

TC Orient Lighting Holdings Limited
達進東方照明控股有限公司

Incorporated in the Cayman Islands with limited liability

Stock Code: 515



2019
ANNUAL REPORT



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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Zeng Yongguang
 Mr. Xu Ming
(appointed as Chief Executive Officer on 9 April 2020)
 Mr. Guo Jun Hao
 Mr. Mai Huazhi
 Mr. Yau Yan Ming Raymond
*(appointed on 18 November 2019 and
 resigned on 9 April 2020)*
 Mr. Chen Hua
(resigned on 13 August 2019)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Hongxiang
 Mr. Wong Kwok On
 Mr. Bonathan Wai Ka Cheung
 Dr. Loke Yu (alias Loke Hoi Lam)

AUDIT COMMITTEE

Dr. Loke Yu (alias Loke Hoi Lam)
(chairman of committee)
 Mr. Li Hongxiang
 Mr. Wong Kwok On
 Mr. Bonathan Wai Ka Cheung

REMUNERATION COMMITTEE

Dr. Loke Yu (alias Loke Hoi Lam)
 Mr. Li Hongxiang
 Mr. Bonathan Wai Ka Cheung

NOMINATION COMMITTEE

Mr. Li Hongxiang
 Mr. Bonathan Wai Ka Cheung
 Dr. Loke Yu (alias Loke Hoi Lam)

COMPLIANCE COMMITTEE

Dr. Loke Yu (alias Loke Hoi Lam)
(chairman of committee)
 Mr Li Hongxiang
 Mr. Bonathan Wai Ka Cheung

COMPANY SECRETARY

Mr. Chan Chun Kau

HEAD OFFICE

Unit 1101 A1, East Ocean Centre
 98 Granville Road
 Tsim Sha Tsui, Kowloon
(before 23 August 2019)

Unit E, 30/F., Tower B, Billion Centre,
 1 Wang Kwong Road,
 Kowloon Bay, Kowloon,
 Hong Kong
(since 23 August 2019)

REGISTERED OFFICE

Cricket Square
 Hutchins Drive, P.O. Box 2681
 Grand Cayman KY1-1111
 Cayman Islands

AUDITOR

HLB Hodgson Impey Cheng Limited

PRINCIPAL BANKERS

China Construction Bank Corporation,
 Zhongshan Branch, Guangdong, the PRC
 Agricultural Bank of China,
 Zhongshan Branch, Guangdong, the PRC
 China Trust Commercial Bank, Ltd.

CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong
(before 18 June 2019)

Union Registrars Limited
Suites 3301-04, 33/F.
Two Chinachem Exchange Square
338 King's Road, North Point
Hong Kong
(since 18 June 2019)

STOCK CODE

00515

WEB-SITE

www.tatchun.com

STATEMENT FROM THE BOARD

Dear Shareholders,

On behalf of the Board (the “**Board**”) of Directors (the “**Directors**”) of TC Orient Lighting Holdings Limited (the “**Company**”, and together with its subsidiaries collectively referred to as the “**Group**”), we are pleased to present the Group’s result for the year ended 31 December 2019 (the “**Year**”).

For the year of 2019, the Company’s PCB business decreased in revenue due to severe competition with competitors and the China-US trade tension. The Group has taken various measures to overcome these challenges. On one hand, the Group has taken various cost-savings and quality improvement measures. The Group also adopted strategic pricing policy and proactive marketing approach to attract more sales orders from both existing and potential customers.

Regarding the LED segment, during the Year, the Group has focused on credit management and optimisation of the trade receivable collection. The Group was also in negotiations with business partners with the view to pursuing projects and business opportunities.

Looking into the future, the Board and the management team will continue to adopt measures to improve the Group’s existing business and explore opportunities to create value for the Company and its shareholders.

On behalf of the Board, I would like to express our sincere thanks to our colleagues for their efforts and commitment and to our shareholders and investors for their continual support.

Sincerely yours,

Zeng Yongguang
Executive Director

11 May 2020

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board of the Company recognises the importance of corporate governance practice of a listed company and is committed to adopting the standards of corporate governance. It is in the interest of the stakeholders and shareholders for a listed company to operate in a transparent manner with the adoptions of various self-regulatory policies, procedures and monitoring mechanisms with a clear definition of accountability of directors and management.

The Company and the Directors confirm, to the best of their knowledge, that the Company complied with the code provisions set out in the Corporate Governance Code (the “**CG Code**”) as stated in Appendix 14 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) throughout the Year except for the following:

- (i) Under Code Provision A.2.1, the roles of Chairman and chief executive officer (“**CEO**”) should be separated and not be performed by the same individual. Following the resignation of Mr. Chen Yongsen as the Chairman of the Company with effect from 20 April 2018 and the resignation of Mr. Wang Shi Jin as the Company’s CEO with effect from 5 June 2018, the positions of chairman is currently vacant. Mr. Xu Ming, an executive Director, was appointed as CEO with effect from 9 April 2020. The Company is identifying suitable candidates to fill the vacancy of chairman.
- (ii) Under Code Provision A.6.7, independent non-executive directors should attend the annual general meeting of the Company. Certain Directors did not attend the annual general meeting of the Company held on 30 May 2019 due to other commitments. The Company will improve its advance planning of its corporate actions to better facilitate Directors’ attendance.
- (iii) Under Code Provision C.1.2, management should provide all members of the Board with monthly updates on the issuer’s performance, position and prospects, which may include monthly management accounts and material variance between projections and actual results. During the Year, although management accounts were not circulated to Board members on monthly basis, regular verbal updates were given by management to Directors on working level meetings from time to time, which the management considers to be sufficient and appropriate in the circumstances in giving a balanced and understandable assessment of the Group’s performance and enabling Directors to discharge their duties.

The Board and the compliance committee shall continue to monitor and review the Company’s corporate governance practices to ensure compliance of the CG Code.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company follows the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules (the “**Model Code**”) as the code of conduct for Directors in their dealings in the Company’s securities and each of the incumbent directors confirmed that he/she has complied with the Model Code during the year ended 31 December 2019.

DIRECTORS

The Board

The Board has the collective responsibility for leadership and control of, and for promoting the success of, the Company by directing and supervising the Company’s affairs. The Board sets strategies for the Company and monitors the performance of the management.

CORPORATE GOVERNANCE REPORT

DIRECTORS *(continued)*

The Board *(continued)*

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making. The Board currently comprises 8 members, consisting of 4 executive Directors and 4 independent non-executive Directors. Further details of the composition of the Board are set out on page 2.

Biographical details of the directors are set out in the “Biographies of Directors and Senior Management” on pages 15 to 16 of the Annual Report.

The Board has established a policy setting out the approach to achieve diversity on the Board (the “**Board Diversity Policy**”) with the aims of enhancing Board effectiveness and corporate governance as well as achieving our business objectives and sustainable development. Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, required expertise, skills, knowledge and length of service. The current Board consists of a diverse mix of Board members appropriate to the requirement of the business of the Company, and depending on the growing business needs and availability of the human resources market, suitable qualified individuals will be considered.

In addition, the Board has met Rule 3.10 of the Listing Rules, that at least one of the independent non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise. The independent non-executive Directors bring independent judgment, knowledge and experience to the Board. Each of the incumbent independent non-executive directors confirmed that he/she is independent within the definition of Rule 3.13 of the Listing Rules.

The Company has held 10 board meetings during the Year and the attendance records are set out below:

| Name of directors | Number of attendance |
|--|----------------------|
| <i>EXECUTIVE DIRECTORS</i> | |
| Mr. Zeng Yongguang | 9/10 |
| Mr. Xu Ming | 10/10 |
| Mr. Guo Jun Hao | 10/10 |
| Mr. Mai Huazhi | 10/10 |
| Mr. Yau Yan Ming Raymond <i>(appointed on 18 November 2019 and resigned on 9 April 2020)</i> | 1/1 |
| Mr. Chen Hua <i>(resigned on 13 August 2019)</i> | 2/4 |
| <i>INDEPENDENT NON-EXECUTIVE DIRECTORS</i> | |
| Mr. Li Hongxiang | 8/10 |
| Mr. Wong Kwok On | 10/10 |
| Mr. Bonathan Wai Ka Cheung | 9/10 |
| Dr. Loke Yu (alias Loke Hoi Lam) | 8/10 |

The Company held the 2019 Annual General Meeting on 30 May 2019.

CORPORATE GOVERNANCE REPORT

DIRECTORS *(continued)*

Chairman and Chief Executive Officer

Following the resignation of Mr. Chen Yongsen as the Chairman of the Company with effect from 20 April 2018 and the resignation of Mr. Wang Shi Jin as the Company's CEO with effect from 5 June 2018. Mr. Xu Ming was appointed as the CEO with effect from 9 April 2020. The Company is identifying suitable candidates to fill the vacancy of chairman.

Training and Support For Directors

Directors must keep abreast of their collective responsibilities. The Group is supposed to provide briefings and other training to develop and refresh the Directors' knowledge and skills. The Group is also supposed to continuously update Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

Based on the records of the Company and having made specific enquiries, the Company believes that the Directors have received the following training and/or rules update and/or professional development during the Year:

| Name of directors | Type of Training |
|--|------------------|
| <i>EXECUTIVE DIRECTORS</i> | |
| Mr. Zeng Yongguang | B |
| Mr. Xu Ming | B |
| Mr. Guo Jun Hao | B |
| Mr. Mai Huazhi | B |
| Mr. Yau Yan Ming Raymond (<i>appointed on 18 November 2019 and resigned on 9 April 2020</i>) | B |
| Mr. Chen Hua (<i>resigned on 13 August 2019</i>) | B |
| <i>INDEPENDENT NON-EXECUTIVE DIRECTORS</i> | |
| Mr. Li Hongxiang | B |
| Mr. Wong Kwok On | B |
| Mr. Bonathan Wai Ka Cheung | B |
| Dr. Loke Yu (alias Loke Hoi Lam) | B |

Remarks:

A: attending seminars and/or conferences and/or forums.

B: reading newspapers, journals and updates relating to the economy, general business or director's duties and responsibilities etc.

CORPORATE GOVERNANCE REPORT

DIRECTORS *(continued)*

Responsibilities of Directors

The Directors are supposed to be continually updated with the regulatory requirements, business activities and development of the Group to facilitate the discharge of their responsibilities.

The independent non-executive Directors, as other Directors, are supposed to participate actively in the board meetings and meetings of Audit Committee, Nomination Committee, Remuneration Committee and Compliance Committee. They are supposed to bring an independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct. They are supposed to lead where potential conflicts of interests arise in connected transaction.

