of skills and experience at the Board level in order to provide a range of viewpoints and perspectives, insights and challenge that enable the Board to discharge its duties and responsibilities effectively, support good decision making in view of the core businesses and strategy of the Group, and support succession planning and development of the Board.



Note: as at 31 December 2019

Board of Directors (Continued)

Nomination Committee (Continued)

Nomination Policy

The Nomination Committee advises the Board on the appointment of Directors and the succession plan for the Directors. In assessing the candidates, it will refer to the candidate's reputation, achievements and experience in the industry, the time available and the interests of the relevant sectors, and diversity in all aspects of the Board and so on. The appointment of any proposed candidate to the Board or reappointment of any existing member(s) of the Board shall be made in accordance with the Company's Articles of Association and other applicable rules and regulations.

The Nomination Committee will review the Board Diversity Policy and the Nomination Policy in due course and make recommendations to the Board for approval regarding any revisions to the Policies. The Board Diversity Policy and the Nomination Policy can be viewed under the column of Investor Relations of the Company's website at www.sino-ict.com.

Remuneration Committee

The Company has established a Remuneration Committee in accordance with the requirements of the Code for the purpose of reviewing the remuneration policy of the Directors and senior management and determining the remuneration packages of all Directors and senior management. The Remuneration Committee comprises three members, namely two independent non-executive Directors Mr. Bao Yi (the committee chairman) and Mr. Ping Fan, and executive Director Mr. Yuan I-Pei (serving as the committee member since 5 November 2019). Mr. Qi Lian, a former committee member, resigned as a Director of the Company on 4 November 2019.

During the year ended 31 December 2019, the Remuneration Committee met four times and the attendance records of each member are set out in the section "Attendance Record at Meetings" in this report. The Nomination Committee has considered and provided the Board with the following proposals:

(a) Review on the remuneration policies of the Directors and senior management of the Company;

(b) Recommendations on the remuneration of newly appointed Directors, existing Directors and the management to the Board; and

(c) Review on and approval of the annual performance bonus schemes and the granting of discretionary bonus to both management and other employees of the Company.

Board of Directors (Continued)

Remuneration Committee (Continued)

The Remuneration Committee is to determine, with responsibility delegated by the Board, the remuneration packages of individual executive Directors. Further particulars in relation to Directors' remuneration and the five individuals with highest emoluments as required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in Note 36 and Note 9 to the consolidated financial statements.

Audit Committee

The Audit Committee comprises three members, namely independent non-executive Directors Mr. Cui Yuzhi (the committee chairman) and Mr. Bao Yi, and non-executive Director Mr. Li Jinxian. Mr. Li Zhongxiang, a former committee member, resigned as a Director of the Company on 4 November 2019.

The main responsibilities of the Audit Committee include reviewing the financial reporting system, risk management and internal control system of the Group and reporting to the Board; reviewing the financial information of the Company, which includes review of the completeness of the financial statements, annual reports and accounts, interim reports of the Company, as well as the review of the significant advice related to financial reporting as set out in the statements and reports; making recommendations to the Board on the appointment, re-appointment and removal of the external auditor as well as the remuneration and the employment terms of the external auditor; reviewing the Group's annual audit plan; monitoring the work procedures and the independence of the external auditor; reviewing the Company's compliance with the requirements of laws and the Listing Rules, and engaging independent legal or other advisers as it determines necessary.

During the year ended 31 December 2019, the Audit Committee met three times and the attendance records of each member are set out in the section "Attendance Record at Meetings" in this report. The Audit Committee has considered and provided the Board with the following proposals:

(a) Review on the draft annual and interim financial statements and the draft results announcements during the year;

(b) Review on the remuneration of the external auditor and making recommendations to the Board;

(c) Recommendations to the Board in relation to the re-appointment of the external auditor; and

(d) Review on the audit plan proposed by the external auditor.

Board of Directors (Continued)

Attendance Record at Meetings

The attendance records of each Director at the Board meetings, Audit Committee meetings, Remuneration Committee meetings, Nomination Committee meetings and general meetings during the year ended 31 December 2019 are set out in the following table:

Directors	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings	Annual General Meetings	Special General Meetings
Number of meeting held	8	3	4	4	1	1
Executive Directors						
Mr. DU Yang *(Chairman)**	2/2	N/A	N/A	1/1	N/A	0/1
Mr. YUAN I-Pei*	2/2	N/A	1/1	N/A	N/A	1/1
Mr. XIA Yuan *(Chief Executive Officer)*	8/8	N/A	N/A	N/A	1/1	0/1
Mr. ZHANG Yadong*	6/6	N/A	N/A	3/3	0/1	N/A
Mr. ZHENG Bo*	6/6	N/A	N/A	N/A	0/1	N/A
Non-executive Directors						
Mr. LI Jinxian*	2/2	1/1	N/A	N/A	N/A	0/1
Mr. LI Yongjun*	2/2	N/A	N/A	N/A	N/A	0/1
Mr. LI Zhongxiang*	6/6	2/2	N/A	N/A	0/1	N/A
Mr. QI Lian*	6/6	N/A	3/3	N/A	0/1	N/A
Independent Non-executive Directors						
Mr. CUI Yuzhi	8/8	3/3	N/A	4/4	0/1	0/1
Mr. BAO Yi	8/8	3/3	4/4	N/A	0/1	0/1
Mr. PING Fan	8/8	N/A	4/4	4/4	0/1	0/1

Note:

According to the announcement of the Company dated 4 November 2019, Mr. ZHANG Yadong, Mr. LI Zhongxiang, Mr. QI Lian and Mr. ZHENG Bo had resigned their directorships with effect from 11:59 p.m. on Monday, 4 November 2019, and Mr. DU Yang, Mr. YUAN I-Pei, Mr. LI Jinxian and Mr. LI Yongjun had been appointed as Directors of the Company with effect from 12:00 a.m. on Tuesday, 5 November 2019.

Auditor's Remuneration

For the year ended 31 December 2019, the remuneration paid to the Company's auditor, PricewaterhouseCoopers, is set out as follows:

Services rendered	Fee paid/ payable *HK$'000*
Audit services	2,166
	2,166

Company Secretary

The Company Secretary, Mr. Liu Wei, is an employee of the Company who has knowledge of the Company's daily operations affairs.

For the year ended 31 December 2019, the Company Secretary attended not less than fifteen hours of relevant professional training to update his skills and knowledge.

Directors' responsibility statement

The Directors acknowledge their responsibility for preparing financial statements for each financial year which give a true and fair view the state of affairs of the Company and the Group's results and its cash flows.

The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and it is appropriate to adopt the going concern basis in preparing the financial statements.

Auditor's responsibility statement

The auditor's responsibilities on the consolidated financial statements of the Group are set out in the Independent Auditor's Report on pages 48 to 54.

Risk Management and Internal Control

The Board is responsible for ensuring the establishment and maintenance of an appropriate and effective risk management and internal control system of the Group. The Group has established its internal control system to ensure that: (i) management structure and relevant authority are defined to evaluate the Group's risks and to achieve the division goals and overall business objectives, (ii) proper accounting records are maintained for the provision of financial information for internal analysis or for publication; and (iii) complied with relevant legislation and regulations.

Specifically, the Group adopts a three-level risk management approach to identify, assess, reduce and deal with risks, from which a top-down and group-wide risk management system is derived. Under the level-1 risk management, subsidiaries shall identify, assess and monitor risks related to their own businesses or transactions; under the level-2 risk management, the Group shall define the risk management rules, and provide technical and resource support; and under level-3 risk management, the internal audit department shall ensure existence and effectiveness of level-1 and level-2 risk management through continuous inspection and monitoring. In respect of the internal control, the Group has developed an internal control system with reference to COSO reporting principles, which involves five elements: internal environment, risk assessment, monitoring activities, information and communication, and internal supervision. Internal control aims to reasonably ensure the compliance and legality of the Company's operation and management, security of asset, truthfulness and integrity of financial reports and relevant information, to improve the efficiency and effectiveness of business activities, and to implement the development strategy of the Group.

In 2019, the Company invested more resources in building and improving its risk management and internal control system based on the internal control self-assessment in the previous year to continuously enhance of the risk management awareness of the employees. During the reporting period, the Company focused its internal control function on the front-end of the businesses and more actively supported the healthy and sustainable development of the businesses; listed significant risks at the business level by the steps of collecting, consolidating, assessing, analysing and evaluating, and ensured that appropriate risk response strategies and control measures had been adopted; conducted regular analysis and assessment of the response to the significant risks to determine the nature and extent of risks that are acceptable to the Group in order to achieve its corporate objectives, and ensured that significant risks were controlled to an acceptable level.

Risk Management and Internal Control (Continued)

The Board understands that it should be responsible for risk management and internal control systems and reviewing the effectiveness. These systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against no material misstatement or loss. For the year ended 31 December 2019, the Board has reviewed the effectiveness of the Group's internal control system in aspects of finance, operation and compliance controls and the risk management function of the Group, and has formulated feasible corrective measures for the defects in the design and implementation of internal control found in the assessment. Improve the ability of internal control to prevent risks and promote management through continuous improvement in the internal control system and process. During the year, the Board also reviewed the Group's resources, staff qualifications and experience in training programmes and budget of the issuer's accounting, internal audit and financial reporting functions. The Board confirms that the risk management and internal control system is effective and sufficient resources are available.

Shareholders' Rights

Procedures for Shareholders to convene a Special General Meeting ("SGM")

Pursuant to the Company's bye-laws and the Companies Act 1981 of Bermuda ("Company Act"), registered Shareholders holding not less that one-tenth (10%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company ("SGM Requisitionists") can deposit a written request to convene a SGM at the registered office of the Company ("Registered Office"), which is presently situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The SGM Requisitionists must state in their request(s) the purposes of the SGM and such request(s) must be signed by all the SGM Requisitionists and may consist of several documents in like form, each signed by one or more of the SGM Requisitionists.

The Share Registrars will verify the SGM Requisitionists' particulars in the SGM Requisitionists' request. Promptly after confirmation from the Share Registrars that the SGM Requisitionists' request is in order, the Company Secretary will arrange with the Board to convene a SGM by serving sufficient notice to all the registered Shareholders in accordance with all the relevant statutory and regulatory requirements. On the contrary, if the SGM Requisitionists' request is verified not in order, the SGM Requisitionists will be advised of the outcome and accordingly, a SGM will not be convened as requested.

Shareholders' Rights (Continued)

Procedures for Shareholders to convene a Special General Meeting ("SGM") (Continued)

The SGM Requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a SGM if within twenty-one days of the deposit of the SGM Requisitionists' request, the Board does not proceed duly to convene a SGM provided that any SGM so convened is held within three months from the date of the original SGM Requisitionists' request. A SGM so convened by the SGM Requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Company.

Procedures for shareholders to put forward proposals at a general meeting

Pursuant to the Companies Act, either any number of the registered Shareholders holding not less than one-twentieth (5%) of the paid-up capital of the Company carrying the right of voting at general meetings of the Company ("Requisitionists"), or not less than 100 of such registered Shareholders, can request the Company in writing to (a) give to Shareholders entitled to receive notice of the next general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and (b) circulate to Shareholders entitled to have notice of any general meeting any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

The requisition signed by all the Requisitionists may consist of several documents in like form, each signed by one or more of the Requisitionists; and it must by deposited at the Registered Office with a sum reasonably sufficient to meet the Company's relevant expenses, not less than six weeks before the meeting in case of a requisition requiring notice of a resolution or not less than one week before the meeting in case of a requisition requiring notice of a resolution or not less than one week before the meeting in the case of any other requisition. Provided that if an AGM is called for a date six weeks or less after the requisition has been deposited, the requisition though not deposited within the time required shall be deemed to have been properly deposited for the purposes thereof.

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

As regards the procedures for proposing a person for election as a Director, please refer to the session of Investor/Shareholder Enquiry under the column of Investor Relations of the Company's website at www.sino-ict.com.

Shareholders' Rights (Continued)

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:

The Company Secretary
Mr. Liu Wei
Unit 02-03, 69/F,
International Commerce Centre,
1 Austin Road West,
Tsim Sha Tsui,
Kowloon, Hong Kong

Fax: (852) 2343 3120
Email: enquiry@sino-ict.com

Shareholders may also make enquiries with the Board at the general meetings of the Company.

Constitutional Documents

During the reporting period, there had not been changes in the memorandum and articles of Association of the Company. The Memorandum and Articles of Association have already been posted on the session of Bye-laws under the column of Investor Relations of the Company's website at www.sino-ict.com for the investors' viewing.

FIVE YEAR FINANCIAL SUMMARY

A Summary of the results and of the assets and liabilities of the Group for the past five years as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below:

	Year ended 31 December			Nine months ended 31 December	Year ended 31 March	
	2019	2018	2017	2016	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS						
Revenue	201,163	71,453	253,028	268,360	727,213	838,203
(Loss)/profit before tax	(9,505)	(144,851)	57,925	(581,472)	(8,869)	4,321
Income tax (costs)/credit	(4,068)	20,822	(6,356)	(21,679)	433	(1,786)
(Loss)/profit for the year attributable to the equity holders of the Company	(13,573)	(122,919)	51,569	(603,151)	(8,436)	2,535

	As at 31 December				As at 31 March	
	2019	2018	2017	2016	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES						
Total assets	731,271	671,247	771,732	952,640	754,522	824,379
Total liabilities	416,502	343,123	309,151	(1,148,403)	(435,342)	(481,327)
	314,769	328,124	462,581	(195,763)	319,180	343,052

Executive Directors

Mr. Du Yang, aged 42, serves as Executive Director, Chairman of the Board and Chairman of Nomination Committee of the Company. Mr. Du Yang serves as the Investment Director of Sino IC Capital Co., Ltd. (華芯投資管理有限責任公司), and concurrently serves as the General Manager of Sino IC Capital Co., Ltd., Shanghai Branch (華芯投資管理有限責任公司上海分公司) since October 2015. He is also currently the Legal Representative, Chairman and General Manager of Sino IC Leasing Co., Ltd (芯鑫融資租賃有限責任有限公司) and the Chairman of UNIC Capital Management Co., Ltd. (中青芯鑫(蘇州工業園區)資產管理有限責任公司), which is the actual controlling shareholder of the Company. In addition, Mr. Du Yang is a Non-executive Director of Hua Hong Semiconductor Limited (華虹半導體有限公司), a company listed on the Stock Exchange (stock code: 1347.hk), and a Director of Shanghai Integrated Circuit Industry Investment Fund Co., Ltd. (上海集成電路產業投資基金股份有限公司) and Shanghai Semiconductor Equipment and Materials Industry Investment Management Co., Ltd (上海半導體裝備材料產業投資管理有限公司). In 2014, Mr. Du Yang participated in the founding of the China Integrated Circuit Industry Investment Fund (國家集成電路產業投資基金) and was appointed as the Operating Director of its management company, Sino IC Capital Co., Ltd. (華芯投資管理有限責任公司). Prior to that, Mr. Du Yang has worked for the Bank of China and the China Development Bank. Mr. Du Yang holds a bachelor's degree in Chinese Language & Literature from Fudan University (復旦大學) in the PRC, a master's degree in Business Administration from Nagoya University of Commerce & Business (名古屋商業大學) in Japan, a master's degree in Financial Management from University of Salford, Manchester in the United Kingdom and an EMBA from the PBC School of Finance at Tsinghua University (清華大學五道口金融學院). In 2015, he qualified as a senior economist.

Mr. Yuan I-Pei, aged 48, serves as Executive Director and member of Remuneration Committee of the Company. Mr. Yuan I-Pei is currently the Executive Vice President of Sino IC Leasing Co., Ltd (芯鑫融資租賃有限責任有限公司) and the President of UNIC Capital Management Co., Ltd. (中青芯鑫(蘇州工業園區)資產管理有限責任公司). Mr. Yuan I-Pei began his career in 1996 and was employed in various international banks, such as Citibank, CTBC Bank (中國信託銀行) and Barclays. He was previously the Vice President of Temasek Fullerton Financial Holdings Pte. Ltd. (淡馬錫富登金融控股私人有限公司), a Director of Australia and New Zealand Banking Group, and the Vice President of the Bank of Tianjin (天津銀行). Mr. Yuan I-Pei holds a bachelor's degree in Economics from National Tsing Hua University (國立清華大學) in Taiwan, China and a master's degree in Business Administration from the University of Wisconsin-Madison in the United States.