Insurance

The Company has arranged appropriate liability insurance, with coverage being reviewed annually, to indemnify the directors from their risk exposure arising from corporate activities.

Supply of and Access to Information

In respect of regular board meetings, agenda and accompanying board papers of the meeting were supposed to be sent in full to all Directors in advance before the intended date of a meeting.

The management has the obligation to supply the Board and the various Committees with adequate information in a timely manner to enable the members to make informed decisions. Each Director is supposed to have separate and independent access to the Group's senior management to acquire more information than is volunteered by management and to make further enquiries if necessary.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company ("**RC**") comprises of three directors, namely, Mr. Li Hongxiang, Mr. Bonathan Wai Ka Cheung and Dr. Loke Yu (alias Loke Hoi Lam), all of whom being independent non-executive Directors.

The RC was delegated with the authority of the Board of the Company to determine and review the remuneration packages of all directors and senior management. The primary function of the RC is to make recommendations to the Board on the Group's policy and structure for all remuneration of directors and senior management and for the Board's final determination. The full terms of reference of the RC are available on the Company's website: www.tatchun.com and the website of the Stock Exchange: www.hkexnews.hk.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE *(continued)*

During the Year, the RC held 3 meetings. The attendance of each member is set out as follows:

| Name of members | Number of attendance |
|--|----------------------|
| Mr. Li Hongxiang | 2/3 |
| Mr. Bonathan Wai Ka Cheung | 3/3 |
| Dr. Loke Yu (alias Loke Hoi Lam) <i>(appointed on 6 June 2018)</i> | 3/3 |

The RC has considered and approved the Group's policy for the remuneration of directors during the Year. The RC is supposed to make an assessment on the performance of the directors and other key management members and considered their remuneration package by reference to the prevailing packages with companies listed on the Main Board of the Stock Exchange. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on a performance related basis. Details of the remuneration of directors are disclosed on an individual basis and are set out in note 11 to the financial statements. Details of the remuneration of senior management (including directors) are disclosed below:

| | 2019 No of persons |
|---|-----------------------|
| Emoluments (including director's fee, salary and other benefits, share-based payments, performance-related incentive payment and retirement benefit scheme contributions) | |
| HKD6,000,000-HKD7,000,000 | 0 |
| HKD5,000,000-HKD6,000,000 | 0 |
| HKD4,000,000-HKD5,000,000 | 0 |
| HKD3,000,000-HKD4,000,000 | 0 |
| HKD2,000,000-HKD3,000,000 | 0 |
| HKD1,000,000-HKD2,000,000 | 0 |
| HKD50,000-HKD1,000,000 | 10 |

NOMINATION COMMITTEE

The Nomination Committee of the Company ("NC") comprises of three directors, namely, Mr. Li Hongxiang, Mr. Bonathan Wai Ka Cheung and Dr. Loke Yu (alias Loke Hoi Lam). All three members of NC are independent non-executive directors.

The NC was delegated with the authority of the Board of the Company to formulate nomination policy for the Board's consideration and implement the Board's approved nomination policy. The primary function of the NC is to review the structure, size and composition of the Board annually and make recommendations on any proposed changes to the Board to complement the Group's corporate strategy. The full terms of reference of the NC are available on the Company's website: www.tatchun.com and the website of the Stock Exchange: www.hkexnews.hk.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE *(continued)*

The Company has a nomination policy of having a Board with a diversity of skills and experience. The selection and proposed appointment of Directors are submitted to the NC for consideration prior to Board approval, and the re-election of Directors is conducted in accordance with the articles of association of the Company. The criteria of assessing a candidate include his/her ability to devote sufficient time and attention to participate in the affairs of the Company including the attendance of Board meetings and serving on committees, to bring business experience to the Board and to contribute to the Board diversity. If the candidate is proposed to be appointed as an INED, his/her independence shall be assessed in accordance with the requirements under the Listing Rules. The totality of the candidate's education, qualifications and experience shall be evaluated in assessing his/her suitability. During the Year, the NC held 2 meetings. The attendance of each member is set out as follows:

| Name of members | Number of attendance |
|----------------------------------|----------------------|
| Mr. Li Hongxiang | 1/2 |
| Mr. Bonathan Wai Ka Cheung | 2/2 |
| Dr. Loke Yu (alias Loke Hoi Lam) | 2/2 |

COMPLIANCE COMMITTEE

The Compliance Committee of the Company (“**CC**”) comprises of three directors, namely, Mr. Li Hongxiang, Mr. Bonathan Wai Ka Cheung and Dr. Loke Yu (alias Loke Hoi Lam). All three CC members are independent non-executive Directors and Dr. Loke Yu (alias Loke Hoi Lam) is the Chairman of CC.

The CC was delegated with the authority of the Board of the Company to oversee the Group's compliance with laws and regulations relevant to the Group's business operations and to review the effectiveness of the Group's regulatory compliance procedures and system. The primary function of the CC is to make matters of the Group relating to regulatory and compliance, internal control and corporate governance requirements. The full terms of reference of the CC are available on the Company's website: www.tatchun.com and the website of the Stock Exchange: www.hkexnews.hk.

During the Year, the CC did not hold any meeting. The attendance of each member is set as follows:

| Name of members | Number of attendance |
|----------------------------------|----------------------|
| Dr. Loke Yu (alias Loke Hoi Lam) | 0/0 |
| Mr. Li Hongxiang | 0/0 |
| Mr. Bonathan Wai Ka Cheung | 0/0 |

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

Financial Reporting

The management is supposed to provide such explanation and information to the Board on monthly basis so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibility to prepare the financial statements that give a true and fair view of the state of affairs of the Group. The Group incurred a loss of approximately HK\$120,572,000 during the year ended 31 December 2019 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK\$94,641,000. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Save for disclosed above, for the purpose of the Company's financial year ended 31 December 2019, the Board was not aware of any other events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern.

In the light of the various measures or arrangements implemented after the end of reporting period to improve the working capital and liquidity and cash flow position of the Group together with the expected results of the other measures, including (a) the provision of financial support by Intelligent South Network Group Ltd, a shareholder of the Company, for the continuing operations of the Company so as to enable it to meet its liabilities when they fall due and carry on its business without a significant curtailment of operations in the twelve months from 31 December 2019; (b) external equity fund-raising with net proceeds of approximately HK\$54.1 million expected to be derived from the subscription agreements dated 28 April 2020 between the Company and the subscribers regarding the issuance of 543,600,000 subscription shares at the subscription price of HK\$0.10 per share; and (c) the ongoing negotiation between the Group and its bankers with the view to securing necessary facilities to meet the Group's working capital and financial requirements, the Company is of the view that it will have sufficient working capital for its current requirements and it is reasonable to expect the Group to remain a commercially viable concern. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The responsibility of the external auditor, Messrs. HLB Hodgson Impey Cheng Limited, is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion solely to the shareholders of Company, as a body and for no other purpose.

Internal Controls

The Board has overall responsibility for the risk management and internal control systems of the Company and for reviewing their effectiveness. The risk management and internal control systems of the Company are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

On 5 November 2015, the Board adopted new internal control procedures (the "New IC Procedures") which not only cover the usage of chops and grant of guarantees and indemnities but also policies regarding: (a) investment decisions; (b) handover of work on change of key personnel; (c) risk assessment and control; (d) external communication; (e) financial reporting, budgeting and closing, bank reconciliation, accounting system and records; (f) cash management and loans approval; (g) sales contract management, sales order approval and credit control; (h) purchase contract management and procurement; (i) record registration, management, depreciation and disposal of fixed assets; (j) stock take, reconciliation and record registration of inventory; (k) management and filing of contract authorization and execution; (l) human resources and payroll; (m) production, materials monitoring and quality; and (n) information technology controls. The heads of the departments of each and every key operating subsidiary of the Company in China were delegated the responsibility to provide introductory training to his staff members on the New IC Procedures.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT *(continued)*

Internal Controls *(continued)*

An internal control report was issued by the Company's compliance officer and internal auditor, which was reviewed and discussed by the members of Audit Committee during its latest Audit Committee meeting. The management of the Company has accepted all relevant recommendations in the internal review reports and to be incorporated into the Company's daily operations manual.

Audit Committee

The Audit Committee of the Company ("AC") comprises of four independent non-executive Directors, namely, Dr. Loke Yu (alias Loke Hoi Lam, Mr. Li Hongxiang, Mr. Wong Kwok On and Mr. Bonathan Wai Ka Cheung. Dr. Loke Yu (alias Loke Hoi Lam) is the chairman of the AC. One out of four AC members, Dr. Loke Yu (alias Loke Hoi Lam) possesses recognised professional qualifications in accounting and has wide experience in audit and accounting.

No former partner of the Company's existing auditing firm acted as a member of the AC within one year from ceasing to be a partner or having any financial interest in the auditing firm.

The AC was delegated with the authority of the Board of the Company to investigate any activity within its terms of reference. The primary function of the AC is to review and supervise the Group's financial reporting process and internal controls. The AC has also reviewed arrangements to enable employees of the Group to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters, and to ensure proper arrangements that in place for fair and independent investigation and follow up actions. The full terms of reference of the AC are available on the Company's website: www.tatchun.com and the website of the Stock Exchange: www.hkexnews.hk.

The Group's audited financial statements for the year ended 31 December 2019 has been reviewed by the AC, which is of the opinion that such statements comply with applicable accounting standards, the Listing Rules and other legal requirements, and that adequate disclosures have been made.

During the Year, the AC held 2 meetings to discuss the financial reporting and compliance procedures and review the internal control system with the external auditors. The attendance of each member is set out as follows:

| Name of members | Number of attendance |
|---|----------------------|
| Dr. Loke Yu (alias Loke Hoi Lam) <i>(chairman of the committee)</i> | 2/2 |
| Mr. Li Hongxiang | 1/2 |
| Mr. Wong Kwok On | 2/2 |
| Mr. Bonathan Wai Ka Cheung | 1/2 |

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT *(continued)*

Audit Committee *(continued)*

The Company's annual results for the year ended 31 December 2019 has been reviewed by the AC.

Apart from the AC meetings, the independent non-executive Directors have also conducted a meeting with the auditors to discuss matters relating to the Company's audit fees and other issues arising from the audit for the Year.

The AC monitors the audit and non-audit services rendered to the Group by its external auditor and ensure that their engagement in other non-audit services will not impair their audit independence or objectivity.

Fee paid/payable to Group's auditors

For the financial year ended 31 December 2019, the fee paid/payable to the Group's auditors is set out as follows:

| Services rendered | Fee paid/payable HK\$'000 |
|--------------------|------------------------------|
| Audit services | 1,800 |
| Non-audit services | – |

Management Functions

The Board is responsible for determining the overall strategy and corporate development and ensuring the business operations are properly monitored. The Board reserves the right to decide all policy matters of the Group and material transactions.

The Board delegates the day-to-day operations to general managers and department heads of the Company and its operating subsidiaries that are responsible for different aspects of the operations of the various members of the Group.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS

Effective Communication

The AGM is supposed to enable the shareholders of the Company to exchange views with the Board. The Chairman of the Board and the Chairmen of AC, RC and NC are supposed to attend the AGM to be available to answer the questions of the shareholders of the Company.

Separate resolutions will be proposed at the forthcoming AGM on each substantially separate issue, including the re-election of the retiring directors. The Shareholder Communication Policy is available on the Company's website: www.tatchun.com.

According to Article 58 of the Articles, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition.

Shareholders may, at any time, direct questions, request for publicly available information and provide comments and suggestions to directors or management of the Company. Such questions, requests and comments can be addressed to the Board of Directors of the Company by mail to Unit E, 30/F, Tower B, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong or by email to tatchun@tatchun.com.

Voting by Poll

The right to demand a poll will be set out in the circular to shareholders of the Company to be dispatched to shareholders in relation to the forthcoming AGM.

CONSTITUTIONAL DOCUMENTS

The Memorandum and Articles of Association are available on the Company's website: www.tatchun.com and the Stock Exchange's website: www.hkexnews.hk. No significant change is made to the Company's constitutional documents during the Year.

COMPANY SECRETARY

Mr. Chan Chun Kau is the Company Secretary of the Company. The company secretary supports the Board by facilitating information flow amongst Board members and assists Board members on policy and procedures. Mr. Chan is a practising solicitor in Hong Kong. During the Year, Mr. Chan has taken no less than 15 hours of relevant professional training.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Zeng Yongguang, aged 47, was appointed as an executive Director with effect from 27 March 2018. He graduated from Beijing Language and Culture University (北京語言大學) in 2011 majoring in International Economics and Trade. Mr. Zeng has many years of management experience with commercial banks in China. Mr. Zeng is currently a director of the following subsidiaries of the Company, namely, Tat Chun PCB International Company Limited, Tat Chun Printed Circuit Board Company Limited, TC Hong Kong Electric Company Limited and TC Orient LED Energy Management Company Limited, TC Orient Lighting (Shenzhen) Limited (達進東方照明(深圳)有限公司), Guangdong Tat Chun Electronic Technology Co., Ltd. (廣東達進電子科技有限公司), Zhongshan Tat Chun Printed Circuit Board Company Limited. (中山市達進電子有限公司), 中山市達進電子元件有限公司, 深圳市新達際商貿有限公司, 吳川榮森貿易有限公司, 達進東方(揚州)投資有限公司, 中山市一心商貿有限公司, 廣東大鵬電力器材有限公司, and TC (BVI) Limited.

Mr. Xu Ming, aged 48, was appointed as executive Director with effect from 14 September 2016 and appointed as the chief executive officer of the Company with effect from 9 April 2020. He obtained a master's degree in Economics and Management from Wuhan University, China. Mr. Xu is an entrepreneur having many years of experience in capital markets and an extensive business network in China.

Mr. Guo Jun Hao, aged 38, was appointed as executive Director of the Company with effect from 10 April 2017. Mr. Guo obtained a bachelor's degree in arts from the University of Wolverhampton in 2004, a master's degree in social sciences from The University of Leicester in 2006 and a master's degree in science from the University of Warwick in 2007. Before joining the Company, Mr. Guo has over 7 years of experience working in financial institutions in China and has occupied management position responsible for customer services, staff training, sales and marketing. Mr. Guo was appointed as the general manager of the Company's subsidiary, TC Hong Kong Electric Company Limited and is responsible for overseeing its sales and marketing operations.

Mr. Mai Huazhi, aged 28, occupied senior management roles in an integrated financial company in China engaging in enterprise management and consultancy, asset management, financial services, direct equity investment, financial information, corporate restructuring, leasing and property development prior to joining the Company.

Mr. Yau Yan Ming Raymond, aged 51, obtained a bachelor's degree in Business Administration (Accounting) from the University of Hawaii at Manoa and a master of science degree in Japanese Business Studies from Chaminade University of Honolulu. Mr. Yau has over 22 years' experience in auditing, accounting, taxation, company secretarial, corporate finance, IPO and financial management. Mr. Yau is an associate member of Hong Kong Institute of Certified Public Accountants, a member of American Institute of Certified Public Accountants and a fellow and certified tax adviser of The Taxation Institute of Hong Kong. Mr. Yau is an independent non-executive director of Unitas Holdings Limited (stock code: 8020), a company listed on the GEM Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Between 6 October 2014 and 19 January 2017, Mr. Yau was an independent non-executive director of Enterprise Development Holdings Limited (stock code: 1808), a company listed on the Main Board of the Stock Exchange. Mr. Yau was appointed as an executive Director with effect from 18 November 2019 and resigned on 9 April 2020.

Mr. Chen Hua, aged 57, was appointed as an executive Director with effect from 29 February 2016 and resigned from his position as an executive director on 13 August 2019. Mr. Chen has over 34 years of experience in property construction and engineering and project management in China. He obtained a Bachelor of Civil Engineering from Sun Yat-sen University, Guangzhou in 1983.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(continued)*

Independent Non-Executive Directors

Mr. Li Hongxiang, aged 29, was appointed as an independent non-executive Director with effect from 4 July 2016 and graduated from the University of Sydney, Australia with a Bachelor of Commerce (Accounting and Economics). Mr. Li has participated in the organisation of youth and student activities amongst the Chinese population in Australia.

Mr. Wong Kwok On, aged 65, was appointed as an independent non-executive Director of the Company since 14 September 2016 and he has previously worked in licensed corporations in Hong Kong engaging in securities, futures and corporate finance. Mr. Wong is currently the Chairman of the Hong Kong Securities & Futures Professionals Association and an independent non-executive director of Real Nutraceutical Group Limited (stock code: 2010), a company listed on the Main Board of the Stock Exchange.

Mr. Bonathan Wai Ka Cheung, aged 28, was appointed as independent non-executive Director of the Company since 14 September 2016. He graduated from University of Waterloo, Canada with a Bachelor of Arts in Economics. Mr. Cheung has experience in working in a securities brokerage company in Canada.

Dr. Loke Yu (alias Loke Hoi Lam), aged 70, was appointed as an independent non-executive Director of the Company with effect from 6 June 2018. Dr. Loke holds a Master of Business Administration degree from Universiti Teknologi Malaysia and a Doctor of Business Administration degree from University of South Australia. Dr. Loke is a Fellow Member of The Institute of Chartered Accountants in England and Wales, Hong Kong Institute of Certified Public Accountants and The Hong Kong Institute of Chartered Secretaries. He is also a member of The Hong Kong Independent Non-executive Director Association.

He has over 41 years of experience in accounting and auditing for private and public companies, financial consultancy and corporate management. Dr. Loke was formerly an independent non-executive director of Kaisa Health Group Holdings Limited (formerly known as Mega Medical Technology Limited) (stock code: 876), Winfair Investment Company Limited (stock code: 287), SCUD Group Limited (stock code: 1399), Shenzhou Space Park Group Limited (formerly known as China Household Holdings Limited) (stock code: 692), Lamtex Holdings Limited (stock code: 1041) and China Beidahuang Industry Group Holdings Limited (stock code: 39).

Dr. Loke is currently an independent non-executive director of V1 Group Limited (stock code: 82), Matrix Holdings Limited (stock code: 1005), CIMC-TianDa Holdings Company Limited (formerly known as China Fire Safety Enterprise Group Limited (stock code: 445), Zhong An Group Limited (stock code: 672), Chiho Environmental Group Limited (formerly known as Chiho-Tiande Group Limited) (stock code: 976), Tianjin Development Holdings Limited (stock code: 882), Tianhe Chemicals Group Limited (stock code: 1619), Forebase International Holdings Limited (stock code: 2310), Hang Sang (Siu Po) International Holding Company Limited (stock code: 3626), Hong Kong Resources Holdings Company Limited (stock code: 2882), Zhenro Properties Group Limited (stock code: 6158) and TradeGo FinTech Limited (stock code: 8017), shares of which are listed on the Stock Exchange.

Senior Management

Mr. Chen Changzhi, aged 56, was appointed the Chief Financial Officer of Zhongshan Tat Chun Printed Circuit Board Company Limited, Zhongshan Electric Company Limited and Guang Dong Tat Chun Electric Technology Co., Ltd. on 1 August 2013. Mr. Chen has extensive experience of over 30 years in the accounting and financial field in various companies in China and Hong Kong. He holds a Bachelor of Financial Accounting from Hunan University.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in manufacturing and trading of a broad range of LED lighting and PCBs including single-sided PCBs, double-sided PCBs and multi-layered PCBs (for up to 12 layers), and the trading of tower and electric cable. The breakdown of turnover based on products is summarised as follows:

| | Year 2019 | | Year 2018 | | Increase/ (decrease) HK\$'000 | Change in % |
|-------------------------------------|----------------|-------------|----------------|-------------|-------------------------------------|----------------|
| | HK\$'000 | % | HK\$'000 | % | | |
| Single-sided PCB | 83,113 | 30.3% | 102,556 | 30.1% | (19,443) | (19.0)% |
| Double-sided PCB | 145,745 | 53.1% | 159,371 | 46.8% | (13,626) | (8.5)% |
| Multi-layered PCB | 45,619 | 16.6% | 44,185 | 13.0% | 1,434 | 3.2% |
| Trading of tower and electric cable | – | –% | 34,303 | 10.1% | (34,303) | (100.0)% |
| | 274,477 | 100% | 340,415 | 100% | (65,938) | (19.4)% |

Revenue from LED lighting business for the year ended 31 December 2019 was nil.

The three categories of PCB products are mainly applied in consumer electronics, computers and computer peripherals, and communications equipment. During the Year, single-sided PCB and double-sided PCB's used for consumer electronics accounted for approximately 83.4% (2018: 76.9%) of the Group's turnover. High-end multi-layered PCBs were also a core product of the Group, accounting for 16.6% (2018: 13.0%) of turnover.