Executive Directors (Continued)

Mr. Xia Yuan, aged 39, serves as Executive Director and Chief Executive Officer of the Company. He holds a doctoral degree in Communication Studies from Zhejiang University (浙江大學), an EMBA from the PBC School of Finance at Tsinghua University (清華大學五道口金融學院) and a master's degree in Marketing Communication from Bournemouth University. Mr. Xia Yuan served as the Assistant General Manager of Beijing Tong Ren Tang Health Pharmaceutical Co. Ltd. (北京同仁堂健康藥業股份有限公司), the Vice President, and Assistant to President of China Great Wall Computer (H. K.) Holdings Limited (中國長城計算機(香港)控股有限公司), a Sales Engineer and a Sales Manager at Huawei Technologies Co. Ltd. (華為技術有限公司). Mr. Xia has over 10 years of experiences in strategic planning, marketing and capital operations.

Non-executive Directors

Mr. Li Jinxian, aged 46, serves as Non-executive Director and member of Audit Committee. Mr. Li Jinxian is currently the Executive Vice President of UNIC Capital Management Co., Ltd (中青芯鑫(蘇州工業園區)資產管理有限責任公司). Prior to joining UNIC Capital Management Co., Ltd. (中青芯鑫(蘇州工業園區)資產管理有限責任公司), he worked in China Agriculture, Farming and Fishery International Cooperation Co., Ltd. (中國農牧漁業國際合作公司), China Cinda Asset Management Co., Ltd. (中國信達資產管理公司), Morgan Stanley Asset Services China Co., Ltd. (摩根士丹利資產服務中國有限公司) and Cathay Consulting Beijing Co., Ltd. (CATHAY顧問北京有限公司), which is wholly-owned by Deutsche Bank. Mr. Li Jinxian was also previously the Managing Director of Guokai Ruohua Industry Investment Fund Management Co., Ltd. (國開熔華產業投資基金管理有限責任公司). Mr. Li Jinxian holds a bachelor's degree in Economics from the Capital University of Economics and Business (首都經濟貿易大學) in the PRC and a part-time postgraduate degree with an expertise in technical economics from Renmin University of China (中國人民大學) in the PRC.

Mr. Li Yongjun, aged 47, serves as Non-executive Director of the Company. Mr. Li Yongjun is currently the Executive President and founding partner of Shanghai Pudong Science and Technology Investment Co., Ltd. (上海浦東科技投資有限公司), the Director of Shanghai Wanye Enterprise Co., Ltd. (上海萬業企業股份有限公司), the President of Shanghai Semiconductor Equipment and Materials Industry Investment Management Co., Ltd. (上海半導體裝備材料產業投資管理有限公司) and the Director of Shanghai Phichem Material Co., Ltd. (上海飛凱光電材料有限公司) (stock code: 300398.sz). Prior to his current positions, Mr. Li Yongjun worked in Shanghai Pudong New Area Science and Technology Committee (上海市浦東新區科學技術委員會), Shanghai Pudong Productivity Promotion Centre (上海浦東生產力促進中心), Shanghai Pudong Science and Technology Information Centre (上海市浦東科技資訊中心) and Pudong New Area Science & Technology Bureau High-Tech Industrialization Department (浦東新區科技局高新技術產業化處). In addition, he was previously the General Manager of Otsuka (China) Investment

Co., Ltd. (大塚(中國) 投資有限公司), the General Manager of Shanghai Pudong Science and Technology Investment Co., Ltd. (上海浦東科技投資有限公司), the Vice Chairman of Shanghai Wanye Enterprise Co., Ltd. (上海萬業企業股份有限公司), the Chairman of Shanghai Xinmei Real Estate Co., Ltd. (上海新梅置業股份有限公司), successively. Mr. Li Yongjun holds a doctorate postgraduate degree from Shanghai Jiao Tong University (上海交通大學) in the PRC.

Independent Non-executive Directors

Mr. Cui Yuzhi, aged 54, serves as Independent Non-executive Director, Chairman of Audit Committee and member of Nomination Committee of the Company. Mr. Cui Yuzhi is a seasoned independent investment advisor. He holds a Bachelor of Science degree in Applied Physics from the University of Notre Dame (graduated with highest honour), and MBA from the University of Chicago Booth School of Business. Mr. Cui Yuzhi has more than 20 years' experience in finance with deep expertise in international capital market and enterprise operations. Mr. Cui Yuzhi held senior positions at various organisations, including the Executive President of Tendcare Medical Group, the Portfolio Manager at Atlantis Investment Hong Kong, the General Manager of investment and operations at Renhe Commercial (stock code: 1387.hk), the CFO of Zhong An Real Estate (stock code: 672.hk), the CFO of Excellence Group, the CFO of Treasury Holdings China Limited and the Vice President of Shanghai Forte Group.

Mr. Bao Yi, aged 44, serves as Independent Non-executive Director, Chairman of Remuneration Committee and member of Audit Committee of the Company. Mr. Bao Yi is currently the Chairman of Cedarlake Capital, a cross-border platform of equity investments, and is committed to drive the value creation of synergy among global major industries, economies and capital markets. Prior to establishing Cedarlake Capital, Mr. Bao Yi was an important investment banker and the Managing Director of Morgan Stanley, and served as the main founder, pioneer and Chief Executive Officer of Morgan Stanley Huaxin Securities Co., Ltd.. Mr. Bao Yi also served as the Chairman of Granday Financial Leasing Co., Ltd.. Mr. Bao Yi obtained MBA from the Wharton School of the University of Pennsylvania. He is granted as financial expert of the Hundred Talents Program of Pudong District, Shanghai.

Mr. Ping Fan, aged 41, serves as Independent Non-executive Director and member of Remuneration Committee and Nomination Committee. He holds a bachelor's degree in Management from the Business School of the University of Manchester, and an EMBA from the School of Economics and Management of Tsinghua University. Mr. Ping is currently the Chairman and CEO of Shanghai Lang Sheng Investment Limited, a Commissioner of All-China Youth Federation, an Entrepreneurs' Council Member of Chinese Economists 50 Forum. A member of CPPCC of Shanghai Huangpu District, and the Chairman of the Shanghai Concord Bilingual School.

REPORT OF THE DIRECTORS

The Board hereby present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2019.

Principal Activities

During the year, the principal activity of the Company is investment holding, and the principal activities of its respective subsidiaries cover the business of SMT equipment manufacturing, and securities investment. During the year, there is no major change in the nature of the main business of the Group.

Results and Dividends

The Group's profit for the year ended 31 December 2019 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 55 to 143.

The Directors do not recommend the payment of a dividend for the year.

Summary of Financial Information

The published results and a summary of assets and liabilities of the Group for the last five financial years are set out on page 29 of this annual report.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in Note 14 to the consolidated financial statements.

Share Capital

Details of movements in the Company's share capital during the year are set out in Note 24 to the consolidated financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in Note 26 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

At 31 December 2019, the Company's share premium account, in the amount of approximately HK$95,240,000, may be distributed in the form of fully paid bonus shares.

Bank Borrowings

Details of bank borrowings of the Company and the Group during the year are set out in Note 28 to the consolidated financial statements.

Major Customers and Suppliers

During the year, aggregate sales attributable to the Group's five largest customers were approximately 15.52% of the total sales for the year and sales attributable to the largest customer included therein were approximately 4.60%. Purchases from the Group's five largest suppliers accounted for approximately 19.96% of total purchases during this year and purchases from the largest supplier included therein amounted to approximately 7.38%.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest suppliers during the year.

Directors

The Directors of the Company are as follows:

Executive Directors

Mr. DU Yang *(Chairman)* (appointed on 5 November 2019)
Mr. YUAN I-Pei (appointed on 5 November 2019)
Mr. XIA Yuan *(Chief Executive Officer)*
Mr. ZHANG Yadong (resigned on 4 November 2019)
Mr. ZHENG Bo (resigned on 4 November 2019)

Non-executive Directors

Mr. LI Jingxian (appointed on 5 November 2019)*
Mr. LI Yongjun (appointed on 5 November 2019)
Mr. LI Zhongxiang (resigned on 4 November 2019)
Mr. QI Lian (resigned on 4 November 2019)

Directors (Continued)

Independent Non-executive Directors

Mr. CUI Yuzhi*
Mr. BAO Yi*
Mr. PING Fan

* Members of the Audit Committee

In accordance with clauses 87 and 88 of the Company's bye-laws, Mr. Xia Yuan, Mr. Cui Yuzhi and Mr. Ping Fan will retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting 2020, as informed to the Board.

In accordance with the Company's bye-laws, the Directors of the Company, including the independent non-executive Directors, are subject to retirement by rotation and re-election at the Annual General Meeting. Every director is subject to retirement at least once every three years.

The Company has received annual confirmations of independence from all independent non-executive Directors and as the date of this report still considers them to be independent.

Directors' Biographies

Biographies details of the Directors of the Company are set out on pages 30 to 32 of this annual report.

Directors' Service Contracts

No Director proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company or any of its subsidiaries which is not terminable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2019.

Related Party Transactions

During the year ended 31 December 2019, the Group had not entered into any non-exempt connected transaction under the Listing Rules. Related party transactions entered into by the Group during the year ended 31 December 2019, which do not constitute non-exempt connected transactions under the Listing Rules, are disclosed in Note 34 to the consolidated financial statements.

Competing Interest

During the year ended 31 December 2019, none of the Directors, the controlling shareholders, and their respective close associates (as defined under the Listing Rules) was interest in any business which competes or may compete with the business of the Group.

Contract of Significance

There was no contract of significance between the Company or any of its subsidiaries, and the controlling shareholders or any of its subsidiaries as at 31 December 2019.

Directors' Interests in Shares and Underlying Shares

As at 31 December 2019, none of the Directors had any interest or short position in the share capital of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), that was required to be recorded in the register pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Directors' Rights to Acquire Shares or Debentures

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children by the Company, or were any such rights exercised by them; or was the Company, or any of its subsidiaries as a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Substantial Shareholders' Interest in Shares and Underlying Shares

At 31 December 2019, according to the register required to be kept by the Company under section 336 of the SFO, the following persons (other than the Directors or Chief Executive of the Company) had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long position in the Shares

Name of Shareholder	Nature of Interest	Number of the ordinary share held	Approximate percentage of total shareholding %
Sino Xin Ding Limited *(note 1)*	Beneficial owner	987,176,230	67.85
Chen Ping	Beneficial owner	100,000,000	6.87
Reach General *(note 2)*	Beneficial owner	93,152,000	6.40
But Tin Fu *(note 3)*	Beneficial owner/interest of controlled corporation	87,783,168	6.03

Notes:

1. Sino Xin Ding Limited is wholly owned by Shanghai Qingxin Enterprise Management Consulting Co., Ltd. ("Shanghai Qingxin") (上海青芯企業管理諮詢有限公司), which in turn, is owned as to 51.1% by UNIC Capital Management Co., Ltd. (中青芯鑫(蘇州工業園區)資產管理有限責任公司), 28% owned to Shanghai Semiconductor Equipment and Materials Industry Investment Fund Partnership (Limited Partnership) (上海半導體裝備材料產業投資基金合夥企業(有限合夥)), and 21.9% owned by Henan Zhanxing Industrial Investment Fund (Limited Partnership) (河南戰興產業投資基金(有限合夥)).

2. Reach General International Limited ("Reach General") is 100% beneficially owned by Mr. Wu Xin.

3. Mr. But Tin Fu is interested in 87,783,168 shares, comprising (a) 37,525,200 shares directly held by Mr. But Tin Fu, (b) 3,796,000 shares directly held by Sun East Group Limited, which is beneficially owned as to 50% by Mr. But Tin Fu and 50% by Ms. Leung Hau Sum, who is the wife of Mr. But Tin Fu, (c) 2,424,800 shares directly held by Sum Win Management Corp., which is wholly owned by Mr. But Tin Fu, and (d) 44,037,168 shares directly held by Mind Seekers Investment Limited, which is wholly owned by Mr. But Tin Fu.

Save for the interests disclosed above, the Company had not been notified of any other person (other than the Directors or Chief Executive of the Company) who had interests (whether direct or indirect) or short positions in the shares or underlying shares of the Company that were required to be recorded in the register kept by the Company under Section 336 of the SFO as of 31 December 2019.

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 Company's listed securities during the year.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares preferentially on a pro-rata basis to existing shareholders.

Management Contracts

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

Tax Relief

The Company is not aware of any relief from taxation available to the shareholders of the Company by reason of their holding of the shares of the Company.

Permitted Compensation Provision

The by-laws of the Company provides that each Director or other Officers of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in the execution of the duties of his or her office or otherwise in relation thereto. In addition, the Company has maintained appropriate Directors' and Officers' liability insurance in respect of relevant legal actions against the Directors.

Post-reporting Period Events

Details of post-reporting period events are set out in Note 37 to the consolidated financial statements.

Segmental Information

Details of segment information are set out in Note 5 to the consolidated financial statements.

Environmental Policies Performance

The Group is committed to the maintenance of the long-term sustainability of the environment and communities in which it operates. As a responsible corporation, to the best knowledge of the Directors, the Group has complied with the relevant laws and regulations regarding environmental protection during the year ended 31 December 2019.

Compliance with the Relevant Laws and Regulations

As far as the Board and management of the Company are aware, the Group has complied in all material respects with the relevant laws and regulations that have a significant impact on the businesses and operations of the Group. During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

Relationship with Suppliers, Customers and Other Stakeholders

The Group understands fully the success of the Group's business depends on the inextricably-linked support from its key stakeholders, including employees, customers, suppliers, banks, regulators, and shareholders. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

Equity-linked Agreement

Save as disclosed in this annual report, the Group has not entered into any equity-linked agreement during the year.

Directors' Remuneration

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to directors' duties, responsibilities and performance and the results of the Group.

Sufficiency of Public Float

Based on the public information that is available to the Company and within the knowledge of the Directors, the Directors confirmed that at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Auditor

The consolidated financial statements of the Company for the year ended 31 December 2019 was audited by the Company's auditor PricewaterhouseCoopers ("PwC").

PwC has retired and has been reappointed at the 2019 Annual General Meeting of the Company with its terms of office until the conclusion of the forthcoming annual general meeting of the Company. It will be eligible and offer itself for re-appointment at that meeting.

There has been no change in auditor of the Company in the preceding three years.

On behalf of the Board
Du Yang
Chairman

Hong Kong
31 March 2020

Reporting Standard and Scope

This Environmental, Social and Governance Report (the "Report") is prepared in accordance with the requirements of *Environmental, Social and Governance Reporting Guide* set out in Appendix 27 of the Listing Rules.

This Report covers the environmental, social and governance information and activities of the Group during the period from 1 January 2019 to 31 December 2019 (the "Period Under Review"). The environmental data in the Report mainly covers the Group's production area in Shenzhen, Guangdong Province, Mainland China (the "Site") which bears the Group's major production activities, and the data is mainly derived from internal records and estimates.

Content of the Report

The Group fully understands that an enterprise, as a member of the society, should make every effort to protect the natural environment and control the environmental impact of the products it processes, produces and sells. During the Period Under Review, the Group demonstrated its commitment to sustainable development by formulating relevant policies and strictly complying with relevant laws and regulations to reduce the environmental impact of its use of water and energy, greenhouse gas emissions and waste disposal. In addition, the Group allocated extensive resources to staff employment and training, relationship maintenance with suppliers and customers, community investment, etc., in order to undertake greater corporate responsibilities in environmental protection and social development.

Based on the above, the Group hereby prepares this Report to review and illustrate its management approach, strategies, relevant importance, objectives and achievements in each of the environmental, social and governance aspects.