The Group's turnover by geographical regions is summarised as follows:

| | Year 2019 | | Year 2018 | | Increase/ (decrease) HK\$'000 | Change in % |
|--|----------------|-------------|----------------|-------------|-------------------------------------|----------------|
| | HK\$'000 | % | HK\$'000 | % | | |
| Hong Kong | 43,360 | 15.8% | 60,658 | 17.8% | (17,298) | (28.5)% |
| The PRC | 168,235 | 61.3% | 230,180 | 67.6% | (61,945) | (26.9)% |
| Asia (excluding Hong Kong and the PRC) | 9,858 | 3.6% | 8,392 | 2.5% | 1,466 | 17.5% |
| Europe | 53,024 | 19.3% | 36,986 | 10.9% | 16,038 | 43.4% |
| Others | – | –% | 4,199 | 1.2% | (4,199) | (100)% |
| | 274,477 | 100% | 340,415 | 100% | (65,938) | (19.4)% |

During the year, the Group's revenue decreased mainly due to the decrease of revenue from the segments of single-sided and double-sided PCB and the trading of tower and electric cable.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

The Group has two PCB manufacturing plants both located at Zhongshan, Guangdong, the PRC, details of which are summarised as follows:

| Production plant | Location | Area | Products | Production capacity | Commencement of operations |
|------------------|-------------------------------|---------------|---|---------------------------|----------------------------|
| Plant 1 | Zhongshan, Guangdong, the PRC | 58,000 sq. m. | Single-sided PCBs | 530,000 sq. ft. per month | May 2003 |
| Plant 2 | Zhongshan, Guangdong, the PRC | 52,000 sq. m. | Double-sided and multi-layered layered PCBs | 420,000 sq. ft. per month | October 2007 |

OUTLOOK

The Board considers that it is vital and necessary for the Group to dedicate more efforts on the research and development with the view to achieving product upgrade. The Group has paid high attention to develop high value-added PCB products, particularly the copper-based PCB engaged in clean and environmental friendly applications.

Regarding the LED segment, the Group intends to focus on credit management and to optimize the trade receivable collection. The Group intends to pursue only after profitable projects with shorter receivable cycle.

FINANCIAL REVIEW

For the Year, the Group's turnover amounted to approximately HK\$274.5 million (2018: HK\$340.4 million), representing a decrease of 19.4% as compared to the last year. The gross profit margin for the year of 2019 was 0.7% (2018: 1.3%). The gross profit margins for LED lighting, PCBs and tower and electric cable were nil%, 0.7% and nil% respectively.

The decrease in the turnover and gross profit margin for PCB business was mainly attributable to (i) increase in competition in PCB industry; and (ii) reduction in the average selling price of PCB. In addition, as the Group's manufacturing facilities are operated in China, our business is also adversely affected by the China-US trade tension. Loss attributable to shareholders was approximately HK\$102.9 million (2018: HK\$133.8 million).

THE IMPACT OF NOVEL CORONAVIRUS EPIDEMIC

The Group's production facilities are principally situated in Zhongshan city and Shenzhen city, both in Guangdong Province. Since late January 2020, travel restrictions and other public health measures (the "Public Health Measures") including the extension of Chinese new year holiday and quarantine requirements of travelers were imposed in various areas in China in an attempt to contain the novel Coronavirus epidemic (the "Epidemic"), as a result of which some staff of the Group were restricted from traveling or otherwise returning to work after holiday. The prolonged effect of the Epidemic and the Public Health Measures affected not only the human resources of the Group, but also the supply chains of raw materials and product shipments and the general economic atmosphere whether in China and globally.

MANAGEMENT DISCUSSION AND ANALYSIS

THE IMPACT OF NOVEL CORONAVIRUS EPIDEMIC *(continued)*

The Epidemic is expected to adversely impact on the business performance of the Group but the actual impact has yet to be quantified. Based on our current observation and estimation, the Group's turnover in January and February 2020 is expected to decrease by over 40% as compared to the corresponding period in 2019 due to human resources bottlenecking arising from the Epidemic and Public Health Measures, and the downtrend is expected to be carried forward to certain extent for the rest of the first quarter or even the first half of 2020 due to the pressure on worldwide supply chain. The Group will take all practicable measures to cope with the challenges ahead, including the implementation of cost-control measures and the exploration of opportunities to further develop its business and enhance its growth potential. In the meantime, the Group is striving for the highest caution standard to protect the health and safety of our staff. The Company will continue to monitor the development of the Epidemic and its impact on the Company's operations, and make further announcement(s) as appropriate if necessary.

EVENTS AFTER THE REPORTING PERIOD

Since January 2020, the Epidemic has impacted the global business environment. Up to the date of these financial statements, the Epidemic has resulted in material adverse impact to the Group's turnover due to human resources bottlenecking arising from the Epidemic and public health measures, and the downtrend is expected to be carried forward to certain extent for the rest of the first quarter or even the first half of 2020 due to the pressure on worldwide supply chain. Pending the development and spread of the Epidemic subsequent to the date of the financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these financial statements. The Group will continue to monitor the development of the Epidemic and react actively to its impact on the financial position and operating results of the Group.

On 28 April 2020, the Company and the subscribers entered into the subscription agreements pursuant to which the Company has conditionally agreed to allot and issue, and the subscribers have agreed to subscribe for, an aggregate of 543,600,000 subscription shares at the subscription price of HK\$0.10 per subscription share. The net proceeds from the subscriptions amount to approximately HK\$54,100,000. For details of the subscriptions, please refer to the Company's announcement dated 28 April 2020.

Impairment loss in respect of property, plant and equipment

No impairment losses were recognised respectively for 2019 and 2018 in respect of plant and machinery and leasehold improvements.

Written off in respect of inventories

During the Year, HK\$0.9 million (2018: HK\$2.3 million) has been recognised as written off in respect of inventories.

Recognised share-based payments

During the year ended 31 December 2019, the Group recognised HK\$1.5 million share-based payment (2018: HK\$3.2 million). No negative cash flow effect is made to the Group as a result of these share-based payments.

Impairment loss and amount recovered recognised on trade receivables and other receivables

During the Year, the management performed an impairment assessment and recover amount on trade receivables and other receivables, resulting in net amount impaired of HK\$18.9 million (2018: Net impairment impaired of HK\$72.7 million) being recognised for the Group's LED lighting, PCB businesses and trading of tower and electric cable.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2019, the Group had total assets of approximately HK\$520.3 million (2018: HK\$667.5 million) and interest-bearing borrowings of approximately HK\$152.5 million (2018: HK\$200.5 million), representing a gearing ratio, defined as interest-bearing borrowings over total assets, of approximately 29.3% (2018: 30.0%).

The Group had net current liabilities of approximately HK\$94.6 million (2018: net current liabilities of HK\$39.1 million) consisted of current assets of approximately HK\$353.5 million (2018: HK\$477.2 million) and current liabilities of approximately HK\$448.1 million (2018: HK\$516.4million), representing a current ratio of approximately 0.79 (2018: 0.92).

As at 31 December 2019, the Group had cash and bank balances (including pledged bank deposits) of approximately HK\$37.2 million (2018: HK\$31.5 million). As at 31 December 2019, the Group had cash and bank balances (excluding pledged bank deposits) of approximately HK\$22.4 million (2018: HK\$21.2 million).

FOREIGN CURRENCY EXPOSURE

The Group operates in Hong Kong and the PRC with most of the transactions denominated and settled in Hong Kong dollars (“**HK\$**”) and Renminbi (“**RMB**”). However, foreign currencies, mainly United States Dollars (“**US\$**”) are required to settle the Group’s expenses and additions on property, plant and equipment. There are also sales transactions denominated in US\$ and RMB. The Group will use forward contracts to hedge its foreign currency exposure if it considers the risk to be significant.

HUMAN RESOURCES

As at 31 December 2019, the Group employed a total of approximately 716 employees (2018: 1,044), including approximately 680 employees in its Zhongshan production site, 20 employees in its LED division in China and other business units and approximately 16 employees in its Hong Kong office.

The Group’s remuneration policy is reviewed regularly with reference to the legal framework, market conditions and the performance of the Group and individual staff. The remuneration policy and remuneration packages of the executive directors and members of the senior management are also reviewed by the remuneration committee. The Group may grant share options and discretionary bonuses to eligible employees based on the performance of the Group and individuals. Under the Group’s remuneration policy, employees are rewarded in line with the market rate in compliance with statutory requirements of all jurisdictions where it operates. The Group holds regular training programmes and encourages staffs to attend training courses and seminars that are related directly or indirectly to the Group’s business.

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE STRATEGY

The primary objective of the Company is to enhance long-term return for our shareholders. To achieve this objective, the Group's strategy is to place equal emphasis on achieving sustainable recurring earnings growth and maintaining the Group's strong financial profile. The Management Discussion and Analysis contain discussions and analysis of the Group's performance and the basis on which the Group generates or preserves value over the longer term and the basis on which the Group will execute its strategy for delivering the Group's objective.

CHARGE OF ASSETS

At the respective end of the reporting periods, the following assets were pledged to banks to secure general banking facilities granted to the Group:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Buildings | 111,922 | 121,172 |
| Pledged bank deposits | 14,768 | 10,333 |
| Right-of-use assets/prepaid lease payments | 16,998 | 17,613 |
| | 143,688 | 149,118 |

LITIGATIONS

- (a) The Company was informed by its legal advisers that a writ of summons dated 10 May 2016 under Hong Kong High Court Action No. 1228/2016 (the "**Legal Action**") was filed by Mr. Li Jian Chao ("**Mr. Li**") seeking to claim from the Company an alleged outstanding special bonus payment in the amount of HK\$1,640,000. Mr. Li was formerly the chief executive officer and executive director the Company before he resigned on 5 June 2015. On 12 July 2016, the Company filed a defence and counterclaim against Mr. Li (re-amended on 3 May 2018, the "**Counterclaim**"), whereby the Company denied (inter alia) that Mr. Li is entitled to the alleged amount and counterclaimed from Mr. Li (inter alia) a total sum of HK\$5,240,000 being wrongful receipts by Mr. Li based on certain invalid resolutions purportedly passed by the Board between 31 December 2014 and 4 June 2015, and/or damages for breach of fiduciary duties by Mr. Li when he was a director of the Company between 1 September 2014 and 5 June 2015. The Company will continue to uphold its rights in the Legal Action and the Counterclaim. In the meantime, the Board considers that the Legal Action and the Counterclaim are unlikely to result in any material adverse effect to the Company's operations or financial position. Further details relating to the Legal Action and Counterclaim are more particularly set out in the Company's announcements dated 13 May and 14 July 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

LITIGATIONS *(continued)*

(b) On 13 August 2018, TC Orient (Jiangsu) Optoelectronic Company Limited (達進東方(江蘇)光電有限公司) (“**TCO Jiangsu**”), a subsidiary of the Company, received a writ issued by 連雲港嘉銳建築工程有限公司 (the “**Plaintiff**”) against TCO Jiangsu and filed with Lianyungang City Liyun District People’s Court (“**Lianyungang Court**”) together with the related court summons, whereby the Plaintiff alleged that TCO Jiangsu shall make a payment of RMB11,062,094.81 (approximately HK\$12,863,000) to them in settlement of certain construction cost (the “**Jiangsu Legal Action**”). The Company has instructed its legal advisor to uphold its right in the Jiangsu Legal Action. In the meantime, the Board considers that the Jiangsu Legal Action is unlikely to result in any material adverse effect to the Company’s operations or financial position.

During the year ended 31 December 2018, the Group entered into a sale and purchase agreement to dispose its 100% equity interest in Best Pursue Holdings Limited (“**Best Pursue**”), TC Orient Jiangsu Holdings Company Limited (“**TC Orient (JS) Holdings**”) and TCO Jiangsu to an independent third party (the “**Purchaser**”) for cash consideration of HK\$20,000,000. The disposal was completed on 31 December 2018.

(c) In January 2019, 吳川榮森貿易有限公司 (“**Wuchuan Rongsen**”), a subsidiary of the Company, applied to Wuchuan City District People’s Court (吳川市人民法院) (“**Wuchuan Court**”) to have 廣東威立電力器材有限公司 (“**Guangdong Weili**”) liquidated (the “**Liquidation Application**”) due to its failure to repay trade receivables of RMB48,944,917 on or before 30 May 2018, despite its previous undertaking to Wuchuan Rongsen to do so pursuant to a settlement agreement (the “**Settlement Agreement**”) entered into by the parties in December 2017. As a prudent measure, impairment loss on trade receivables for the year ended 31 December 2018 was made in respect of the entire sum of trade receivables of RMB48,944,917.

OTHER INFORMATION

Dividends

The Board has resolved not to recommend the payment of a final dividend (31 December 2018: Nil).

FUND RAISING ACTIVITIES

Subscriptions of 453,039,495 share at HK\$0.10 per share

As announced by the Company on 17 January 2019, the Company entered into share subscription agreements with not less than six share subscribers in relation to the subscriptions of 453,039,495 ordinary shares (“**Subscription Share(s)**”) of the Company at the subscription price of HK\$0.10 per Subscription Share. The subscriptions were carried out under the general mandate approved by the Company’s shareholders at the annual general meeting held on 6 June 2018. Completion of the subscriptions took place on 21 February 2019, with 453,039,495 ordinary shares of the Company allotted and issued to not less than six share subscribers. The gross and net proceeds from the subscriptions were approximately HK\$45.3 million and HK\$45.1 million, respectively. It was intended that such net proceeds will be used by the Company for the Group’s business development, investments, acquisition, repayment of loan and general working capital purposes. The entire amount of the net proceeds from the subscriptions was utilized as intended before 30 June 2019, including approximately HK\$1.2 million for the Group’s business development, approximately HK\$9.0 million for the Group’s repayment of loan and interest expenses, and the remaining HK\$34.9 million for the Group’s corporate expenses and overheads including salaries and emoluments, rental expenses and professional fees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE GUIDE

This Environmental, Social and Governance Report (the “**ESG Report**”) summarizes the environmental, social and governance (“**ESG**”) initiatives, plans and performance of TC Orient Lighting Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**” or “**We**”), and demonstrates its commitment to sustainable development.

The Group adheres to the ESG management direction in accordance with the concept of sustainable development, and is committed to progress effectively and responsibly against the ESG affairs of the Group as a core part of its business strategy. Therefore, we believe that this is the key to its continuing success.

Company Profile

The Group successfully listed on the main board of The Stock Exchange of Hong Kong Limited on 23 June 2006. After years of experience and efforts in printed circuit boards (“**PCB**”), it has become a high-quality manufacturer of PCB. The Group’s PCB products are widely used in consumer electronics, computers and computer peripheral equipment, communications equipment and automotive electronics products. Its customer network covers China, the United States, Europe, Japan, Korea, Hong Kong and Singapore, and the Group also operates in Zhongshan, Guangdong Province, China. There are two production plants with a total area of approximately 110,000 square meters and a total annual circuit board production capacity of approximately 978,000 square meters.

Group Culture, Philosophy and Vision

Based on the management consciousness of “Quality is the way to survive”, we implement comprehensive quality management and are committed to becoming a pioneer company in the circuit board industry.

Sustainable Development Concept

| | |
|---|---|
| Persist to perform “Five Highs Five Lows” | High technology, high quality, high value-added, high efficiency, high return; Low emissions, low loss, low energy consumption, low repetition, low risk. |
| Willing to learn and be creative | To establish a concept of lifelong learning, willing to learn, appreciate learning, and constantly review and practice, so as to continuously broaden the horizon, and apply the learned knowledge to work to increase work efficiency and create benefits. |
| Team power is a magic weapon for success | Fully trust, give full play to the expertise of employees, strengthen the unity and cooperation among various departments, and enhance systematized and scientific management, so as to obtain the best benefits and win the competition. |

ESG Management Structure

During the year ended 31 December 2019, the Group has established the ESG taskforce (the “**Taskforce**”). The Taskforce comprises of core members from different departments of the Group and is responsible for collecting relevant information on its ESG aspects for the preparation of the Report. The Taskforce reports to the board of directors of the Company on a regular basis, assists in identifying and assessing the Group’s ESG risks, and assesses the effectiveness of the Group’s ESG internal control mechanism. The Taskforce also examines and assess the performance in different aspects such as environment, health and safety, labour standards, and product responsibility in the ESG perspectives. The Board has set the general direction of the Group’s ESG strategy and ensures the effectiveness of ESG risk management and internal control mechanism.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. REPORTING FRAMEWORK

The report has been prepared with reference to the ESG reporting Guide set out in Appendix 27 to the Main Board Listing Rules of the Stock Exchange of Hong Kong Limited (the “SEHK”).

In preparation of this report, due diligence has been taken to adhere to the Reporting Principles of “Materiality”, “Quantitative”, “Balance” and “Consistency”. The materiality assessment has ensured the report presents the most material ESG topics pertaining to our businesses. Whenever necessary, the report details any standards, methodologies, assumptions and/or calculation tools used, or source of conversion factors used, as well as explanations of any inconsistencies to previous reports.

2. REPORTING SCOPE

The report content covers the Group’s ESG policies and measures, and compliance for the entire Group. The disclosure scope of related data includes the Group’s offices and manufacturing sites in Zhongshan. As we establish greater capacity in data reporting, we shall expand the scope to include greater proportions of our businesses.

3. COMMENTS AND FEEDBACK

We make every effort to ensure consistency between the Chinese and English versions of this Report. However, in the event of any inconsistency, the English version shall prevail.

The progress of the Group depends in part on stakeholders’ valuable comments. For any clarifications or advice regarding the content of this ESG Report, please forward your comments and suggestions to tatchun@tatchun.com.

4. MISSION

The Group’s mission is to maximize quality assurance and efficiency while lowering emission and energy consumption. With this mission, the Group is committed to providing high quality management, ongoing innovation and team spirit to continue addressing the needs of our society. The Group endeavors to do so with sustainability values as a cornerstone.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5. APPROACH TO SUSTAINABILITY

Our mission statement shows what we endeavor to be. The journey towards it is equally as important. Business longevity shall only be granted to those who look beyond short-term gain and consider the external impacts they have on the economy, society, and environment.

Spearheaded by the board, the Group's has established an environmental, social and governance working team ("**ESG committee**") led by our chief operations officer. The ESG committee is composed of core members of different departments of the Group and is responsible for collecting our relevant information and data on environmental, social and governance aspects to compile with the reporting standards. The ESG committee will regularly report to the board of directors to assist in identifying and assessing the Group's ESG risks and assessing the effectiveness of the Group's ESG committee internal control mechanisms. The ESG committee will also examine and evaluate our performance in different aspects of the ESG such as production safety, labor standards, product liabilities etc. The board of directors will set the general direction of the Group's strategies and ensure the effectiveness of ESG risk control and internal control mechanisms to manage our sustainability performance. The ESG committee coordinates with human resources departments to educate our workers to comply with internal ESG policies and address impacts. We identify and evaluate the materiality of the diverse range of ESG topics that are interrelated with our business operations (See next section: Materiality Assessment). Validated by the board, the most material ESG topics inform our corporate strategy.

We recognise board commitment is crucial in our approach to sustainability. The board conducts quarterly reviews of ESG-related goals and targets, including pollution index and recycling capacity. As we advance our sustainability journey, the Group endeavors to raise the board's knowledge and awareness of the ESG landscape.

6. MATERIALITY ASSESSMENT

Sustainable development encompasses a holistic spectrum of environmental and social aspects. In order to harness the related risks and opportunities, it is crucial for the Group to determine the most material aspects. The Group adopts the three-step process of identification, prioritization and validation to ensure sustainability topics are being managed and reported in accordance with their materiality.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6. MATERIALITY ASSESSMENT *(continued)*

(1) Identification

In accordance with the ESG Reporting Guide, all fundamental sustainability topics were identified. Along with peer group analysis, the Group has determined the following topics that are deemed to have impact on the environment and society through our operations.