1. Environment

Emissions

The production process of general industries generates exhaust, wastewater and solid waste, which leads to environmental pollution. As the Group is principally engaged in SMT equipment manufacturing and related business, it does not emit a significant amount of highly polluting exhaust during the production process. In addition, the Group outsources the basic processing procedure, and therefore does not generate hazardous waste such as sewage and sludge as defined by national regulations. During the Period under Review, the Group strictly complied with national and local laws and regulations, including the *Law of the People's Republic of China for Environmental Protection*, the *Law of the People's Republic of China for Environmental Protection Tax*, the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste* and the *Administrative Measures for the Classification and Reduction of Domestic Waste in Shenzhen*.

The emissions generated in the operation and production processes of the Group's Site are mainly from logistics and transportation. During the Period Under Review, the Group generated 4.01kg of nitrogen oxides (NO_x), 0.05kg of sulfur dioxide (SO_x) and 0.30kg of particulate matter (PM), representing a year-on-year decrease of 7.01%, 51.25% and 7.02%, respectively. In 2019, the total amount of direct greenhouse gases emitted directly by the Group's Site was 8.71 tons, representing a significant decrease of 52.20% as compared with the corresponding period of last year, which included approximately 7.76 tons of carbon dioxide (CO_2), approximately 0.01 ton of methane (CH_4) and approximately 0.94 ton of nitrous oxide (N_2O). Given that the Group mainly relies on purchased electricity, rather than fossil fuel, oil or liquefied petroleum gas, for the daily operation of the Site, the total amount of greenhouse gases indirectly produced by the Group's use of purchased electricity was 851.03 tons, representing a slight year-on-year increase of 1.01%. Carbon dioxide (CO_2) emissions from such electricity consumption were calculated in accordance with the *Guangdong Province Enterprise (Unit) Carbon Dioxide Emissions Information Reporting Guide (2014)*.

During the Period Under Review, the considerable reduction in the discharges and direct greenhouse gas emissions of the Group's Site was mainly due to the significant decrease in the consumption of lead-free gasoline, which emits carbon dioxide (CO_2), from 15.88 tons in 2018 to 6.34 tons in 2019, representing a year-on-year decrease of approximately 51.13%. Apart from that, the Group used diesel in addition to lead-free gasoline, which helped reduce the emission of carbon dioxide (CO_2) as well. To ensure that all vehicles are in good working condition and the emissions meet the legal requirements, the Group annually reviews and consistently implements the internal regulations on vehicles management, strictly monitors and records the use of vehicles and its reasonableness, and carries out detailed inspection and maintenance for the vehicles on a regular basis.

1. Environment (Continued)

Emissions (Continued)

During the Period Under Review, the Site generated approximately 20 tons of non-hazardous domestic waste, representing a year-on-year decrease of approximately 5.00%. The Group has established detailed regulations on garbage recycling and management to ensure the effective recycling and disposal of various wastes. For example, a specialised garbage collection station has been set up in the Site to sort the wastes from the production workshops, warehouses, offices, dormitories and other areas of the Site into recyclables, non-recyclables and production tailings. External cleaning companies are also engaged to carry out collection or harmless treatment of the sorted wastes. The Group strives to minimise its impact on the environment by formulating relevant policies and procedures and adopting various energy saving and emission reduction measures to achieve higher energy efficiency.

Use of resources

The Group consumes electricity and water in its production and operation processes. During the period from 1 January 2019 to 31 December 2019, the total electricity consumption of the Group's Site was 1,332,277 kWh, representing a slight year-on-year increase of approximately 1.04%; water consumption was 20,061 m^3. With reference to the *Law of the People's Republic of China for Energy Saving*, the Group has formulated internal management policies and relevant instructions on the use of electricity and water. In terms of the use of electricity, the Group's policy is based on the principles of safety and energy conservation. The engineering and maintenance department is responsible for the regular inspection and maintenance of relevant production, office and living equipment to ensure that all equipment is in the best working condition to reduce electricity consumption. At the same time, the Group requires the employees to conserve electricity in the production and dormitory areas, including turning off the equipment or reducing its standby time during non-use hours, making good use of indoor lighting, etc. In respect of the use of water resources, while promoting water conservation and efficiency through active management indicators, the Group conducts monthly measurement and regular review on the Site's water consumption, and encourages the employees to save water.

In addition, the Group's products have to be packaged before shipment, and the packaging materials include cardboard, stretch films, wooden boards and bubble bags. During the Period Under Review, the total consumption of such materials was 190.53 tons, representing a significant decrease of 23.53% year-on-year. To further reduce the consumption of resources as well as the possible harm to the environment, the Group consistently procured concise and recyclable materials when selecting packaging materials.

The Group's operation has no direct impact on the environment and other natural resources which is significant. The Group has always adhered to the concept of "going green and low-carbon" and strived to implement the concept to every business segments.

2. Employees

Staff employment and labour standards

Adhering to the “people-oriented” management philosophy, the Group emphasises and values the development of its employees, safeguards their rights and interests, protects their health and safety, and cares about their life while highlighting the corporate values of “creating, sharing, undertaking and conveying”. At the same time, in strict compliance with the *Labour Law of the People’s Republic of China*, the *Labour Contract Law of the People’s Republic of China*, the *Social Insurance Law of the People’s Republic of China* and other laws and regulations, the Group enhances the rights and interests of the employees regarding their remuneration, benefits, rest time and other aspects by continuously improving its systems and mechanisms. The Group strives to create a positive and dynamic internal environment for the development of all employees with a clear reward and punishment system and healthy competition.

In respect of employee recruitment and promotion, the Group treats all the candidates fairly and does not assess them in terms of age, sex, race, marital status, religion, nationality, physical disability, sexual orientation or political background, etc. At the same time, the Group values and cares about the employees in difficulties and female employees, and expresses care through its policies and mechanisms to safeguard their legal rights and interests. The Group also provides the employees with various festivals benefits, birthday benefits and occupational health check, and gives them subsidies on meals, transportation, telephone charges, etc. In addition, the Group attributes its success to its employees, and offers cash incentives to the individuals and teams who have made prominent contributions to the development of the Company.

During the Period Under Review, the Group strengthened its collaboration with educational institutions, nurtured those fresh graduate employees, established a talent reserve system, and provided the employees with comprehensive and competitive promotion channels and platforms.

The Group implements a flexible remuneration system, in which factors such as employee qualifications, capabilities, market wage levels and corporate profits are considered. At the same time, the Company strictly complies with relevant laws and regulations, and standardises the management of working hours, rest time and leaves through system requirements and contract terms, with a view to protecting the legal rights and interests of the employees in respect of labour remuneration, working hours, rest time and leaves, etc. During the Period Under Review, the Group did not violate any local government policies on employees’ salaries. In addition, the Group prohibits the use of child labour and forced labour in any workplace in accordance with the law.

2. Employees (continued)

Employee health and safety

The Group strictly abides by the *Labour Law of the People's Republic of China*, cares about the physical and mental health of the employees, actively provides them with a safe and comfortable working environment, and encourages them to achieve work-life balance.

The Group has formulated the *Safety Management System* and the *Comprehensive Contingency Plan* to systematically manage production safety, and established the *Safe Operation Procedures* based on the characteristics of all positions to provide clear guidance for the safety requirements of each production procedure. In addition, the Group has also developed the *Equipment Upkeep and Maintenance Standards*, under which the employees are required to perform daily inspection of the equipment according to the relevant standards. For the canteen in the Site, the Group regularly conducts careful inspection on the food hygiene and safety of the contractors to create a good dining environment and ensure the food quality for the employees. For the staff accommodation area in the Site, the Group regularly evaluates the hygiene conditions and safety indicators of the dormitory, and repairs and replaces indoor supplies in a timely manner, thus providing a clean and safe living environment for the employees.

Employee development and training

The Group is committed to continuously improving the quality of its employees and establishing itself as a learning enterprise. In 2019, a total of 26 training sessions were held for the in-house lecturer team with 813 trainees, covering intermediate and advanced management courses and practical courses such as supply chain management, quality control, research and development innovation, cost reduction and efficiency improvement, performance management and warehouse practices. Ten in-house lecturers were nurtured and trained, and more than five elite courses were designed to continuously support the growth of the Company's talent team. At the same time, while reinforcing on-the-job training for front-line positions, the Group stepped up efforts to improve the skills of different department positions and share knowledge across departments, consistently regarding "training" as the greatest benefit for its employees.

During the Period Under Review, the Group arranged 100 persons to participate in external management and skills training themed around "Studing Classics Externally and Accumulating Internally", and organised 235 hours of internal technical and business training for 2,216 persons, preliminarily building its own team of lecturers and encouraging all employees to make "continuous learning and improvement" as part of their job and daily life. In addition to strengthening the professional quality of the employees, the Group also focuses on exploring the different talents of its employees, and provides them with opportunities and platforms to show their talents and subsidies them to develop interest and hobbies such as sports, art and cooking.

3. Operation

Supply chain management

The Group has developed a sound management mechanism to select, evaluate and continuously assess suppliers so as to perform the procurement process in a fair and open manner and meet the procurement needs. Supplier assessment of the Group covers the following areas: the capability to deliver products and services, the technical standards of supplied materials, quality assurance capability and the trial of material samples. For particular materials, suppliers are also required to sign an environmental guarantee agreement to ensure that the materials fulfil the relevant environmental management requirements for substances and the labeling requirements, and do not contain any hazardous chemical substances specified by the Group.

The Group also continuously conducts regular assessment on existing suppliers by comparing their supply prices, delivery conditions, quality of materials and services with the prevailing market levels, in order to ensure the continuous supply of quality products and services at reasonable prices. Many of the Group's departments, including procurement, research and development, quality control and production, are involved in the assessment of relevant suppliers to ensure that the procedures are carried out in an equal, reasonable and transparent manner.

Product liability

Adhering to the quality-first philosophy and emphasising customer experience, the Group is committed to providing customers with good service experience and high-quality products. In order to ensure product quality and service level, the Group has formulated a series of internal management regulations based on the characteristics of major products, covering such procedures as product design, incoming inspection, product production, finished product inspection, product packaging, shipment, installation and after-sales service, to meet customer requirements and ensure compliance with relevant local and international standards as well as relevant laws and regulations.

The Group has also formulated stipulations on confidentiality, under which the customer information obtained in the course of business is kept strictly confidential, and confidentiality clauses are included in customer contracts to prevent the leakage of confidential or private information.

3. Operation (continued)

Anti-corruption

The Group highly values professional conduct and integrity, and all businesses comply with the *Prevention of Bribery Ordinance* in Hong Kong and the relevant laws and regulations in Mainland China against corruption, money laundering and bribery, such as the *Provisions on the Integrity for Officials of State-owned Enterprises*, the *Anti-Money Laundering Law of the People's Republic of China* and the *Anti-Unfair Competition Law of the People's Republic of China*.

The Group believes that the above measures are necessary for the long-term sustainable development of the Company, and hence can win the trust of the employees, customers, suppliers and shareholders under open standards.

Community investment

The development of an enterprise is dependent on the harmony and stability of society. The Group, as an enterprise that values social responsibilities, has been actively participating in social construction.

During the Period Under Review, the Group actively responded to the call for "precise poverty alleviation" in Mainland China, and worked with the corporate volunteer team to participate in charity events in the community, including the "Bao'an Enterprises Helping 100 Villages" (寶企幫百村) event where enterprises in Bao'an District, Shenzhen offered help and expressed love to the poor mountain villages in Guangxi Zhuang Autonomous Region.

Looking to the future, while continuously striving to help improve community wellbeing, the Group will encourage the employees to take part in volunteer activities for the common development of the enterprise and the public welfare of the community.

羅兵咸永道

To the Shareholders of Sino ICT Holdings Limited
(incorporated in Bermuda with limited liability)

Opinion

What we have audited

The consolidated financial statements of Sino ICT Holdings Limited (the "Company" or "Sino ICT") and its subsidiaries (the "Group") set out on pages 55 to 143, which comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2019;
- the consolidated balance sheet as at 31 December 2019;
- the consolidated statement of changes in equity for the year ended 31 December 2019;
- the consolidated statement of cash flows for the year ended 31 December 2019; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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Our opinion

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 as at that date in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

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 identified in our audit are summarised as follows:

- Impairment of receivables

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of receivables Refer to Note 4 Critical Accounting Estimates and Judgements and Note 21 Trade Receivables and Other Receivables of the consolidated financial statements. As of 31 December 2019, stated in the consolidated balance sheet that the total trade and bill receivables of the Group amounted to HK$57,887,000, the provision for impairment on trade and bill receivables was amounted to HK$13,397,000. The Group considered the credit history of the customers and the analysis and assessment on the latest market and business operations updates, and did grouping according to the common characteristics and ageing of credit risk and made provision of impairment of trade and bill receivables by adopting the expected loss of the entire credit loss period of the receivables. We focused on these areas as its significance and the assessment for impairment of receivables involves critical accounting estimates and judgements.	Regarding the impairment of receivables, we performed the following procedures: • Understood and evaluated the Group's internal controls over the process of identifying events or circumstances give rise to impairment on receivables and the respective impairment assessments, and tested relevant key internal controls; • Evaluated whether the model and method used by the management for calculating the expected credit loss meets the accounting standards; • Evaluated whether the management made reasonable judgement on the grouping of receivables and the characteristics of common risks; • Evaluated the rationality of the interval selection of historical reference and verified the reliability of key data used to calculate historical default rate, including historical credit loss data of each combinations, distribution data of receivables throughout the duration and other parameters;

Key Audit Matter	How our audit addressed the Key Audit Matter
	• Understood the factors that management considered in forward-looking information forecasts, including forecasts of future economic, market conditions, and customer conditions, and assess their rationality; • Obtained the calculation files by the management for calculating the expected credit losses for different combinations and verified the accuracy of their calculations; and • Made sampling inspection of customer cash receipts for the balances of receivables as at 31 December 2019 after the end of the financial year. Based on the procedures performed and evidence obtained, we found the accounting estimates and judgements in relation to the provision for impairment of trade receivables were supported by the evidence we obtained.

Other Information

The Directors of the Company are responsible for the other information. The other information comprises all information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda 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 it is not a guarantee that an audit conducted in accordance with HKSA 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 HKSA, 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.

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is YAO Wenping.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the Year ended 31 December 2019 HK$'000	For the Year ended 31 December 2018 HK$'000
Continuing operation			
Operating revenue	5	201,163	71,430
Operating cost	8	(116,839)	(127,992)
Gross profit/(loss)		84,324	(56,562)
Other income	6	14,401	6,133
Other (losses)/gains, net	7	(1,126)	7,438
Distribution costs	8	(35,534)	(37,380)
Administrative costs	8	(61,813)	(64,295)
Reversal of impairment of receivables	8	4,516	14,157
Operating profit/(loss)		4,768	(130,509)
Finance income	10	236	201
Finance costs	10	(17,720)	(13,301)
Finance costs, net	10	(17,484)	(13,100)
Share of operating results of associates	13(b)	3,211	187
Loss profit before income tax		(9,505)	(143,422)
Income tax (expense)/credit	11	(4,068)	20,822
Loss of continuing operation for the year attributable to equity holders of the Company		(13,573)	(122,600)
Terminated operation			
Loss of terminated operation for the year		—	(319)
Loss for the year attributable to equity holders of the Company		(13,573)	(122,919)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Surplus on revaluation of properties	14	362	1,448
Deferred tax relating to revaluation surplus		82	23
		444	1,471

	Notes	For the Year ended 31 December 2019 HK$'000	For the Year ended 31 December 2018 HK$'000
Item that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(226)	(13,009)
Other comprehensive income/(loss) for the year, net of tax		218	(11,538)
Total comprehensive loss for the year		(13,355)	(134,457)
Total comprehensive loss attributable to:			
Equity holders of the Company		(13,355)	(134,457)
Comprehensive loss attributable to the owner of the Company from:			
Continuing operation		(13,355)	(134,138)
Terminated operation		—	(319)
Comprehensive loss for the year		(13,355)	(134,457)
Earnings per share of continuing operation & terminated operation for the year attributable to the owner of the Company			
Basic losses per share			
From continuing operation		(0.93) Cents	(8.43) Cents
From terminated operation		—	(0.02) Cents
Loss for the year	12(a)	(0.93) Cents	(8.45) Cents
Diluted loss per share			
From continuing operation		(0.93) Cents	(8.43) Cents
From terminated operation		—	(0.02) Cents
Loss for the year	12(b)	(0.93) Cents	(8.45) Cents

The notes on pages 62 to 143 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	105,762	139,115
Investment properties	15	25,049	—
Right-of-use assets	16	36,087	—
Land use rights		—	9,251
Intangible assets	17	14,134	5,868
Deferred income tax assets	30	11,947	13,534
Other non-current assets	21	—	2,410
Investment in associates	13(b)	238,067	234,856
		431,046	405,034
Current assets			
Inventories	18	27,786	36,385
Trade receivables and other receivables	21	53,242	41,580
Tax reserve certificates and tax credit available for offsetting		16,645	5,325
Financial assets at fair value through profit or loss	20	157,573	137,339
Security and restricted deposits	23	1,571	2,279
Cash and cash equivalents	22	43,408	43,305
		300,225	266,213
TOTAL ASSETS		731,271	671,247
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital and share premium	24	240,740	240,740
Other reserves	26	674,358	674,140
Accumulative losses	25	(600,329)	(586,756)
TOTAL EQUITY		314,769	328,124

	Notes	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
LIABILITIES			
Non-current liabilities			
Convertible bonds	29	129,978	118,463
Lease liabilities	16	18,057	—
Deferred income	31	1,249	4,565
Deferred income tax liabilities	30	12,901	14,410
		162,185	137,438
Current liabilities			
Trade payables and other payables	27	82,870	74,333
Lease liabilities	16	9,349	—
Contract liabilities	27	7,901	12,092
Borrowings	28	100,958	68,478
Current income tax liabilities		53,239	50,782
		254,317	205,685
TOTAL LIABILITIES		416,502	343,123
TOTAL EQUITY AND LIABILITIES		731,271	671,247

The notes on pages 62 to 143 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 55 to 143 were approved by the Board of Directors on 31 March 2020 and were signed on its behalf.

DU Yang	XIA Yuan
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Share Capital HK$'000	Share premium HK$'000	Other reserves HK$'000 (Note 26)	Accumulated losses HK$'000	Total equity HK$'000
Balance as at 1 January 2019		145,500	95,240	674,140	(586,756)	328,124
Comprehensive loss						
Loss for the year		–	–	–	(13,573)	(13,573)
Surplus on revaluation of properties	14	–	–	362	–	362
Deferred tax relating to surplus on revaluation of properties	30	–	–	82	–	82
Exchange differences on translation of foreign operations		–	–	(226)	–	(226)
Total comprehensive loss		–	–	218	(13,573)	(13,355)
Total transactions with equity holders in their capacity as equity holders		–	–	–	–	–
Balance as at 31 December 2019		145,500	95,240	674,358	(600,329)	314,769

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Share Capital HK$'000	Share premium HK$'000	Other reserves HK$'000 (Note 26)	Accumulated losses HK$'000	Total equity HK$'000
Balance as at 1 January 2018		145,500	95,240	685,678	(463,837)	462,581
Comprehensive loss						
Loss for the year		—	—	—	(122,919)	(122,919)
Surplus on revaluation of properties	14	—	—	1,448	—	1,448
Deferred tax relating to surplus on revaluation of properties	30	—	—	23	—	23
Exchange differences on translation of foreign operations		—	—	(13,009)	—	(13,009)
Total comprehensive loss		—	—	(11,538)	(122,919)	(134,457)
Transactions with equity holders in their capacity as equity holders		—	—	—	—	—
Balance as at 31 December 2018		145,500	95,240	674,140	(586,756)	328,124

The notes on pages 62 to 143 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Cash flows from operating activities			
Cash used in operations	32(a)	(16,560)	(15,083)
Interest paid		(5,837)	(2,806)
Interest received		236	851
Income tax paid		(521)	(735)
Net cash used in operating activities		(22,682)	(17,773)
Cash flows from investing activities			
Purchase of property, plant and equipment		(10,755)	(18,364)
Proceeds from disposal of property, plant and equipment		807	1,121
Expenses in purchase investment products		(66,900)	—
Proceeds from redemption of investment products		67,060	—
Cash reduced by disposal of a subsidiary		—	(226,758)
Decrease in security and restricted deposits		708	1,161
Cash dividend received	6	1,384	1,343
Net cash used in investing activities		(7,696)	(241,497)
Cash flows from financing activities			
Proceeds from borrowings	32(c)	167,858	68,478
Repayment of borrowings	32(c)	(135,378)	—
Rental payment		(1,888)	—
Net cash generated from financing activities		30,592	68,478
Net decrease in cash and cash equivalents		214	(190,792)
Cash and cash equivalents at the beginning of the year	22	43,305	234,003
Exchange (losses)/gains on cash and cash equivalents		(111)	94
Cash and cash equivalents at the end of the year		43,408	43,305

The notes on pages 62 to 143 are an integral part of these financial statements.

1 General Information

Sino ICT Holdings Limited (the "Company"), formerly known as Unisplendour Technology (Holdings) Limited, is a limited liability company incorporated in Bermuda. Its registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business is changed to Unit 02-03, 69/F, ICC-International Commerce Centre, 1 Austin Road West, Tsim Sha Tsui, Kowloon, Hong Kong with effect from 31 October 2016. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company and its subsidiaries (collectively the "Group" hereafter) are principally engaged in SMT equipment manufacturing and securities investment. The principal businesses of the subsidiaries of Company are set out in Note 13(a) to these consolidated financial statements.

On 17 September 2019, UNIC Capital Management Co., Ltd. ("UNIC Capital"), Sino Xin Ding Limited ("Sino Xin Ding") and the Company jointly announced that Unis Technology Strategy Investment Limited ("Unis Strategy Investment Company"), Sino Xin Ding and Beijing Unis Capital Management Co., Ltd. (the parent company of Unis Technology Strategy Investment Company) entered into a share purchase agreement, pursuant to which Sino Xin Ding conditionally agreed to acquire from Unis Strategy Investment Company the sale shares, being 986,829,420 shares and representing approximately 67.82% of the total issued share capital of the Company, for a total consideration of HK$990 million (equivalent to approximately HK$1.00 per sale share). Completion of the share purchase agreement took place on 26 September 2019. Upon completion, Sino Xin Ding became the controlling shareholders of the Company and UNIC Capital is the actual controlling shareholder of the Company. Pursuant to Rule 26.1 of the Takeovers Code, UNIC Capital and Sino Xin Ding were required to make a mandatory unconditional general offer in cash for all the issued shares. On 4 November 2019 (the last date for acceptance of the offer), UNIC Capital and Sino Xin Ding had received valid acceptances in respect of 346,810 shares, aggregating the shares of the Company already held by UNIC Capital and Sino Xin Ding representing 67.847% of the issued share capital of the Company. On 31 December 2019, Sino Xin Ding accounted for 67.847% of the issued share capital of the Company.

These consolidated financial statements are presented in Hong Kong dollar, unless otherwise stated. These consolidated financial statements were approved for issue by the Board of Directors on 31 March 2020.

2 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets and properties at fair value through profit or loss, properties and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1 Going concern

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements. Further information on the Group's borrowings is set out in Note 28.

2 Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on 1 January 2019:

- HKFRS 16 – Leases
- Amendments to HKAS 28 – Long-term Interests in Associates and Joint Ventures
- Annual Improvements to HKFRS 2015-2017 Cycle
- Amendments to HKAS 19 – Plan Amendment, Curtailment or Settlement
- HK(IFRIC) Int 23 – Uncertainty over Income Tax Treatments

Except for HKFRS 16 – Leases, the adoption of these amendments did not have significant impact on the financial statements and status of the Group.

The Group applied HKFRS 16 – Lease retrospectively from 1 January 2019 according to the specific transitional provisions contained in the standard, the comparative figures for the 2018 annual reporting period have not been restated. Therefore, reclassifications and adjustments due to the new lease standard are recognised in the beginning of the balance sheet on 1 January 2019. For the disclosure of the new accounting policy, please refer to Note 2.29.

	31 December 2018 HK$'000	HKFRS 16 HK$'000	31 December 2019 HK$'000
Assets			
Right-of-use assets	—	9,251	9,251
Land use rights	9,251	(9,251)	—

2 Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policies and disclosures (Continued)

(a) New and amended standards adopted by the Group (Continued)

When the Group first adopted HKFRS 16 – Leases, it applied practical changes allowed by the standard, on 1 January 2019, operating leases with a remaining lease period of less than 12 months were accounted for as short-term leases.

	Year ended 31 December 2019 HK$'000
Operating lease commitments disclosed on 31 December 2018	8,260
Less: Short-term leases not recognised as liabilities	(8,260)
Lease liability recognised on 1 January 2019	–

(b) New standards and interpretations not yet adopted

In addition, the following are the new accounting standards and amendments to and interpretation of the existing standards that have been announced and related to the Group but have not yet come into force in the financial year beginning on 1 January 2019, and the Group did not adopt in advance:

	Effective for annual periods beginning on or after
Definition of "Material" – Amendments to HKAS 1 and HKAS 8	1 January 2020
Definition of "A Business" – Amendment to HKFRS 3	1 January 2020
Conceptual framework of financial reporting (revised edition)	1 January 2020
HKFRS 17 – Insurnace Contracts	1 January 2020

The above new standards and amendments to the standards are effective for the financial year beginning after 1 January 2020 but have not been applied in the consolidated financial statements. These standards and amendments are not expected to have a material impact on the Group's consolidated financial statements

2 Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

2 Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(a) Business combinations (Continued)

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statements of comprehensive income.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity

2 Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for subsequent recognition of retained interest as associates, joint ventures or financial assets. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means that the amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 Summary of Significant Accounting Policies (Continued)

2.3 Associates

Associates means the entities over which the Group has significant influence but no control and in which the Group generally owns equity with 20% - 50% voting rights. The associate investment is recorded with equity method. Based on the equity method, the investment will be recognised at cost initially, and the carrying value will be increased or reduced to recognise the share of the investor in the profit and loss of the investee after the acquisition date. The investment of the Group in the associate includes the goodwill identified upon acquisition. The difference between the acquisition cost and the net fair value of the identifiable assets and liabilities of the associate attributable to the Group upon the investment in associate is recognised as the goodwill.

If the equity holding in associate is reduced but significant influence is maintained, the amount recognized previously in other comprehensive income will be reclassified into profit and loss on a pro rata basis (if appropriate).

The profit or loss of the associate attributable to the Group after the acquisition is recognised in the income statement and the change of other comprehensive income attributable to the Group after the acquisition is recognised in other comprehensive income, with the investment carrying value adjusted correspondingly. If the loss of an associate attributable to the Group is equal to or more than its equity in the associate, incuding any other unsecured receivables, the Group will not recognise any further loss, unless the Group has incurred legal or presumed liability for associate or made payment on behalf of the associate.

The Group will determine on each reporting date if there is any objective evidence to prove the impairment of the assoicate investment. If the investment has been impaired, the Group will calculate the impairment, which is the difference between the recoverable amount of the associate and its carring value, and recognise it beside the “Share of results of associates” in the consolidated statements of comprehensive income.

The profit and loss of the downstream and upstream transactions between the Group and the associate will be recognised in the financial statement of the Group, but only for the equity amount of the unrelated investor in the associate. Unless the transaction evidence proves that the transferred value has been impaired, the unrealised loss will be set off. The accounting policies of the associate have been changed as needed, in order to ensure the consistency with the policies adopted in the Group.

The profit or loss from the dilution of the equity of the associate is recognised in the income statement.

2 Summary of Significant Accounting Policies (Continued)

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive Director that makes strategic decisions.

2.5 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollar, which is the Company's functional and the Group's presentation currency. The functional currency of the subsidiaries of the Company includes Renminbi and Hong Kong dollar.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in tthe profit or loss.

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents are presented under the "finance income or costs" in the consolidated statement of comprehensive income. All other foreign exchange gains and losses are presented under "other (losses)/gains, net" in the consolidated statement of comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities measured at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

2 Summary of Significant Accounting Policies (Continued)

2.5 Foreign currency translation (Continued)

(c) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and costs for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Resulting currency translation differences are recorded in other comprehensive income.

2.6 Property, plant and equipment

Properties and plants are recorded as fair value based on the valuations by external independent valuers, less subsequent depreciation for properties at each balance sheet date.

Revaluation surplus of properties and plants are recognised in other comprehensive income and is credited to other reserves in shareholders' equity, unless the carrying value of that asset has previously suffered a revaluation decrease or impairment loss. To the extent that any decrease has previously been recognised in profit or loss, a revaluation increase is credited to profit or loss with the remaining part of the increase dealt with in other comprehensive income. A decrease in the net carrying value of properties and plants arising on revaluation is recognised in other comprehensive income to the extent of the revaluation surplus in asset revaluation reserve relating to the same asset and the remaining decrease is recognised in profit or loss. Depreciation of properties and plants is calculated based on asset revaluation (deducting residual value) according to its estimated remaining useful lives of 20 to 22 years using the straight-line method.

2 Summary of Significant Accounting Policies (Continued)

2.6 Property, plant and equipment (Continued)

All machinery and equipment, furniture, fixtures and property decoration, computer software and motor vehicles are stated at historical cost less depreciation.

Depreciation is calculated using the straight-line method based on costs or revaluation (net of residual value) of assets over their estimated useful lives. The Group's equipment is amortised using the straight-line method over their estimated useful lives as follows:

– Machinery and equipment	5-10 years
– Furniture, fixtures and property decoration	5-10 years
– Computer software	3-10 years
– Motor vehicles	3-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other (losses)/gains, net" in the consolidated statement of comprehensive income.

2 Summary of Significant Accounting Policies (Continued)

2.7 Investment properties

Investment properties comprise leasehold property that is held for long-term rental income or for capital appreciation or both, and that is not occupied by the Group. Investment properties are initially measured at cost, including related transaction costs and, where applicable, borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined by external valuers at each reporting date. Fair value is based on active market prices, and adjusted for any difference in nature, location or condition of the specific asset, if necessary. If the information is not available, the Group adopts alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the consolidated statement of comprehensive income as part of a valuation gain or loss in 'other (losses)/gains, net'.

When a property for own use becomes an investment property for rental income or capital appreciation, the property or the plant is transferred to investment property on the date of change, and the fair value of the property on the date of change is recognised as the carrying amount of the investment property. When the fair value of the property is lower than the carrying amount of the property or the plant on the date of change, the difference is charged/credited to profit or loss for the current period. If such property has had a former revaluation appreciation, the revaluation appreciation shall be written down immediately. Where the fair value is greater than the original carrying amount of the property or the plant on the date of change, the difference within the original provision for impairment is charged/credited to profit or loss for the current period, and is limited to the carrying amount on the date of change as if no provision for impairment is made, and the remaining of difference will be charged/credited to other comprehensive income.

2.8 Land use rights

Land use rights represent up-front payments to acquire long-term interest in the usage of the land, and are stated at cost less accumulated amortisation and any impairment loss. Amortisation is calculated on straight-line method to write off the up-front payments over the lease terms of fifty years.

2 Summary of Significant Accounting Policies (Continued)

2.9 Intangible assets

Research and development costs

Expenses associated with research activities are recognised as a cost as incurred. When the subject can meet the following criteria, project development costs (related to design and test of new and improved products) should be recognised as intangible assets:

- It is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell;
- the Group has the ability to use or sell the intangible asset;
- It can be confirmed that how can such intangible assets generate future economic benefits, which are likely to occur.
- the Group has adequate technical, financial and other resources to complete and use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Costs that can be directly capitalised include the employee costs, material costs and appropriate part of management costs developed from intangible assets. Capitalised development costs are recorded as intangible assets, and from the time the asset is ready for use, it is amortised on the straight-line basis over its estimated useful lives (not more than 10 years). Other development expenditures that do not meet these criteria are recognised as a cost as incurred. Development costs that have been previously recognised as costs will not be recognised as assets in the future.

2 Summary of Significant Accounting Policies (Continued)

2.10 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Terminated operation

Terminated operation is a component of the Group's business that its operations and cash flows of can be clearly distinguished from the rest of the Group's business and which represents a separate major line of business or geographical area in operations, or is a part of a single co-ordinated plan to dispose of a separate major line of business or geographical area in operations, or is a subsidiary acquired exclusively with a view to resale.