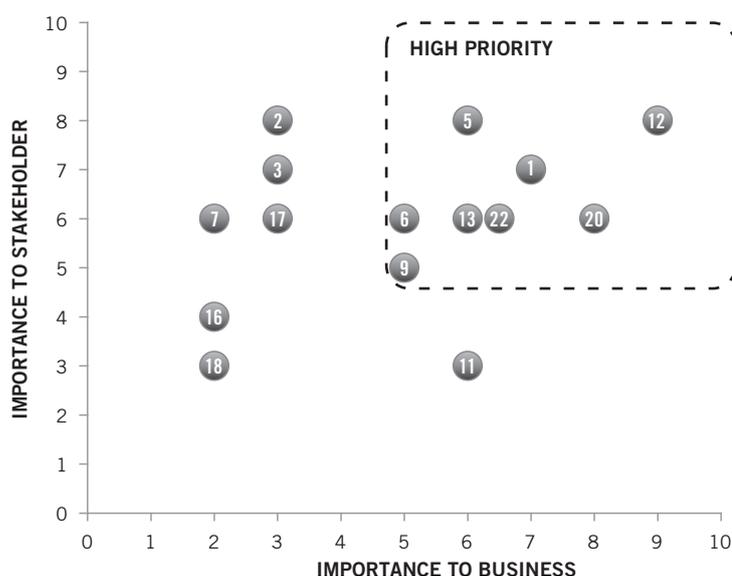
| ESG Aspects | | Material ESG issues for the Group |
|------------------|--|--|
| A. Environmental | A1 Emissions | 1. Air Emission 2. Wastewater Discharges 3. Greenhouse Gas Emission 4. Hazardous Waste Management 5. Non-hazardous Waste Management |
| | A2 Use of Resources | 6. Energy Consumption 7. Water Consumption |
| | A3 The Environment and Natural Resources | 8. Packaging Material consumption 9. Environmental Risk Management (including climate change-related) |
| B. Social | B1 Employment | 10. Employment & Remuneration Policies |
| | B2 Health and Safety | 11. Equal Opportunity & Diversity |
| | B3 Development and Training | 12. Occupational Health & Safety |
| | B4 Labour Standards | 13. Employee Development |
| | B5 Supply Chain Management | 14. Anti-child and Forced Labour 15. Supply Chain Management |
| | B6 Service Responsibility | 16. Sustainable Procurement 17. Goods/Services' Quality & Safety 18. Customer Satisfaction 19. Customer data privacy protection |
| | B7 Anti-corruption | 20. Protection of intellectual property rights, ethical marketing communication and product labeling 21. Anti-corruption and Anti-competitive practices |
| | B8 Community Investment | 22. Community Investment |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6. MATERIALITY ASSESSMENT *(continued)*

(2) Prioritization

To determine the materiality of the selected ESG topics, the views of senior management of respective operational regions were sought. The senior management, who possess a high-level view of all the topics, was asked to score the importance of each ESG topic to stakeholder groups and the Group in each of their perspective. The topmost-right quadrant determines the topics of high materiality.



Highly Material Topics

No. Topics

- 12 Occupational Health & Safety
- 1 Air Emissions
- 5 Non-hazardous Waste Management
- 20 Protection of Intellectual Property Rights, and Ethical Marketing Communication and Product Labelling
- 22 Community Investment
- 13 Employee Development
- 6 Energy Consumption
- 9 Environmental Risk Management (including climate change)

(3) Application

The Report discloses all the high and low material topics. To address topics that matter most to our stakeholders, more depth is detailed for topics of high materiality throughout the Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

7. STAKEHOLDER ENGAGEMENT

The Group believes that identifying and addressing stakeholder views lay a solid foundation to the long-term growth and success of the Group. The Group engages with a wide network of stakeholders, including employees, customers, suppliers, business partners, shareholders, the government and community.



The Group develops multiple engagement channels that provide opportunities for stakeholders to express their views on the Group's general business conduct and sustainability management, summarized in the following table. To reinforce mutual trust and respect, the Group is committed to maintaining effective communication channels, both formally and informally, with stakeholders to enable the Group to better shape its business strategies in order to respond to their needs and expectations, anticipate risks and strengthen key relationships.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

7. STAKEHOLDER ENGAGEMENT *(continued)*

| Stakeholder | Engagement channels | Topics of Interest/Concern |
|--|--|---|
| Shareholders & Investors | <ul style="list-style-type: none"> • General meetings • Regular corporate publications including financial reports & ESG report • Circulars and announcements • Corporate website • Direct communication • Meetings and responses to phone and written enquiries | <ul style="list-style-type: none"> • Business strategies and sustainability • Financial performance • Corporate governance |
| Employees | <ul style="list-style-type: none"> • Performance Appraisals • On-the-job coaching • Trainings • Internal memorandum • Social media • Human resources manual • Exit interview | <ul style="list-style-type: none"> • Training and development • Employee remuneration • Rights and benefits • Working hours • Occupational health and safety • Equal opportunities • Sexual harassment |
| Customers | <ul style="list-style-type: none"> • Corporate website • Social media • Direct communication • Emails • Complaint and feedback hotlines • Business meetings | <ul style="list-style-type: none"> • Service quality and reliability • Client information security • Business ethics |
| Suppliers and business partners | <ul style="list-style-type: none"> • Business meetings • Tendering for procurement of products or services | <ul style="list-style-type: none"> • Fair competition • Fulfillment of promises • Payment schedule |
| Government & other regulatory authorities | <ul style="list-style-type: none"> • Statutory filings and notification • Regulatory or voluntary disclosures | <ul style="list-style-type: none"> • Compliance with law and regulations • Treatment of inside information • Co-operation with enquiries |
| Community & the Public | <ul style="list-style-type: none"> • Community activities • Donations • Corporate website • Social media | <ul style="list-style-type: none"> • Fair employment opportunities • Environmental protection |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

8. ENVIRONMENTAL RESPONSIBILITY

The Group is committed to providing quality printed circuit boards, LED lighting to clients in a clean and sustainable manner. Due to our business nature, the Group strictly complies with the Environmental Protection Law, Water Pollution Prevention Law, Air Pollution Prevention Law, Noise Prevention and Control Law, Law on Prevention and Control of Pollution Environment of the PRC. The Group also pays environmental protection taxes in accordance with the Environmental Protection Tax Law on taxable pollutants directly discharged to the environment. Environmental impacts in our operational facilities and offices are managed by environmental management systems (EMS) certified under the ISO 14001. Led by external environmental consultancy, the EMS ensures strict environmental compliance, as well as continuous improvement towards cleaner production. Yearly review of the system is conducted to ensure its effectiveness. The Group strives to drive improvement to continuously reduce our emissions and waste generation, as well as conserve energy and water resources.

Aspect A.1: Air emissions & Waste generated

The Group implements robust systems that ensure all discharges to air, water and land are compliant with regulatory standards. During the Reporting Year, the Group has encountered no incidents of non-compliance with all applicable laws and regulations related to air emissions, effluent discharges, noise emissions, greenhouse gases, waste at all operating regions. Major laws and regulations applicable are detailed in respective sections.

Air Emissions

The Group's air emissions are mainly released from the vehicle fleets which include the emission of Sulphur Oxides (SO_x), Nitrogen Oxide (NO_x) and Particulate Matter (PM). The fleet undergoes regular maintenance to maintain fuel efficiency, which thereby reduces emissions. Idling engines are also prohibited to minimize fuel use as well as improve site air quality. In addition to the control measures in place to keep air emission levels meeting statutory requirements, the Group devoted resources to further curb the release of air pollutants during the Reporting Year.

The hot gas generated in the normal production process is harmless exhaust gas, which will be discharged directly outside the factory building through the axial flow fan. As for the emission of harmful exhaust gas, it will be divided into two types. If it does not exceed the major regulation "Air Pollutant Emission Limit (DB4427-2001)", a duct fan will be used and it will be pumped upstairs to discharge at high altitude. If it has exceeded the "Air Pollutant Emission Limit (DB4427-2001)", purification system would be used for filtering. The purification treatment tower has a swirl plate design with a circulating water tank for starting the tower water pump and exhaust fan. Exhaust gas enter the purification tower, its drainage will be discharged to the wastewater station for unified treatment through the pipeline.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

8. ENVIRONMENTAL RESPONSIBILITY *(continued)*

Aspect A.1: Air emissions & Waste generated *(continued)*

Air Emissions (continued)

During the Reporting Year under review, the Group's air emissions of Sulphur Oxides (SOx), Nitrogen Oxide (NOx), and Particulate Matter (PM) were recorded. As presented in the chart below, the Group released 506.87kg, 1.07kg and 11.19kg of nitrogen oxides, sulphur oxides, and particulate matter in FY2019.

| Air emissions | Unit | FY2018 | FY2019 | YoY Change |
|--------------------|------|--------|--------|------------|
| Sulphur oxide | Kg | 1.10 | 1.05 | (4.54)% |
| Nitrogen oxide | Kg | 431.88 | 506.87 | 17.36% |
| Particulate matter | Kg | 29.66 | 11.19 | 62.26% |

Effluent Discharges

The process of manufacturing circuit processes would discharge effluent where some substances would fall into the category under the standard of "Discharging Electroplating Water (DB44/1597-2015)". The Group strives to go beyond regulatory compliance. During the Reporting Year, the Group implemented the following initiatives to further reduce the environmental impacts of our effluent discharges. Such effluent is collected and processed by qualified sewage treatment companies. The industrial wastewater is reused after treatment. For domestic wastewater, the Group will examine the water quality before discharge to ensure they meet the national and local environmental requirements. Quarterly monitoring of concentration levels to ensure no adverse environmental impacts result from our effluent discharges.

The Group is on track to meet its 2019 target to reduce the concentration of ammonia emissions by around 95% from 8mg per litre to 0.466 mg per litre. The volume discharged also dropped by approximately 50% from 5.6 tonnes to 2.59 tonnes. The Group started recording the phosphorus amount during the Reporting Year.

| Effluent discharges | Unit | FY2018 | FY2019 | YoY Change |
|---|-------------|---------|---------|------------|
| Copper | Tonnes | 0.21 | 0.05 | (76.19)% |
| Total nitrogen including ammonia and other reduced nitrate compound | Tonnes | 5.60 | 6.26 | 11.79% |
| Chemical Oxygen Demand | Tonnes | 21 | 27.14 | 29.23% |
| Phosphorus | Tonnes | N/A | 0.46 | N/A |
| Effluent Discharged | Cubic Meter | 700,000 | 901,492 | 28.78% |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

8. ENVIRONMENTAL RESPONSIBILITY *(continued)*

Aspect A.1: Air emissions & Waste generated *(continued)*

Noise emissions

Activities from plants and machinery are sources of noise emissions that present hazard to employees, as well as nuisance to the surrounding vicinity. Adherence to strict procedures ensures these hazards are managed effectively. Statutory noise permits are acquired prior to any operation to be conducted during restricted times of the day. Regular monitoring of noise emission levels ensures operations are compliant to regulatory levels. All equipment use meets noise-related specifications and employees use personal protective equipment that mitigate against noise hazards.

The major laws and regulations applicable related to control of noise emissions include “Law of the People’s Republic of China on Prevention and Control of Environmental Noise Pollution”.

Greenhouse gas emissions and climate change mitigation

Climate change adaptation and mitigation is no longer only the subject of a select few, but highly relevant to all members of society. The corporate sector is increasingly becoming aware of the potential types of impact climate change risks present to their bottom line. Albeit in the early stages, the Group has commenced the integration of climate change risks and opportunities within our business strategies. In June 2019, the Group’s engineer department was commissioned with the task of conducting comprehensive secondary research into climate-related risks and opportunities that are to have impacts to our businesses.