Where an operation is classified as terminated, a single amount is presented in the consolidated statement of comprehensive income, which comprises the after-tax profit or loss of the terminated operation, and the after-tax gain or loss recognised on the measurement at fair value less the disposal costs, or on the disposal, of the assets or disposal group constituting the terminated operation.

For the terminated operation presented in the current period, the Group restates the information previously presented as continuing operations as the terminated operating profit or loss in the comparable accounting period in the consolidated statement of comprehensive income.

2 Summary of Significant Accounting Policies (Continued)

2.12 Financial assets

(a) *Classification*

The Group classifies its financial assets according to the following measurement categories:

- measurement at fair value subsequently (at fair value through either other comprehensive income, or profit or loss), and

- financial assets measured at amortised cost.

The classification depends on the entity's business model for managing the financial asset and the characteristics of the contractual cash flow of such asset.

For financial assets measured at fair value, gains and losses are recognised in profit or loss or other comprehensive income. For a non-trading equity instrument investment, the measurement of its gains and losses will depend on whether the Group makes an irrevocable election at initial recognition and designated it at fair value through other comprehensive income.

The Group reclassifies debt investments only when the business model governing these assets changes.

(b) *Recognition and derecognition*

Purchases and sales of financial assets in regular way are recognised on the trade date. The trade date means the date on which the Group commits to purchase or sell the assets. Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred almost all risks and rewards of ownership.

2 Summary of Significant Accounting Policies (Continued)

2.12 Financial assets (Continued)

(c) Measurement

For financial assets that are not classified as at fair value through profit or loss, the Group, at initial recognition, measures it at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Transaction costs relates to financial assets, which are measured at fair value through profit or loss are recognised in profit or loss.

Debt instrument

Subsequent measurement of a debt instrument depends on the business model in which the Group manages the asset and the cash flow characteristics of the asset. The Group classified debt instruments into the following three measurement categories:

<u>Measured at amortised cost</u>: For an asset held in order to collect contractual cash flows, the asset is measured at amortised cost if the contractual cash flow represents only the payment of principal and interest. Interest income from such financial assets is calculated using the effective interest method and counted in financial income. Gains or losses arising from the derecognition are recognised directly in profit or loss and are included in "other (losses)/gains, net" together with exchange gains and losses. Impairment losses are presented in profit or loss in separate accounts.

<u>Measured at fair value through other comprehensive income</u>: If the business model was to hold a financial asset to collect cash flows and for sell, the asset is classified as at fair value through other comprehensive income when the cash flow of the asset represents only the payment of principal and interes. Changes in carrying value recognise in other comprehensive income except impairment gains or losses, interest income, and foreign exchange gains and losses to be recognised in profit or loss. When these financial assets are derecognised, the accumulated gains or losses previously recognised in other comprehensive income are reclassified from equity to profit or loss and include in "other (losses)/gains, net". Interest income of such financial assets is calculated using the effective interest method and counted in financial income. Exchange gains and losses are presented in "other (losses)/gains, net", and impairment losses are presented in profit or loss in separate accounts.

2 Summary of Significant Accounting Policies (Continued)

2.12 Financial assets (Continued)

(c) Measurement (Continued)

Measured at fair value through profit or loss: Financial assets that are not conform to the standard of measuring at amortised cost or at fair value through other comprehensive income, are classified as measuring at fair value through profit or loss. For debt instrument subsequently measured at fair value through profit or loss, its gain or loss recognised in operating revenue.

Equity instrument

The Group carries out subsequent measurement of all equity investments at fair value. If the management of the Group chooses to include the fair value of equity investment through gains and losses into other comprehensive income, the fair value through gains and losses will not be recognised in profit or loss when such investment is derecognised. For dividends, when the Group has established the right to receive dividends, the dividends of such investments are included in profit or loss as other income.

For financial assets measured at fair value through profit or loss, changes in fair value are presented in operating revenue in the consolidated statement of comprehensive income. For equity investments that are measured at fair value through other comprehensive income, the impairment loss (and the reversal of impairment losses) will not be presented separately from other changes of fair value.

(d) Impairment

For trade receivables, the Group uses the simplified method permitted by HKFRS 9 to measure the expected credit losses of the entire life of the trade receivables at initial recognition, please refer to Note 3.1(b) for details.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2 Summary of Significant Accounting Policies (Continued)

2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost is calculated by using weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overhead (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.15 Trade and bills receivables

Trade and bills receivables are amounts and bills due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and bills receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets; otherwise they are classified as non-current assets.

Trade and bills receivables are initially recognised at the consideration without conditions, however, when it contains significant financing components, it needs to be initially recognised at fair value. The purpose of the Group's trade receivables is to collect contractual cash flows, so the trade receivables are subsequently measured at amortised cost using the effective interest method. Please refer to Note 21 for more information on the accounting treatment of the Group's trade receivables. Please refer to Note 3.1(b) for the Group's impairment policy.

2.16 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash on hand, bank deposits, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated and entity balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2 Summary of Significant Accounting Policies (Continued)

2.18 Trade and bills payables

Trade and bills payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and bills payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer); otherwise they are classified as non-current liabilities.

Trade and bills payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liabilities for at least twelve months after the balance sheet date.

2.20 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

2 Summary of Significant Accounting Policies (Continued)

2.21 Convertible bonds

Before 30 March 2017, convertible bonds (including related embedded derivatives) issued by the Group are measured at fair value, changes in fair value are recognised directly in profit or loss when incurred. After 30 March 2017, the convertible bonds were recognised as compound financial instruments in accordance with the amended agreement.

The compound financial instruments issued by the Group are convertible bonds that can be converted into share capital at the option of the holder, and the number of shares to be issued does not change with its fair value.

If the convertible bonds holders convert the convertible bonds to share capital, and the number of shares to be issued does not vary with changes in their fair value, the convertible bonds are classified as compound financial instruments. The liability component of a compound financial instrument is recognised initially at the fair value then measured by amortized cost of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component, which is included in shareholders' equity in other reserves. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying value.

2.22 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 Summary of Significant Accounting Policies (Continued)

2.22 Current and deferred income tax (Continued)

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

2 Summary of Significant Accounting Policies (Continued)

2.22 Current and deferred income tax (Continued)

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.23 Employee benefits

The Group adopts several pension plans including defined contribution plan, short-term employee benefits and termination benefits.

(a) Defined contribution plan

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of the payroll costs to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Defined benefit plan is a pension plan without a fixed amount of contribution.

2 Summary of Significant Accounting Policies (Continued)

2.23 Employee benefits (Continued)

(b) Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. Termination benefits are recognised by the Group (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value.

2.24 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 Summary of Significant Accounting Policies (Continued)

2.25 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

(a) Revenue generated from contracts with customers

The Group manufactures and sells a series of industrial products. When control of product has been transferred, that is when the entity of the Group has delivered the goods to the customer, the Group confirms product sales revenue if there are no unfulfilled obligations that may affect the customer's acceptance of the product. Delivery conditions are not satisfied until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and the customer has accepted the products in accordance with the sales contract, the acceptance provisions have expired, or the Group has objective evidence that all criteria for acceptance have been satisfied.

No element of financing is deemed present as the sales are made with a credit term of thirty to ninety days, which is consistent with the market practice.

(b) Securities investment income

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category and dividend income from financial assets at fair value through profit or loss are presented in the profit or lossof the period.

2.26 Interest income

Interest income from financial assets measured at amortised cost is calculated using the effective interest method and recognised in the consolidated statement of comprehensive income. Interest income from financial assets held for cash management purposes is presented as financial income (please refer to Note 10), other interest income is included in other income.

2 Summary of Significant Accounting Policies (Continued)

2.27 Dividend income

The Group's dividends are derived from financial assets measured at fair value through profit or loss. When the Group has established the right to receive dividend, dividend is recognisd through profit or loss as other income. Even if the dividend is paid out from the pre-acquisition profit, this rule still applies unless the dividend clearly represents the recovery of part of the investment cost.

2.28 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the profit or loss on a straight-line basis over the expected lives of the related assets.

2.29 Leases

As at 31 December 2018, leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group (as lessee) are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability on the date at which the leased asset is available for use by the Group.

A contract may contain a lease component and a non-lease components at the same time. The Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which the Group acts as a lessee, the Group has decided not to separate the lease component and the non-lease component and will treat it as a single lease component.

2 Summary of Significant Accounting Policies (Continued)

2.29 Leases (Continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including actual fixed payment amount), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate are initially measured using the index or rate as at the commencement date;
- the amount expected to be payable by the Group under residual value guarantees;
- the exercise price of a call option reasonably determined to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option.

Lease payments will also be included in the measurement of the liability when the Group is reasonably certain to exercise an option to extend the lease. The lease payments are discounted using the interest rate included in the lease. Generally, the interest rate included in the lease of the Group can not be readily determinable. Under this circumstance, the lessee's incremental borrowing rate will be used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar security condition during a similar period.

2 Summary of Significant Accounting Policies (Continued)

2.29 Leases (Continued)

To determine the incremental borrowing rate, the Group shall:

- where possible, use the third party financing received recently by the lessee as the base and make adjustments to reflect changes in the financing conditions after receiving financing from the third party;

- for leases held by companies which have not obtained financing from third parties recently, adopt the incremental approach with the risk-free interest rate as the base, and make adjustments for the credit risk of the leases; and

- make specific adjustments to the leases, such as lease term, country, currency and security.

The Group may be exposed to the risk of future increases in variable lease payments that depend on an index or a rate, in which case the variable lease payments will be included in the lease liability as they actually arise. When the lease payments are adjusted by an index or a rate, the lease liability should be revalued and adjusted based on the right-of-use asset.

Lease payments are apportioned between the principal and the finance cost. The finance cost is charged to profit or loss over the lease period so as to calculate the interest based on a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the initial measurement of amount of the lease liabilities;

- lease payments made at or before the commencement date less any lease incentives received;

- initial direct costs; and

- restoration costs.

2 Summary of Significant Accounting Policies (Continued)

2.29 Leases (Continued)

The right-of-use asset is generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise the right of purchase, the right-of-use asset is depreciated over the useful life of the underlying asset. The Group revalues the land and buildings presented as property, plant and equipment, but has not elected to revalue the right-of-use buildings held.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Operating lease income received by the Group (as lessor) is recognised as income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as an expense over the lease term on the same basis as the lease income. The leased assets are included in the balance sheet based on their nature. The Group has adopted the new lease standard and therefore no adjustment is required to be made to the accounting for assets held as a lessor.

2.30 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 Financial Risk Management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is conducted by senior management of the Group and approved by the Board of Directors.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in Mainland China and Hong Kong, and the primary foreign exchange risk arises from financial instruments measured by currencies other than the functional currency of the Group. The functional currency of the Group's subsidiaries in Mainland China is Renminbi, and the functional currency of the Company and the Group's subsidiaries in Hong Kong and the immediate holding companies in other regions is Hong Kong dollar. The foreign exchange risk of the Group arises from the financial instruments of the Group's subsidiaires in Mainland China as measured by Renminbi, the financial instruments of the Company and the Group's subsidiaries in Hong Kong and other regions as measured by Hong Kong dollar and the Group's investments in foreign operations in Mainland China.

Foreign exchange risk arises when future commercial transactions or recognized asset or liabilities are denominated in a currency that is not the Group's functional currency. Currently, there are no hedging policies for the Group on transactions, assets and liabilities denominated in foreign currencies. The Group closely monitors and controls foreign exchange risk and considers engaging in hedging activities if there is significant foreign exchange risk.

As at 31 December 2019 and 31 December 2018, the amount of Renminbi assets and liabilities held by subsidiaries by the Group operating in Hong Kong and the amount of US dollar and Hong Kong dollar assets and liabilities held by subsidiaries of the Group operating in Mainland China are not significant, the foreign exchange winds faced by the Group are not significant therefore.

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet as at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The Group's equity investments in other entities are stocks publicly traded in the stock market. As at 31 December 2019, the equity investments of the Group consist of stocks that are traded in the Main Board of the Stock Exchange. Therefore, the Groups's profits and interests after tax would affected by the increased or decreased of the shares held by the Group. If the shares held by the Group had increased/decreased by 5%, with all other factors held constant, the Group's after-tax profit (i.e. equity) would have been increased/decreased by approximately HK$6,579,000 (the year ended 31 December 2018: HK$5,734,000).

(iii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. As the remaining terms of the variable rate borrowings obtained are relatively short, therefore, the Group's fair value interest rate risk is relatively low.

(b) Credit risk

The Group is exposed to credit risks arising from the cash and cash equivalents and trade receivables, bills receivables and other receivables.

In respect of cash and cash equivalents and restricted deposits, the Group manages the credit risk by placing all bank deposits in state-owned financial institutions and banks and security companies with good reputation (all of which are financial institutions with high credit quality).

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

In order to manage credit risk arising from trade receivables, bills receivables and other receivables, the Group assesses the debtors' financial position on a periodical basis. Certain of the Group's sales are on letter of credit or documents against payment and the remaining balances are with credit terms of thirty to ninety days. The Group provides expected credit losses in a simplified manner in accordance with HKFRS 9, which allows all trade and bills receivables to use the expected provision for the entire credit loss period.

To measure the expected credit losses of trade and bills receivables, trade and bills receivables are grouped according to the common credit risk characteristics and ageing. As at 31 December 2019 and 31 December 2018, the provision rate is as follows. The following expected credit losses considered the factors of forward-looking information:

	As at 31 December 2019			As at 31 December 2018		
	Overall expected credit loss rate	Book value HK$'000	Provisions HK$'000	Overall expected credit loss rate	Book value HK$'000	Provisions HK$'000
Current period	0.1%	27,218	27	0.1%	20,460	20
Overdue for 1 year or less	1.4%	17,326	244	6.9%	10,292	710
Overdue for 1 year to 2 year	99.7%	312	311	50.8%	4,585	2,328
Overdue more than 2 years	98.3%	13,031	12,815	91.2%	19,122	17,442
		57,887	13,397		54,459	20,500

Other receivables are mainly deposit. The expected credit losses are close to zero.

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(c) *Liquidity risk*

The Group manages the liquidity risk through holding of sufficient cash and bank balances. The Group further mitigates the liquidity risk by maintaining cash reserve and utilising bank financing. The Directors consider the Group is not exposed to significant liquidity risk.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, (including interest payment computed using contractual rates or, if floating, based on current rates at each balance sheet date).

	within 1 year HK$'000	1 to 5 years HK$'000	Total HK$'000
As at 31 December 2019			
Trade payables and bills payables	36,168	—	36,168
Other payables and accrued expenses	6,671	—	6,671
Borrowings	103,081	—	103,081
Convertible bonds	—	148,000	148,000
Lease liabilities	10,433	18,724	29,157
	156,353	166,724	323,077
As at 31 December 2018			
Trade payables and bills payables	33,304	—	33,304
Other payables and accrued expenses	5,205	—	5,205
Borrowings	69,688	—	69,688
Convertible bonds	—	148,000	148,000
	108,197	148,000	256,197

3 Financial Risk Management (Continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. The gearing ratio were as follow:

	31 December 2019 HK$'000	31 December 2018 HK$'000
Net liabilities	416,502	343,123
Total assets	731,271	671,247
Gearing ratio	56.96%	51.12%

3.3 Fair value estimation

The table below analyses the Group's financial instruments and non-financial instruments carried at fair value as at 31 December 2019 and 31 December 2018 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3 Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

(a) Financial instruments recorded at fair value

Financial instruments at fair value as at 31 December 2019 were as follows:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
ASSETS				
Trading securities				
(Note 20)	157,573	—	—	157,573

Financial instruments at fair value as at 31 December 2018 were as follows:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
ASSETS				
Trading securities				
(Note 20)	137,339	—	—	137,339

There was no transfer between level 1, 2 and 3 during the year. Financial assets recorded at fair value through profit or loss is disclosed in Note 20.

As at 31 December 2019 and 31 December 2018, current financial assets (including cash and cash equivalents, security deposits, restricted deposits, trade and bills receivables and other receivables), current financial liabilities (including trade payables, other payables and other accruals, and lease liabilities), and the fair value of convertible bonds and lease liabilities in non-current liabilities which are similar to their carrying value.

3 Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

(b) Non-financial instruments recorded at fair value

Valuation process of the Group

Properties and investment properties of the Group are valued by an independent valuer on the settlement date. This independent valuer holds relevant recognised professional qualifications and has recent experience in the location and field of the valued properties and investment properties. For all properties and investment properties, their current use is equal to their highest and optimal use.

The Group's finance department is responsible for reviewing the independent appraiser's valuation for financial reporting purposes. The finance department reports directly to the chief financial officer and the audit committee. As at 31 December 2019 and 31 December 2018, the fair values of the properties and investment properties have been determined by the independent valuer.

On each settlement date, the finance department will:

- verify all significant inputs to the independent valuation report;
- assess the changes in the valuation results compared with the valuation report of the previous year; and
- discuss with the independent valuer.

On each settlement date, the changes in the fair value of level 2 and level 3 are discussed and analysed by the chief financial officer, the audit committee and the finance department at the annual valuation meeting. After discussion, the finance department will submit a report explaining the reason for the change in fair value.

3 Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

(b) Non-financial instruments recorded at fair value (Continued)

The fair value of properties and investment properties is the fair value of level 3. The relevant valuation methods and significant unobservable inputs are as follows:

Description	Fair value as at 31 December 2019 HK$'000	Valuation method	Non-observable inputs	Range (Weighted average)
日東電子發展(深圳)有限公司 (Properties)	56,122	Depreciation replacement cost method	construction cost	RMB 1,611 per square meter
紫光日東科技(深圳)有限公司 (Properties)	2,193	Direct comparison method	Unit price of comparable cases	RMB 4,300 to 6,500 per square meter
日東電子設備有限公司 (Properties)	29,000	Direct comparison method	Unit price of comparable cases	RMB 5,000 to 6,300 per square foot
日東電子發展(深圳)有限公司 (Investment properties)	25,049	Depreciation replacement cost method	construction cost	RMB 1,611 per square meter

Description	Fair value as at 31 December 2018 HK$'000	Valuation method	Non-observable inputs	Range (Weighted average)
日東電子發展(深圳)有限公司 (Properties)	87,652	Depreciation replacement cost method	construction cost	RMB 1,700 per square meter
紫光日東科技(深圳)有限公司 (Properties)	2,297	Direct comparison method	Unit price of comparable cases	RMB 5,900 to 8,300 per square meter
日東電子設備有限公司 (Properties)	29,800	Direct comparison method	Unit price of comparable cases	RMB 5,000 to 6,300 per square foot

3 Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

(b) Non-financial instruments recorded at fair value (Continued)

Fair value measured using significant non-observable inputs (level 3)

For the year ended 31 December 2019

	Properties HK$'000	Investment properties HK$'000	Total HK$'000
Balance at the beginning of the year	119,749	—	119,749
Transferred to investment properties	(26,975)	26,975	—
Fair value revaluation adjustment	362	(1,304)	(942)
Depreciation expense	(4,419)	—	(4,419)
Exchange adjustment	(1,402)	(622)	(2,024)
Balance at the end of the year	87,315	25,049	112,364

For the year ended 31 December 2018

	Properties HK$'000
Balance at the beginning of the year	128,565
Fair value revaluation adjustment	1,448
Depreciation expense	(5,937)
Exchange adjustment	(4,327)
Balance at the end of the year	119,749

The Group uses direct comparison method and depreciation replacement cost method to evaluate the fair value of the above assets. These fair values are measured at level 3 of fair value. The significant non-observable inputs used in the valuation process mainly include the recent sales price and asset replacement cost of similar assets.

Properties and investment properties measured at fair value are disclosed in Note 14 and Note 15.

4 Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within next financial year are addressed below.

(a) Impairment of trade receivables and other receivables

The management of the Group regularly determines the impairment of trade receivables and other receivables on a regular basis. This estimation is based on the credit history of the customers and the expected credit situation throughout the duration. Management reassesses the impairment of receivables at the balance sheet date.

(b) Income taxes

The Group is subject to income taxes in Hong Kong and Mainland China. Significant judgement is required in determining the amount of the provision for income taxes (such as the determination of the profits derived from offshore businesses) and the timing of payment of related taxes (Note 11).

The recognition of deferred income tax assets are recognised for tax losses and temporary differences to the extent that the realisation of the related tax benefit through the future taxable profit is probable. The calculation of the future taxable profit involves judgements and estimates together with the considerations of the Group’s tax planning strategy and the impact of the macro economic conditions. Different judgements and estimates may affect the recognition and measurement of the deferred income tax assets.

4 Critical Accounting Estimates and Judgements (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(c) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less anticipated costs to completion and applicable variable selling expenses. These estimates are made based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to adverse market condition. Management reassesses the estimations at the balance sheet date to ensure inventories are stated at the lower of cost and net realisable value.

(d) *Development cost capitalisation*

When the recognition standard in accordance with Note 2.9 are met, the development costs are capitalised as intangible assets. Based on the historical experience of existing products and market prospects, the management determines whether the research and development of these patents, etc., will bring future economic benefits to the Group through professional judgment. Any significant changes in market performance and technology development will affect the capitalisation of development costs.

5 Segment Information

The Executive Directors are the Group's chief decision-makers. Management has determined the operating segments based on the report reviewed by the executive Directors for the purposes of allocating resources and assessing performance.

For the year ended 31 December 2019, the main business of the Group is the production and sale of industrial products and securities investment.

For the year ended 31 December 2018, the Group divested the finance lease and factoring business on the basis of the production and sales of industrial products, securities investment, and finance lease and factoring, which were the original main businesses. The corresponding business had been classified as terminated operation.

The executive Directors assess the performance of the operating segments based on the revenue and profit before tax in each segment, and they do not focus on the total liabilities of the segments. The unallocated activities primarily consist of corporate headquarter which manage and support the segments. The assets are mainly the monetary funds, office equipment and investment in associates used by the Company for daily operations.

5 Segment Information (Continued)

The segment information for the year ended 31 December 2019 is presented as follows:

	Year ended 31 December 2019			
	Production and sales of industrial products HK$'000	Securities investment HK$'000	Unallocated activities HK$'000	Total HK$'000
Segment revenue	180,170	20,234	759	201,163
Segment profit	63,408	20,157	759	84,324
Other income	13,017	1,384	—	14,401
Other losses, net	(995)	—	(131)	(1,126)
Distribution costs	(35,534)	—	—	(35,534)
Administrative costs	(40,844)	(11,913)	(9,056)	(61,813)
Reversal of impairment of receivables	4,516	—	—	4,516
Finance costs, net	(5,931)	(10)	(11,543)	(17,484)
Share of results of associates	—	—	3,211	3,211
(Loss)/profit before income tax	(2,363)	9,618	(16,760)	(9,505)

	As at 31 December 2019			
	Production and sales of industrial products HK$'000	Securties investment HK$'000	Unallocated activities HK$'000	Total HK$'000
Segment total assets	276,988	170,526	283,757	731,271

5 Segment Information (Continued)

The segment information for the year ended 31 December 2018 is presented as follows:

	Year ended 31 December 2018					
	Production and sales of industrial products HK$'000	Securities investment HK$'000	Unallocated activities HK$'000	Continuing operation segment total HK$'000	Terminated operation segment HK$'000	Total HK$'000
Segment revenue/(loss)	181,497	(112,682)	2,615	71,430	23	71,453
Segment profit/(loss)	53,592	(112,769)	2,615	(56,562)	(10)	(56,572)
Other income	4,790	1,343	—	6,133	—	6,133
Other gain, net	7,408	—	30	7,438	337	7,775
Distribution costs	(37,380)	—	—	(37,380)	—	(37,380)
Administrative costs	(40,457)	(8,692)	(15,146)	(64,295)	(2,406)	(66,701)
Reversal of impairment of receivables	14,157	—	—	14,157	—	14,157
Finance (costs)/ income, net	(2,605)	(3)	(10,492)	(13,100)	650	(12,450)
Share of results of associates	—	—	187	187	—	187
Earnings from disposal of a subsidiary	—	—	—	—	1,110	1,110
Loss before income tax	(495)	(120,121)	(22,806)	(143,422)	(319)	(143,741)

	As at 31 December 2018					
	Production and sales of industrial products HK$'000	Securities investment HK$'000	Unallocated activities HK$'000	Continuing operation segment total HK$'000	Terminated operation segment HK$'000	Total HK$'000
Segment total assets	264,858	152,022	254,367	671,247	—	671,247

5 Segment Information (Continued)

For the year ended 31 December 2019 and 31 December 2018, the revenue of the Group is mainly arising from Mainland China and Hong Kong.

Revenue of approximately HK$8,282,000 (year ended 31 December 2018: HK$6,016,000) was derived from a single external customer. Such revenue was derived from the production and sales of industrial products segment.

As at 31 December 2019 and 31 December 2018, except for the financial instruments, the Group's non-current assets were located in Mainland China and Hong Kong.

6 Other Income

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Government grants	6,925	2,265
Rental income	5,917	—
Cash dividends	1,384	1,343
Income from sales of scraps	85	2,525
Others	90	—
	14,401	6,133

7 Other (Loss)/Gain, Net

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Waiver of accounts payable	1,226	3,969
Compensation income	221	2,224
Net loss from change in fair value of investment properties	(1,304)	—
Exchange (loss)/gain	(1,100)	1,546
Others	(169)	(301)
	(1,126)	7,438

8 Expenses by Nature

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Raw materials consumption	100,477	106,232
Employee benefits expense	60,477	68,942
Short-term lease rental and property management fees	12,406	11,498
Research and development expense	3,769	5,541
Depreciation and amortisation	10,074	9,165
Professional service fees	7,856	4,812
Travelling expense	2,430	3,127
Other taxes	3,504	2,060
Promotion and exhibition fee	2,686	2,873
Transportation expense	424	491
Auditors' remuneration - audit services	2,166	2,146
Utilities	1,375	1,899
Office expenses	1,142	1,613
Installation and maintenance fee	1,563	2,779
Vehicles expenses	693	949
Entertainment expenses	1,396	1,139
Reversal of impairment of receivables	(4,516)	(14,157)
Provision for impairment of inventories	206	803
Others	1,542	3,598
	209,670	215,510

9 Employee Benefit Expense

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Wages and salaries	57,457	64,715
Defined contribution plan (a)	2,373	3,753
Termination benefits (b)	647	474
	60,477	68,942

(a) Defined contribution plan

Employees in the Group's subsidiaries located in Mainland China participate in the defined contribution retirement schemes administrated and operated by the local municipal government. These subsidiaries make contributions to the schemes according to the relevant regulations as issued by the local municipal government and provide funds for employees' post-employment benefits.

(b) Termination benefits

For the year ended 31 December 2019, provision made for employee termination benefits amounted to HK$647,000 due to continuing business restruction and business transformation carried out in the Group's subsidiaries located in Mainland China (year ended 31 December 2018: HK$474,000).

9 Employee Benefit Expense (Continued)

(c) Five highest paid individuals

For the year ended 31 December 2019, The five highest paid individuals in the Group did not include Directors (year ended 31 December 2018: nil). The Directors emoluments are reflected in the analysis shown in Note 36. The emoluments payable to the five highest paid individuals for the year ended 31 December 2019 (year ended 31 December 2018: 5) are as follows:

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Basic salaries, allowances and benefits in kind	7,892	6,078
Contribution to pension scheme	86	39
	7,978	6,117

The emoluments fell within the following bands:

	Number of individuals	
	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Emolument bands (in HK$)		
HK$500,001 - HK$1,000,000	2	2
HK$1,000,001 - HK$2,000,000	2	3
HK$2,000,001 - HK$3,000,000	1	—

10 Finance Costs, Net

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Finance income:		
– Interest income from bank deposits	236	201
Finance costs:		
– Interest expenses on bank and other borrowings	6,002	2,807
– Amortisation of interest expenses on convertible bonds	11,515	10,494
– Finance costs related to finance lease	203	—
	17,720	13,301
Finance costs, net	17,484	13,100

11 Income Tax Expense/(Credit)

Hong Kong profits tax had been provided at the rate of 16.5% (year ended 31 December 2018: 16.5%) on the estimated assessable profit for the year. The applicable tax rate of 紫光日東科技(深圳)有限公司, a subsidiary of the Group in Mainland China, was 15%, and the other subsidiaries of the Group in Mainland China were taxed at a rate of 25% (year ended 31 December 2018: 25%). Taxation on overseas profits had been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Current income tax	3,578	—
Deferred income tax (Note 30)	490	(20,822)
Income tax expense/(credit)	4,068	(20,822)

11 Income Tax Expense/(Credit) (Continued)

The tax on the Group's loss before tax differs from the theoretical amount that would arise from using the weighted average tax rate applicable to loss of the consolidated entities were as follows:

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Loss before income tax	(9,505)	(143,422)
Tax at the statutory tax rates	2,561	(20,550)
Tax effects of:		
– Income not subject to tax	(231)	(222)
– Expenses not deductible for tax purposes	1,571	746
– Utilisation of previously unrecognised tax losses	(2,931)	(4,370)
– Tax loss for which no deferred income tax asset was recognised	2,659	3,574
– Differences on settlement and payment of previous annual income tax	439	—
Income tax expense/(credit)	4,068	(20,822)

12 Losses per Share

(a) Basic

Basic losses per share are calculated by dividing the losses attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Losses from continuing operation attributable to equity holders of the Company	(13,573)	(122,600)
Losses from terminated operation attributable to equity holders of the Company	–	(319)
Losses attributable to equity holders of the Company	(13,573)	(122,919)
Weighted average number of ordinary shares in issue *(in thousands)*	1,455,000	1,455,000
Basic losses per share:		
from continuing operation	(0.93) Cents	(8.43) Cents
from terminated operation	–	(0.02) Cents
	(0.93) Cents	(8.45) Cents

(b) Diluted

In 2019 and 2018, as the assumption of converting the Company's outstanding convertible bonds will result in a decrease in losses per share, it is not assumed that the Company's outstanding convertible bonds have been exercised in the calculation of the diluted losses per share for the year ended 2019 and 2018.

13 Subsidiaries and investment in associates

(a) Subsidiaries

The following is a list of the main subsidiaries as of 31 December 2019:

Name of companies	Place of incorporation	Kind of legal entity	Principal activities	Place of operation	Particulars of issued share capital	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the Group (%)
i-System Investment Company Limited	British Virgin Islands ("BVI")	Limited Liability	Investment holding	Hong Kong	US$2,000	100%	100%
Sun East Electronic Equipment Company Limited (日東電子設備有限公司)	Hong Kong	Limited Liability	Sales of industrial products	Hong Kong	US$5,000,000	–	100%
Fureach Precision Limited (富運精密有限公司)	Hong Kong	Limited Liability	Sales of industrial products	Hong Kong	HK$10,000	–	100%
Frontier Precision System Co., Ltd (天力精密系統有限公司)	Hong Kong	Limited Liability	Investment holding	Hong Kong	HK$10,000	–	100%
Sun East Tech Development Limited (日東科技發展有限公司)	Hong Kong	Limited Liability	Sales of industrial products	Hong Kong	HK$10,000	–	100%
日東電子發展(深圳)有限公司	Mainland China	Limited Liability	Production and sales of industrial products	Mainland China	HK$81,000,000	–	100%
天力精密系統(深圳)有限公司	Mainland China	Limited Liability	Production and sales of industrial products	Mainland China	HK$15,300,000	–	100%
紫光日東科技(深圳)有限公司	Mainland China	Limited Liability	Production and sales of industrial products	Mainland China	HK$25,000,000	–	100%
富運精密設備(深圳)有限公司	Mainland China	Limited Liability	Production and sales of industrial products	Mainland China	HK$10,000,000	–	100%
Unisplendour Technology International Limited (紫光科技國際有限公司)	British Virgin Islands ("BVI")	Limited Liability	Investment holding	Hong Kong	US$50,000	100%	100%
Unisplendour Technology Investment Limited (紫光科技投資有限公司)	British Virgin Islands ("BVI")	Limited Liability	Investment holding	Hong Kong	US$50,000	–	100%

13 Subsidiaries and investment in associates (Continued)

(a) Subsidiaries (Continued)

The above table lists the main subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year ended 31 December 2019 or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

(b) Investment in associates

The amounts recognised at the blanace sheet are as follows:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
As at 1 January	234,856	2,634
Fair value of the retained 49% equity after disposal of certain equity in a subsidiary	–	232,035
Profits attributable to the Group	3,211	187
As at 31 December	238,067	234,856

As at 31 December 2019, the following is the associates the Directors believed to be of nonsignificance to the Group. The equities of the associates listed below are oridinary shares and directly held by the Group. The incorporation or registration countries are their principle business places.