To implement an effective approach to climate change mitigation, it is important to have a comprehensive understanding of the sources of the Group’s carbon emissions. The Group’s carbon footprint, presented in the table below, is primarily due to consumption of electricity. During the Reporting Year under review, the Group generated a total of 21,416.04 tonnes of carbon dioxide equivalent (tCO₂e) of greenhouse gases (Scope I & II), resulting in a carbon intensity of 218.96 tCO₂e per 10,000 square meters*.

* During the Reporting Period, the Group’s PCB production amounted to a total area of 978,075 square meters. This data is adopted to calculate other intensity data.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

8. ENVIRONMENTAL RESPONSIBILITY *(continued)*

Aspect A.1: Air emissions & Waste generated *(continued)*

Greenhouse gas emissions and climate change mitigation (continued)

| | Unit | FY2018 | FY2019 | YoY Change |
|---|-------------------------------------|-----------|------------------|------------|
| GHG Emissions | | | | |
| Scope I (Direct Emissions) | | | | |
| Mobile combustion | tCO ₂ e | 192.1 | 181.98 | (5.27)% |
| Scope II (Indirect Emissions) | | | | |
| Electricity purchased | tCO ₂ e | 19,648.45 | 27,224.34 | 38.56% |
| Scope III (Other Indirect Emissions) | | | | |
| Paper waste disposed at landfills | tCO ₂ e | 0.055 | 0.048 | (12.73)% |
| Total (Scope I & II) | tCO ₂ e | 19,840.55 | 27,406.32 | 38.13% |
| Total (Scope I, II & III) | tCO ₂ e | 19,840.61 | 27,406.36 | 38.13% |
| Carbon intensity per 10,000 square meters (Scope I & II) | tCO ₂ e/ 10,000 sq.m. | 202.85 | 280.21 | 38.13% |

The Group is committed to reducing our carbon footprint. Scope I and II emissions are addressed through our energy reduction initiatives (See Section: A2.1 Energy Consumption). Scope III emissions incur throughout our value chain, and we employ the following measures to minimize such emissions.

- We make utmost effort to avoid business travelling and opt for direct flights when unavoidable;
- We make extensive use of video-conferencing, as opposed to business travelling. In the last two year, the Group made no business air travels.

Hazardous Waste Management

All hazardous waste, mainly metal waste, dye and coating waste, ink waste, plastic waste and others. They are collected and treated by authorized contractors who possess qualification "hazardous waste business license" to handle hazardous waste. The amount of disposed waste are recorded and matched with contractor reports to ensure all matter is entirely disposed in the most appropriate manner. At each stage, clear protocols have been established to ensure all handling and storage of the hazardous matter is in a safe and secure manner. Any incidents of spillage or leakage is handled under proper protocol and documented.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

8. ENVIRONMENTAL RESPONSIBILITY *(continued)*

Aspect A.1: Air emissions & Waste generated *(continued)*

Hazardous Waste Management *(continued)*

The major laws and regulations applicable related to control of hazardous waste include but not limited to “Pollution Control Standard for Hazardous Waste Storage (GB18597-2001)”, “Waste Electronic and Electrical Equipment (“WEEE”) Directive”. To embody sustainable development principles, we employed the following measures and initiatives that reduce impacts of generated hazardous waste during the Reporting Year.

- The Group provides clear work guidelines and protective equipment for the employees;
- Employees receive training courses on hazardous waste and chemical handling at the beginning of employment;
- Hazardous waste must be stored in strong hinged containers resistant to acids and solvents;
- Hazardous waste must be classified and stored in the isolated area of the plant;
- The Group held regular drills to deal with different types of leakage.

During the Reporting Year under review, the Group generated a total of 2,481 tonnes of hazardous waste, resulting in a hazardous waste intensity of 25.36 tonnes per 10,000 square meters. There is a huge increment in FY19 compare to FY18 as the Group is able to monitor and measure in one of the manufacturing sites in FY19.

| Hazardous Waste | Unit | FY2018 | FY2019 |
|---------------------------|-------------------------|--------|--------------|
| Hazardous waste | Tonnes | 1,639 | 2,481 |
| Hazardous waste intensity | Tonnes/ 10,000 sq.m. | 16.76 | 25.36 |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

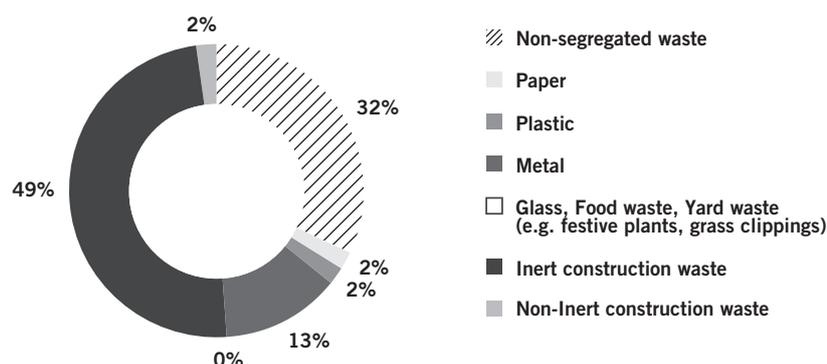
8. ENVIRONMENTAL RESPONSIBILITY *(continued)*

Aspect A.1: Air emissions & Waste generated *(continued)*

Non-hazardous Waste Management

The typical non-hazardous waste generated by the Group's offices and operation facilities include construction waste, non-segregated waste, metal and paper waste. As of now, the majority of our waste is disposed at the landfill by qualified contractors. We strive to place greater emphasis on the reduction of waste generated, prior to the reusing and recycling of waste. The process of reusing and recycling of waste more often incurs greater environmental impacts than waste reduction approaches.

Non-Hazardous Waste in FY19 (in Tonnes)



Seeking to contribute to the closed-loop economy, we employ the following measures and initiatives to reduce the generation of non-hazardous waste, and raise recycling rates.

- We take recycling seriously. Waste is separated into general, recyclable, metals, construction waste and paper types using colour-coated bins. The wastes are then collected by sub-contractors on a regular basis;
- We take solid measures to minimise our paper usage and waste in our office-based operations. Printing volume is monitored, and systems are set default to duplex and economical modes with printing quota. Electronic system for filing and documentation has also been adopted in several offices.

During the Reporting Year under review, the Group generated a total of 245.16 tonnes non-hazardous waste, resulting in a non-hazardous waste intensity of 2.51 tonnes per 10,000 square meters. The Group has planned more cautiously in handling methods for various types of waste.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

8. ENVIRONMENTAL RESPONSIBILITY *(continued)*

Aspect A.2: Use of Resources

The Group is committed to continually monitoring and improving resource efficiency as an integral part of business strategy and operating methods, as well as complying with relevant government policies and environmental legislations. During the Reporting Year, the Group has encountered no incidents of non-compliance with all applicable laws and regulations related to the use of energy and water resources at all operating regions. Major laws and regulations applicable are detailed in respective sections.

Energy

The Group's energy profile consists of the use of vehicle fuel and electricity for office and site operations. At each of our sites, we conduct comprehensive analysis based on accurate records of fuel consumption and electricity monitoring. By determining energy-intensive operational processes and equipment, financial and human resources are channeled to areas in which energy efficiency may be raised the greatest. During the Reporting Year, our offices and facilities have invested resources to the following initiatives for the purposes of conserving energy:

- LED lights, lamps, UV lights, and other energy-saving equipment and consumables are prioritized to enhance the energy efficiency;
- Automatic shutdown schedule is set for all production equipment, which will cease the operation when the shutdown schedule is due to preventing the waste of energy;
- In case of low production capacity, the use of large-power production lines is avoided to minimize the consumption of electricity;
- The production department is required to control the number of production equipment in service at the production workshops in accordance with the planned production capacity, and shall submit applications to the department head for additional operating equipment at production workshops;
- Equipment shall be prevented from frequently alternating between powering off and on;
- In case that production insufficiency requires additional production workshops, additional energy consumption caused by different performances of equipment shall be assessed;
- The lighting in whole or in part will be shut down if workshops and other public facilities receive sufficient daylight;
- Some centralized air-conditioners and ventilation systems shall be powered off during public holidays or when the production capacity is not fully utilized and overtime is not required;
- The centralized air-conditioning temperature for production workshops shall be capped for a certain level;

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

8. ENVIRONMENTAL RESPONSIBILITY *(continued)*

Aspect A.2: Use of Resources *(continued)*

Energy *(continued)*

- All windows of the workshops shall remain closed;
- Use of workshop fans is prohibited during winter.

During the Reporting Year under review, the Group consumed 2,335,073 and 117,135,904 MJ of direct and indirect energy respectively, resulting in a total energy intensity of 1,221,491 MJ per 10,000 square meters.

| Energy consumption | Unit | FY2019 |
|---------------------------|-----------------|--------------|
| Direct | | |
| Diesel | MJ | 1,541,539.82 |
| Petrol | MJ | 809,168.83 |
| Indirect | | |
| Electricity purchased | MJ | 117,135,904 |
| Total (Direct & Indirect) | MJ | 119,486,612 |
| Energy intensity | MJ/10,000 sq.m. | 1,221,650 |

Water Resources

At the Group, our water usage is solely confined to domestic purposes, such as maintaining hygiene facilities. We withdraw water solely from municipal water supplies, and thus is not subject to any issues in sourcing water. However, water resources should not be taken for granted and conserved to ensure a sustainable future.

During the Reporting Year, our offices and facilities have invested resources in the following initiatives:

- At all regions, we take stringent measures to prevent water loss through leakages, such as conducting regular pipe inspections and prompt repair works;
- The flow volume of the flow meters used during the production shall be controlled, and water-based equipment shall be timely powered off when the water level falls to zero to conserve water;
- We alleviate burden on the municipal water supplies by collecting rooftop run-off water for irrigation of facility's gardens.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

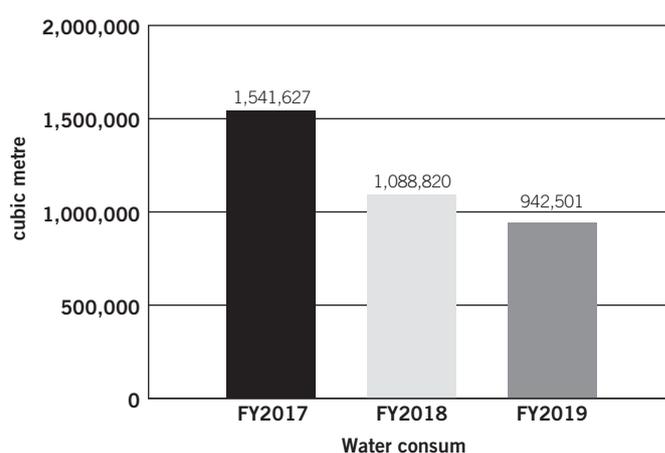
8. ENVIRONMENTAL RESPONSIBILITY *(continued)*

Aspect A.2: Use of Resources *(continued)*

Water Resources (continued)

During the Reporting Year under review, the Group consumed a total of 942,651 cubic metre of water, resulting in a water intensity of 9,638 cubic meter per 10,000 square meter.