13 Subsidiaries and investment in associates (Continued)

(b) Investment in associates (Continued)

Nature of investment in associates as at 31 December 2019:

Name	Incorporation country/business place	Ownership interest	Relation nature	Measuring method
Sino IC Leasing (Shenzhen) Limited Copmay (芯鑫融資租賃(深圳)有限責任公司) (hereafter "Sino Leasing Shenzhen")	Mainland China	49%	Note 1	Equity Method

Note 1: Sino Leasing Shenzhen, formerly known as Unisplendour Si-Cloud Financial Leasing Co., Ltd. (紫光芯雲融資租賃有限公司), is principally engaged in the leasing business. It assists the Group in leveraging the high degree of synergy between finance leasing and equipment manufacturing enterprises, and building a bridge between the Group and equipment users in the industry by taking the leasing as a bond.

The Group did not have any contingent liability in equity of the associates.

Summuary financial information on Sino Leasing Shenzhen.

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Total assets	794,648	471,128
Total liabilities	328,017	717

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Revenue	27,100	22
Net profit/(loss)	7,164	(717)

14 Property, Plant and Equipment

	Properties HK$'000	Machinery and equipment HK$'000	Funiture, fixtures and property decoration HK$'000	Computer software HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2018						
Opening net book amount	128,565	6,895	3,566	1,027	3,313	143,366
Addition	–	888	8,118	429	–	9,435
Disposals	–	(1,004)	(65)	–	(15)	(1,084)
Disposal of a subsidiary	–	(11)	(183)	–	–	(194)
Surplus on revaluation	1,448	–	–	–	–	1,448
Depreciation charges	(5,937)	(498)	(1,792)	(143)	(514)	(8,884)
Exchange adjustments	(4,327)	(186)	(230)	(41)	(188)	(4,972)
Closing net book amount	119,749	6,084	9,414	1,272	2,596	139,115
Analysis of cost or valuation at 31 December 2018 is as follows:						
Cost	–	23,279	33,583	1,418	4,967	63,247
Accumulated depreciation and impairment	–	(17,195)	(24,169)	(146)	(2,371)	(43,881)
Fair valuation	119,749	–	–	–	–	119,749
	119,749	6,084	9,414	1,272	2,596	139,115
Year ended 31 December 2019						
Opening net book amount	119,749	6,084	9,414	1,272	2,596	139,115
Addition	–	123	2,918	–	1,150	4,191
Disposals	–	(695)	(87)	–	–	(782)
Transfer to investment properties (Note 15)	(26,975)	–	–	–	–	(26,975)
Surplus on revaluation	362	–	–	–	–	362
Depreciation charges	(4,419)	(362)	(2,082)	(121)	(465)	(7,449)
Exchange adjustments	(1,402)	(514)	(705)	(4)	(75)	(2,700)
Closing net book amount	87,315	4,636	9,458	1,147	3,206	105,762
Analysis of cost or valuation at 31 December 2018 is as follows:						
Cost	–	22,097	35,270	1,378	6,049	64,794
Accumulated depreciation and impairment	–	(17,461)	(25,812)	(231)	(2,843)	(46,347)
Fair valuation	87,315	–	–	–	–	87,315
	87,315	4,636	9,458	1,147	3,206	105,762

14 Property, Plant and Equipment (Continued)

Depreciation charges are recognised in the following items within the profit or loss:

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Cost of sales	1,051	2,614
Distribution costs	20	37
Administrative costs	6,378	6,233
	7,449	8,884

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000 (restated)
Depreciation charges attributable to:		
— Continuing operation	7,449	8,849
— Terminated operation	—	35
	7,449	8,884

As at 31 December 2019, the bank borrowings was pledged by the Group's properties with net book amounts of HK$56,122,000 (31 December 2018: the bank borrowings was pledged by the Group's properties with net book amounts of HK$87,652,000, and the letter of credit was pledged by the Group's properties with net book amounts of HK$14,400,000) (Note 28).

As at 31 December 2019, if the properties were measured at historical cost, the original carrying amount would be HK$84,417,000, the accumulated depreciation would be HK$59,290,000, and the net value would be HK$25,127,000 (31 December 2018: original carrying amount would be HK$123,391,000, the accumulated depreciation would be HK$70,950,000, and the net value would be HK$52,441,000).

14 Property, Plant and Equipment (Continued)

For the year ended 31 December 2019, no provision of the impairment losses on assets was provided (year ended 31 December 2018: nil).

For information concerning the Group's assessment of the fair value of properties, please refer to Note 3.3(b).

15 Investment Properties

	Year ended 31 December 2019 HK$'000
Balance at the beginning of the year	–
Classified as held for rent	26,975
Net losses on fair value adjustments (Note 7)	(1,304)
Exchange adjustments	(622)
Balance at the end of the year	25,049

As at 31 December 2019, the bank borrowings was secured by the Group's investment properties with a net value of HK$25,049,000 (Note 28).

(a) The amount of investment properties recognised in profit or loss

	Year ended 31 December 2019 HK$'000
Rental income	5,917

15 Investment Property (Continued)

(a) The amount of investment property recognised in profit or loss (Continued)

Investment properties are leased to tenants under operating leases, with the rent paid monthly by the tenants. The term of the lease is five years. Although the Group is exposed to the risk of changes in the residual value at the end of the current lease period, the Group generally enters into new operating leases and therefore does not immediately recognise the decrease in residual value at the end of the lease period. Expectations on future residual values are reflected in the fair value of investment properties. For information on minimum rent receivables for investment property leases, please refer to Note 33.

As at 31 December 2019, the Group had no unfunded contractual obligations for future repairs and maintenance.

16 Lease

This note provides information about the Group's leases as lessees.

(a) Amounts recognised in the balance sheet

The following amounts stated in the balance sheet relate to leases:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Right-of-use assets		
— Land use rights	8,736	9,251
— Properties	27,351	—
	36,087	9,251
Lease liabilities		
— Current lease liabilities	9,349	—
— Non-current lease liabilities	18,057	—
	27,406	—

16 Lease (Continued)

(b) Amounts recognised in the statement of income

The following amounts stated in the statement of income relate to leases:

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Depreciation expense for right-of-use assets		
— Land use rights	303	316
— Properties	1,740	—
	2,043	316
Interest expense (credit to finance costs)	203	—
Expenses relating to short-term leases (credit to distribution costs and administrative costs)	8,772	9,606

For the year ended 31 December 2019, cash outflows arising from the above leases amounted to HK$10,536,000 in total.

The Group has land lease arrangements with the government in Mainland China. As at 31 December 2019, land use rights were not pledged to banks as security for banking facilities granted to the Group (31 December 2018: nil).

The Group leases offices in various locations. Lease contracts are usually of a fixed term, ranging from one to three years. The term of the lease should be negotiated case by case and may contain different terms and conditions. Assets generated by leasehold properties shall not be used as security for borrowings.

17 Intangible Assets

	Development Costs HK$'000
Year ended 31 December 2018	
Net book value at the beginning of the year	—
Addition	5,868
Net book value at the end of the year	5,868
As at 31 December 2018	
Costs	5,868
Accumulated amortisation	—
Net book value	5,868
Year ended 31 December 2019	
Net book value at the beginning of the year	5,868
Addition	8,974
Amortisation	(582)
Exchange adjustments	(126)
Net book value at the end of the year	14,134
As at 31 December 2018	
Costs	14,706
Accumulated amortisation	(572)
Net book value	14,134

18 Inventories

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Raw materials	9,366	10,624
Work in progress	3,583	5,369
Finished goods	14,837	20,392
	27,786	36,385

Movements in provision for impairment are as follows:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
At the beginning of the year	(3,252)	(11,676)
Currency translation differences	78	543
Provision for impairment of inventories	(206)	(803)
Written-off (a)	1,521	8,684
At the end of the year	(1,859)	(3,252)

For the year ended 31 December 2019, the inventory cost recognised in cost of sales was HK$113,526,000 (the year ended 31 December 2018: HK$125,034,000).

For the year ended 31 December 2019, the provision for impairment of inventories for the Group amounted to HK$206,000 (the year ended 31 December 2018: HK$803,000), which was recognised in at the cost of sales. The main reasons for the provision for impairment are: (1) the Group's business transformation will reduce the production of certain types of industrial products; (2) the market price of certain inventories has declined.

(a) The written-off of provision for impairment of inventories represent the the Group's disposed inventories of which provision for impairment had been made previously. The respective gains on disposal have been recognised in other income.

19 Financial Instruments by Category

	Borrowings and receivables HK$'000	Financial assets at fair value through profit or loss HK$'000	Total HK$'000
As at 31 December 2019			
Assets as per balance sheet			
Trade receivables and other receivables, excluding prepayments	50,444	—	50,444
Financial assets at fair value through profit or loss	—	157,573	157,573
Security and restricted deposits	1,571	—	1,571
Cash and cash equivalents	43,408	—	43,408
Total	95,423	157,573	252,996

	Other financial liabilities at amortised cost HK$'000
Liabilities as per balance sheet	
Convertible bonds	129,978
Borrowings	100,958
Lease Liabilities	27,406
Trade payables and other payables, excluding statutory liabilities	42,839
Total	301,181

19 Financial Instruments by Category (Continued)

	Borrowings and receivables HK$'000	Financial assets at fair value through profit or loss HK$'000	Total HK$'000
As at 31 December 2018			
Assets as per balance sheet			
Trade receivables and other receivables, excluding prepayments	39,786	—	39,786
Financial assets at fair value through profit or loss	—	137,339	137,339
Security and restricted deposits	2,279	—	2,279
Cash and cash equivalents	43,305	—	43,305
Total	85,370	137,339	222,709

	Other financial liabilities at amortised cost HK$'000
Liabilities as per balance sheet	
Convertible bonds	118,463
Borrowings	68,478
Trade payables and other payables, excluding statutory liabilities	38,509
Total	225,450

20 Financial Assets at Fair Value through Profit or Loss

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Listed securities - held-for-trading:		
– Equity securities – Hong Kong	157,573	137,339

Financial assets at fair value through profit or loss are denominated in Hong Kong dollar.

The fair value of all equity securities is determined based on their closing price in active market.

21 Trade Receivables and Other Receivables

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Non-current portion		
Other non-current assets – prepaid renovation expenses	–	2,410
Current portion		
Trade and bills receivables	57,887	54,459
Less: Provision for impairment of trade and bills receivables	(13,397)	(20,500)
Trade and bills receivables, net	44,490	33,959
Prepayments	2,798	1,794
Other receivables	5,954	5,827
	53,242	41,580

As at 31 December 2019, none of the Group's bank borrowings were pledged by trade receivables (Note 28) (31 December 2018: HK$27,889,000).

21 Trade Receivables and Other Receivables (Continued)

Parts of the Group's sales are on acceptance bills or documents against payment. The remaining amounts are with credit terms of thirty to ninety days. As at 31 December 2019 and 31 December 2018, the aging analysis of the trade and bills receivables based on invoice date was as follows:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
3 months or less	23,732	16,750
3 to 6 months	12,691	9,815
More than 6 months	21,464	27,894
	57,887	54,459

The Group applies the HKFRS 9 simplified approach to measure expected credit losses and makes provision for impairment of trade receivables based on the expected credit losses. As at 31 December 2019, the provision was HK$13,397,000 (31 December 2018: HK$20,500,000) (Note 3.1(b)).

Movements on the Group's provision for impairment of trade receivables are as follows:

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
At the beginning of the year	20,500	37,394
Written-off	(2,263)	(1,728)
Reversal of impairment	(4,516)	(14,157)
Exchange adjustments	(324)	(1,009)
At the end of the year	13,397	20,500

21 Trade Receivables and Other Receivables (Continued)

The creation and release of provision for impaired receivables were included in 'reversal of impairment of receivables' in the consolidated statement of comprehensive income (Note 8). The amount charged to the allowance account is generally written off when it is expected that no additional cash can be recovered.

The other classes within trade and bills receivables do not contain impaired assets.

As at the balance sheet date, the maximum exposure to credit risk is the carrying amount of each class of receivables mentioned above.

22 Cash and cash equivalents

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Cash at bank and on hand	42,960	42,156
Other cash balances (a)	448	1,149
Cash and cash equivalents	43,408	43,305

(a) Other cash balances are unspent funds deposited in securities company.

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Renminbi	29,215	24,906
Hong Kong dollar	10,829	16,981
US dollar	3,342	1,413
Other currencies	22	5
	43,408	43,305

23 Security and Restricted Deposits

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Security deposits (a)	1,571	2,279

(a) Security deposits comprise performance guarantee bonds and deposits for bills payables which are deposited by the Group in banks. These deposits earn interest at 0.30% (31 December 2018: 0.35%) per annum.

As at 31 December 2019 and 31 December 2018, security deposits and restricted deposits were listed in Renminbi.

24 Share Capital and Share Premium

	Number of shares *(In thousands)*	Share Capital HK$'000	Share Premium HK$'000
As at 31 December 2018 and 31 December 2019	1,455,000	145,500	95,240

25 Accumulated Losses

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Balance at the beginning of the year	586,756	463,837
Year losses	13,573	122,919
Balance at the end of the year	600,329	586,756

26 Other Reserves

	Contributed surplus HK$'000	Convertible bonds HK$'000	Statutory reserve HK$'000	Asset revaluation reserve HK$'000	Foreign currency translation HK$'000	Total HK$'000
Balance at 1 January 2018	4,800	577,941	11,829	77,549	13,559	685,678
Revaluation of properties	—	—	—	1,448	—	1,448
Deferred tax on property revaluation	—	—	—	23	—	23
Exchange difference on translation of foreign currencies	—	—	—	—	(13,009)	(13,009)
Balance at 31 December 2018	4,800	577,941	11,829	79,020	550	674,140

	Contributed surplus HK$'000	Convertible bonds HK$'000	Statutory reserve HK$'000	Asset revaluation reserve HK$'000	Foreign currency translation HK$'000	Total HK$'000
Balance at 1 January 2019	4,800	577,941	11,829	79,020	550	674,140
Revaluation of properties	—	—	—	362	—	362
Deferred tax on property revaluation	—	—	—	82	—	82
Exchange difference on translation of foreign currencies	—	—	—	—	(226)	(226)
Balance at 31 December 2019	4,800	577,941	11,829	79,464	324	674,358

27 Trade Payables, Other Payables, and Contract Liabilities

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Trade payables	32,421	32,016
Bills payables	3,747	1,288
Employee salaries payables	23,737	21,473
Other taxes payables	16,128	14,351
Contract liabilities	7,901	12,092
Other payables	1,937	1,539
Accrued expenses	4,734	3,666
Interest payables	166	—
	90,771	86,425

As at 31 December 2019 and 31 December 2018, the aging analysis of trade and bills payables based on the invoice date was as follows:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Within 90 days	29,295	24,732
91 to 120 days	327	1,568
Over 120 days	6,546	7,004
	36,168	33,304

27 Trade Payables, Other Payables, and Contract Liabilities (Continued)

The carrying value of the Group's trade payables, bills payables and other payables are denominated in the following currencies:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Renminbi	38,011	34,810
Hong Kong dollar	94	33
	38,105	34,843

28 Borrowings

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Current		
Secured bank borrowings due for repayment within one year	89,200	68,478
Short-term credit borrowings due for repayment within one year	11,758	—
	100,958	68,478

As at 31 December 2019, the bank borrowings are secured by the properties of the Group with net value of HK$81,171,000 (Note 14 and Note 15), and corporate guarantees are provided by its subsidiaries. As at 31 December 2018, the bank borrowings are secured by the propertis of the Group with net value of HK$87,652,000 (Note 14) and pledged by trade receivables of HK$27,889,000 (Note 21), and corporate guarantees are provided by its subsidiaries.

28 Borrowings (Continued)

On 13 December 2019, Sino Xin Yuan Limited provided the Group with short-term credit borrowings of US$1,500,000 (equivalent to approximately HK$11,758,000). Sino Xin Yuan Limited is an indirectly owned subsidiary of Sino IC Leasing Co., Ltd.. For the year ended 31 December 2019, the interest expenses were HK$23,000.

As at 31 December 2019, the average annual borrowing interest rate was 6.28% (31 December 2018: 5.66%).

The above borrowings are carried at amortised cost. The fair value approximated to its carrying amount as the term is short.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Renminbi	89,200	68,478
US dollar	11,758	—
	100,958	68,478

29 Convertible Bonds

On 30 May 2016, the Company issued 730,000,000 ordinary shares at a price of HK$0.4 per share and zero coupon convertible bonds with face value of HK$148,000,000 to Unis Strategy Investment Company. The bonds shall be matured in five years from the date of issue at their face value of HK$148,000,000 or converted into ordinary shares of the Company at HK$0.4 per share (subject to adjustment) by the holder before the maturity date of the bonds. Such transaction was approved in the special general meeting held on 9 May 2016. The above convertible bonds are classified as financial liabilities at fair value through profit or loss.

29 Convertible Bonds (Continued)

On 30 May 2017, the special general meeting approved the supplementary agreement for the convertible bonds signed by the Company and Unis Strategy Investment Company. The supplementary agreement removes the relevant terms in relation to the conversion price adjustment under the original agreement. Accordingly, the convertible bonds issued by the Company pursuant to the original agreement were derecognised. According to the supplementary agreement, the convertible bonds were recognised as compound financial instruments. As at 30 March 2017, such financial liability at fair value through profit or loss of HK$678,487,000 was derecognised. Pursuant to the amended terms and the fair value at the date, the Company has recognised the convertible bonds as compound financial instruments, among which the fair value of the liability component was HK$100,546,000, the fair value of the equity component was HK$577,941,000, and the liability component of the compound financial instrument were subsequently measured by the amortised cost method. The recognised interest expense of convertible bonds for the year were HK$11,515,000 (for the year ended 31 December 2018, the recognised interest expense of convertible bonds were HK$10,494,000) (Note 10).

No convertible bonds were converted into ordinary shares of the Company during the year.

30 Deferred Income Tax

The analysis of deferred income tax liabilities is as follows:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	12,469	13,249
– Deferred tax liabilities to be recovered within 12 months	432	1,161
	12,901	14,410
Deferred tax assets:		
– Deferred tax assets to be recovered after more than 12 months	—	13,534
– Deferred tax assets to be recovered within 12 months	11,947	—
	11,947	13,534

30 Deferred Income Tax (Continued)

The movements on the deferred income tax for the year are as follows:

Deferred tax liabilities	Properties revaluation HK$'000	Investment Properties HK$'000	Gains on financial assets at fair value through profit or loss HK$'000	Total HK$'000
As at 1 January 2018	15,532	—	6,189	21,721
Charged to the statement of income	(1,099)	—	(6,189)	(7,288)
Charged to other comprehensive income	(23)	—	—	(23)
As at 31 December 2018	14,410	—	—	14,410
Reclassification	(3,730)	3,730	—	—
Charged to the statement of income	(857)	(240)	—	(1,097)
Charged to other comprehensive income	(82)	—	—	(82)
Exchange differences	(232)	(98)	—	(330)
As at 31 December 2019	9,509	3,392	—	12,901

Deferred tax assets	Tax losses HK$'000
As at 1 January 2018	—
Charged to the statement of income	13,534
As at 31 December 2018	13,534
Charged to the statement of income	(1,587)
As at 31 December 2019	11,947

30 Deferred Income Tax (Continued)

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profit is probable. For the year ended 31 December 2019, the Group has not recognised deferred tax assets amounted to HK$113,115,000 (the year ended 31 December 2018: HK$113,299,000) in respect of losses amounted to HK$667,366,000 (the year ended 31 December 2018: HK$663,220,000) that can be carried forward against future taxable income.

For the year ended 31 December 2019, the aforesaid tax loss of HK$424,539,000 (the year ended 31 December 2018: HK$408,509,000), which was not carried forward to offset future taxable income, had no due date. The remaining tax losses that are not carried forward to offset future taxable income will expire in the following years:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Year		
2018	—	215
2019	3,409	3,409
2020	208,145	219,867
2021	29,261	29,261
2022	1,959	1,959
2023	53	—
	242,827	254,711

31 Deferred income

	As at 31 December 2018 HK$'000	Recognised at other inocome HK$'000	Exchange in adjustment HK$'000	As at 31 December 2019 HK$'000
Grant on the project of "Non-contact solderspray and welding technique (非接觸焊料噴射與焊接技術)"	4,565	(3,266)	(50)	1,249

The Group received government grant related to the project of "Non-contact solderspray and welding technique (非接觸焊料噴射與焊接技術)" by the Financial Committee of Shenzhen City (深圳市財政委員會), equivalent to HK$4,565,000 in total. The project was completed in August 2019 and passed the government inspection. The Group recognised the government grants used to settle related costs as other income at the time of government inspection, and recognised the government grants used to purchase machinery and equipment for research and development as other income, amortised over the depreciable life of the machinery and equipment.

32 Notes to the Consolidated Statement of Cash Flows

(a) Reconciliation between loss before income tax and cash used in operating activities:

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Loss before income tax		
– Continuing operation	(9,505)	(143,422)
– Terminated operation	—	(319)
Adjustments for:		
– Amortisation of land use rights (Note 16)	303	316
– Depreciation of property, plant and equipment (Note 14)	7,449	8,884
– Depreciation on other right-of-use assets (Note 16)	1,740	—
– Amortisation of intangible assets (Note 17)	582	—
– Profits on disposal of property, plant and equipment (Note 7)	(25)	(37)
– Provision for impairment of trade receivables (Note 8)	(4,516)	(14,157)
– Provision for impairment of inventories (Note 8)	206	803
– Investment income arising from disposal of terminated operation	—	(1,110)
– Shares of results of associates (Note 13(b))	(3,211)	(187)
– Cash dividends received (Note 6)	(1,384)	(1,343)
– Gains on redemption of investment products (Note 7)	(160)	—
– Finance costs, net (Note 10)	17,720	13,301
– Amortisation of deferred income (Note 31)	(3,266)	—
– Loss on change in fair value of investment properties (Note 15)	1,304	—
Changes in working capital:		
– Decrease in inventories	8,471	2,512
– (Increase)/decrease in trade receivables and other receivables	(27,004)	165,181
– Increase in trade payables and other payables	(5,264)	(46,237)
– Decrease in finance lease receivables	—	732
Cash used in operations	(16,560)	(15,083)

32 Notes to the Consolidated Statement of Cash Flows (Continued)

(b) The proceeds from sales of property, plant and equipment included in the consolidated statement of cash flows include:

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Net book value (Note 14)	782	1,084
Profits on disposal of property, plant and equipment (Note 7)	25	37
Proceeds from disposal of property, plant and equipment	807	1,121

(c) Net cash reconciliation

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Cash and cash equivalents	43,408	43,305
Liquid investments (i)	157,573	137,339
Borrowings – repayment within one year	(100,958)	(68,478)
Net cash	100,023	112,166
Cash and liquid investments	200,981	180,644
Total debt – floating rates	(100,958)	(68,478)
Net cash	100,023	112,166

(i) Liquid investments are investments traded currently in active markets, namely financial assets at fair value through profit or loss held by the Group.

32 Notes to the Consolidated Statement of Cash Flows (Continued)

(c) Net cash reconciliation (Continued)

	Other Assets		Liabilities of Financing Activities		
	Cash and cash equivalents HK$'000	Liquid investments HK$'000	Borrowings due within one year HK$'000	Lease Liabilities HK$'000	Total HK$'000
Net cash as at 1 January 2018	234,003	256,563	–	–	490,566
Cash flows	(190,792)	(4,260)	(68,478)	–	(263,530)
Exchange in adjustment	94	–	–	–	94
Other non-cash movements (ii)	–	(114,964)	–	–	(114,964)
Net cash as at 31 December 2018	43,305	137,339	(68,478)	–	112,166
Net cash as at 1 January 2019	43,305	137,339	(68,478)	–	112,166
New leases	–	–	–	(29,091)	(29,089)
Cash flows	214	–	(32,480)	1,888	(30,380)
Exchange in adjustment	(111)	–	–	–	(111)
Other non-cash movements (ii)	–	20,234	–	(203)	20,031
Net cash as at 31 December 2019	43,408	157,573	(100,958)	(27,406)	72,617

(ii) Other non-cash movements are changes in fair value of financial assets at fair value through profit or loss, and the lease liabilities component represents amortisation of unrecognised financing costs.

33 Commitments

Operating lease commitments – the Group as lessee

The Group rents certain office premises or staff quarter under non-cancellable operating lease agreements. The lease terms are within one year, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The aggregate future minimum rental payments under non-cancellable operating leases are as follows:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Within one year	220	8,260

As at 31 December 2019 and 31 December 2018, the Group had no non-cancellable contracted capital commitments.

Operating lease commitment – the Group as lessor

The Group leases certain factory buildings and staff quarters under non-cancellable operating lease agreements. The minimum rents to be collected in the future are as follows:

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
Within one year	4,862	—
More than one year but not more than five years	13,775	—
	18,637	—

34 Related Party Transactions

Save as disclosed elsewhere in the financial statements, the Group's transactions with related parties during the year were as follows.

Key management compensation

Key management includes Directors (executive Directors and non-executive Directors), Company Secretary and executives in key departments such as operations. The remuneration paid or payable to key management personnel for employee services is shown below:

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000
Salaries and other short-term employee benefits	6,810	5,076
Post-employment benefits	—	27
	6,810	5,103

35 Balance Sheet and Reserve Movement of the Company

	As at 31 December 2019 HK$'000	As at 31 December 2018 HK$'000
ASSETS		
Non-current assets		
Property, plant and equipment	137	670
Investment in subsidiaries	117,882	117,882
	118,019	118,552
Current assets		
Amounts due from subsidiaries	637,271	630,306
Trade receivables and other receivables	5,547	5,178
Tax reserve certificates	238	—
Cash and bank deposits	7,952	13,663
	651,008	649,147
Current liabilities		
Amounts due to subsidiaries	1,390	3,775
Trade payables and other payables	6,510	6,117
Related party borrowings	11,758	—
	19,658	9,892
Non-current liabilities		
Convertible bonds	129,978	118,463
Equity attributable to equity holders of the Company		
Share capital and share premium	240,740	240,740
Accumulated losses (a)	(199,290)	(179,337)
Other reserves (a)	577,941	577,941
TOTAL EQUITY	619,391	639,344

35 Balance Sheet and Reserve Movement of the Company (Continued)

(a) Accumulated losses and reserve movement of the Company

	Other reserves HK$'000	Accumulated losses HK$'000
1 January 2018	577,941	(165,030)
Loss for the year	—	(14,307)
31 December 2018	577,941	(179,337)
1 January 2019	577,941	(179,337)
Loss for the year	—	(19,953)
31 December 2019	577,941	(199,290)

36 Benefits and Interests of Directors

(a) Directors' and Chief Executive Officer's emoluments

Directors' and Chief Executive Officer's emoluments are set out as below.

For the year ended 31 December 2019:

Name	Fees HK$'000	Basic salaries, allowances and benefits in kind HK$'000	Contribution to pension scheme HK$'000	Total HK$'000
Directors:				
Mr. DU Yang (i)	—	—	—	—
Mr. YUAN I-Pei (i)	—	—	—	—
Mr. XIA Yuan	—	300	—	300
Mr. LI Jinxian (ii)	—	—	—	—
Mr. LI Yongjun (ii)	—	—	—	—
Mr. ZHANG Yadong (iii)	—	—	—	—
Mr. LI Zhongxiang (iii)	—	—	—	—
Mr. QI Lian (iii), (iv)	—	—	—	—
Mr. ZHENG Bo (iii)	—	—	—	—
Independent Directors:				
Mr. CUI Yuzhi	144	—	—	144
Mr. BAO Yi (iv)	144	—	—	144
Mr. PING Fan (iv)	144	—	—	144
	432	300	—	732

(i) Mr. Du Yang and Mr. Yuan I-Pei were appointed as executive Directors of the Company on 5 November 2019.

(ii) Mr. Li Jinxian and Mr. Li Yongjun were appointed as non-executive Directors of the Company on 5 November 2019.

36 Benefits and Interests of Directors (Continued)

(a) Directors' and Chief Executive Officer's emoluments (Continued)

(iii) On 4 November 2019, Mr. Zhang Yadong resigned as an executive Director, the chairman of the Board and the chairman of the Nomination Committee; Mr. Li Zhongxiang resigned as a non-executive Director, the vice chairman of the Board and a member of the Audit Committee; Mr. Qi Lian resigned as a non-executive Director and a member of the Remuneration Committee; and Mr. Zheng Bo resigned as an executive Director.

(iv) Mr. Qi Lian, Mr. Bao Yi and Mr. Ping Fan were re-elected as Directors of the Company at general meeting held on 30 May 2019.

For the year ended 31 December 2018:

Name	Fees HK$'000	Basic salaries, allowances and benefits in kind HK$'000	Contribution to pension scheme HK$'000	Total HK$'000
Directors:				
Mr. ZHANG Yadong (i)	—	—	—	—
Mr. XIA Yuan (i)	—	—	—	—
Mr. ZHENG Bo (i)	—	—	—	—
Mr. LI Zhongxiang (i)	—	—	—	—
Mr. QI Lian	—	—	—	—
Independent Directors:				
Mr. CUI Yuzhi	144	—	—	144
Mr. BAO Yi	144	—	—	144
Mr. PING Fan	144	—	—	144
	432	—	—	432

(b) For the year ended 31 December 2019, the Group has no Directors' retirement benefits, termination benefits, considerations and borrowings provided to third parties for rendering of Director's service, as well as loans, quasi-loans and other credit transaction information provided to Directors, body corporate controlled by these Directors and related parties of Directors to be disclosed.

36 Benefits and Interests of Directors (Continued)

(c) No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted for the year ended 31 December 2019.

37 Post-Reporting Period Events

On 3 January 2020 and 13 February 2020, the Group disposed on the open market of a total of 4,510,000 shares of Legend Holdings Corporation and a total of 4,520,000 shares of Semiconductor Manufacturing International Corporation as stated in financial assets at fair value through profit or loss, respectively. The average sale price of Legend Holdings Corporation shares was HK$16.1 per share and the aggregate gross sale proceeds from the disposal amounted to approximately HK$72,611,000 (exclusive of transaction costs). The average sale price of Semiconductor Manufacturing International Corporation shares was HK$17.17 per share and the aggregate gross sale proceeds from the disposal was approximately HK$77,605,236 (exclusive of transaction costs).

Since the beginning of 2020, the new coronavirus pneumonia epidemic (hereinafter referred to as the "COVID-19 epidemic") has spread in China and some other countries and regions, with impacts on economic activities. The Group has assessed the potential impact of the COVID-19 epidemic on the Group as follows:

- With the global spread of the COVID-19 epidemic and the changing worldwide macroeconomic environment, market demand for the Group's products may be indirectly affected.

- The turnover period of the Group's receivables may be extended and the relevant potential credit risk may increase.

- Properties and plants held by the Group are recognised at fair value based on the valuation made by external independent appraisers at each balance sheet date less subsequent depreciation thereof, and the investment properties are recognised at fair value. The impact of the COVID-19 epidemic, if any, will be considered in the valuation of these properties, plants and investment properties in 2020.

As at the date of this report, the Group is unable to reliably estimate the financial impact associated with the above. The Group will closely monitor the development of the COVID-19 epidemic and continue to assess its impact on the Group's financial position and results of operations.