Water consumption in FY17-FY19



Packaging material

The Group's PCB and LED products use packaging material that mainly consist of carton boxes, cardboard and bubble wrap. Instead of just complying with "The Producer Responsibility Obligations Regulations" of the PRC, the Group aims to consider more sustainable approaches to our product packaging early in the design phase, such as biodegradable packaging whenever possible.

During the Reporting Year under review, a total of 167.08 tonnes of packaging material was consumed for finished products, resulting in an intensity of 1.71 tones per 10,000 square meter.

| Packaging material consumption | Unit | FY2018 | FY2019 | YoY Change |
|---------------------------------|-------------------------|--------|---------------|------------|
| Paper | Tonnes | 150.73 | 98.97 | (34.34)% |
| Plastics | Tonnes | 50.38 | 36.26 | (28.03)% |
| Temperature Display Card | Tonnes | 42.71 | 30.75 | (28.00)% |
| Other | Tonnes | 1.4 | 1.1 | (21.43)% |
| Total consumption | Tonnes | 245.22 | 167.08 | (31.87)% |
| Packaging consumption intensity | Tonnes per 10,000 sq.m. | 2.51 | 1.71 | (31.87)% |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

8. ENVIRONMENTAL RESPONSIBILITY *(continued)*

Aspect A.3 The Environment and Natural Resources

The Group is committed to providing a complete picture of our environmental impacts. We strive to build an eco-conscious culture that ingrains positive lifestyle and habits among employees. We encourage the use of public transportation, and offer job ticket incentives at some locations. Our event management is also an avenue by which we seek to integrate sustainability principles. Events are usually held on-site and avoid the use of disposal utensils. For catering, locally grown/produced items are preferred as opposed to packaged items with a higher carbon footprint. Green procurement is adopted at some locations through the purchase of eco-friendly cleaning solutions.

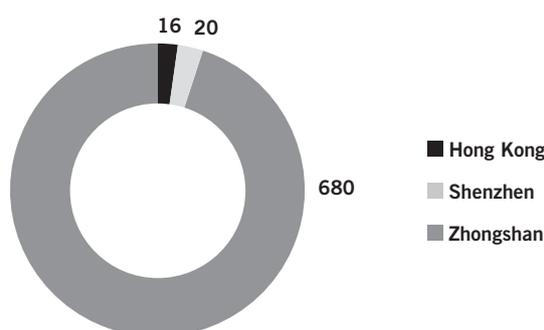
9. EMPLOYEE CARE

It is essential for the Group to build strong and lasting relationships with employees. By maintaining honest and authentic dialogue with our staff, the Group seeks to address their needs and views that ensure our conduct is responsible at all times. We commit to offering a fair and safe workplace with opportunities for staff development.

Aspect B1: Employment

As of end of the Reporting Year, the Group employed 716 full-time employees, of which 461 and 255 are male and female staff respectively. The majority of employees are in the age group of 30 to 49. The employees of the Group are mostly located at Hong Kong 16, Zhongshan 680 and a smaller proportion located at Shenzhen 20.

Workforce by region in FY19



Based on principles of fairness and equality, the Group's staff handbook contains clear policies relating to relevant labor laws, regulations and industry practices, covering areas such as compensation, dismissal, promotion, working hours, recruitment, rest periods, diversity and other benefits and welfare. During the Reporting Year, the Group has encountered no incidents of non-compliance with all applicable laws and regulations related to employment at all operating regions. Major laws and regulations applicable include the "Labour Law of the People's Republic of China" and the "Labour Contract Law of the People's Republic of China". Hong Kong sector follow by "Employment Ordinance, Chapter 57 of the Laws of Hong Kong" and "Minimum Wage Ordinance, Chapter 608 of the Laws of Hong Kong".

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

9. EMPLOYEE CARE *(continued)*

Aspect B1: Employment *(continued)*

Remuneration & Welfare

Employees of the Group are remunerated at a competitive level and are rewarded according to their performance and experience. The promotion and remuneration of the Group's employees are subject to yearly review. All employees are entitled to Group Medical Insurance Scheme, Mandatory Provident Fund Scheme (Chapter 485 of the Laws of Hong Kong), Share Options Schemes, transportation allowance. Details are set out in the contract and employee handbook to ensure transparency of information on the employees' responsibilities and rights.

Recruitment and promotion

The human resources department conducts a comprehensive recruitment review process to ensure that the data provided by the candidates are accurate. The Group's recruitment and promotion process are carried out in a fair and open manner for all employees; employees are recognized and rewarded by their contribution, work performance and skills, and outcomes will not be affected by any discrimination on the grounds of age, sex, physical or mental health status, marital status, family status, race, skin color, nationality, religion, political affiliation and sexual orientation and other factors. According to the internal compensation and benefits scheme, additional cash payments or holidays would be provided in the event of ad hoc works, meetings and company activities which fall on statutory holidays. In the case of dismissal, the staff contract is adhered to which ensures the entire procedure is compliant with statutory requirements.

Anti-discrimination and diversity

The Group embraces is an equal opportunity employer and does not discriminate on the basis of age, sex, physical or mental health status, marital status, family status, race, skin color, nationality, religion, political affiliation and sexual orientation. We embrace inclusive employment that builds a respectful workplace. The Group strives to ensure a safe and secure workplace with its zero tolerance to any form of abuse and/or sexual harassment in the workplace.

Work-life balance

We seek to cultivate a culture of healthy work-life balance. All working hours comply with national laws and benchmark industry standards, and overtime work is considered voluntary. The Group assists staff to balance commitments outside of work by offering a range of leaves, which include annual, marriage, maternity, paternity, compassionate and others. To encourage social bonding in the workplace, the Group has also arranged recreational events during the Reporting Year, such as sport activities, birthday and festive celebrations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

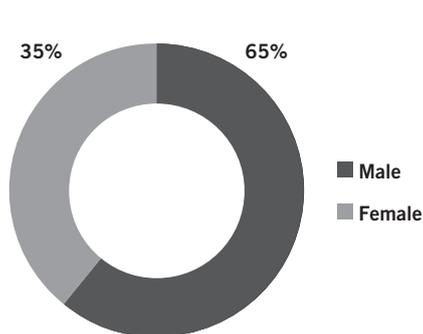
9. EMPLOYEE CARE *(continued)*

Aspect B1: Employment *(continued)*

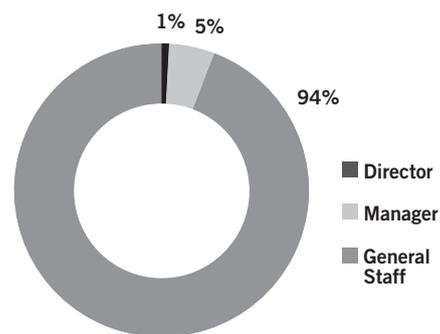
Work-life balance (continued)

During the Reporting Year under review, the Group's employee turnover rate was 73%. Compare with previous year, the turnover rate is higher due to the financial difficulties under US-China trade war which led to weaker competitiveness in salary. The following charts set forth the staff breakdown in 2019:

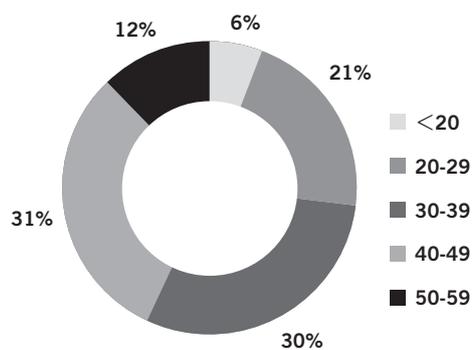
Workforce by gender in FY19



Workforce by employee category in FY19



Workforce by age group in FY19



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

9. EMPLOYEE CARE *(continued)*

Aspect B2: Workplace Health and Safety

It is of paramount importance to ensure a safe and healthy workplace for our employees. The Group's safety management system was developed by the chief operations officer and technical managers from respective product lines. Our management team is responsible for identifying any actual and potential hazards and risks to each individual and work towards a safe and hygienic work environment, and to ensure that our work environment is in line with or higher than the requirements of relevant laws and regulations.

The ESG committee also assists to ensure latest updates to related legislation and industry practices are identified and addressed in our safety management systems. During the Reporting Year, the Group has encountered no incidents of non-compliance with all applicable laws and regulations related to occupational health and safety at all operating regions.

Safety guideline

The Group conducts regular safety audits to determine whether the operations of our plants are in compliance with the workplace safety procedures, industrial safety instructions and their regulations. In case of any sign of non-compliant practices, corrective actions will be immediately taken to prevent occurrence of work-related injuries.

We promote safety awareness through various channels, including meetings and seminars, and are in accordance with the "Regulation on Work-Related Injury Insurance" issued by Guangdong Province and relevant laws and regulations. We will provide treatments and related support to those injured employees. We also conduct comprehensive risk assessments prior to operation of any new plants, processes, hazardous substances and/or facility layouts.

The Group abides to safety-first principles through the following workplace procedures and provisions that include, but are not limited to:

General measures and initiatives

- Examine and maintain the condition of equipment according to supplier's recommendations
- Provide comprehensive training to personnel that engage in manual handling, based on risk assessment evaluations
- Supply adequate protective equipment according to the latest regulations such as the PRC Personal Protective Equipment (PPE) Regulations
- Provide adequate first-aid facilities, and training for first-aid certification
- Establish emergency plans and carry out fire and evacuation drills periodically

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

9. EMPLOYEE CARE *(continued)*

Aspect B2: Workplace Health and Safety *(continued)*

Safety guideline (continued)

Industry-specific measures and initiatives

- Ensure adequate training is provided to all employees handling hazardous substances (typically chemical and flammable material)
- Work areas handling hazardous substances are isolated away from main workplaces
- Mitigate against hazards of broken glass containers, by storing at ground level and/or enclosed shelves
- Adopt automisation to reduce work that requires repeated body movement

During the Reporting Year, the Group did not find any case of violations of laws and regulations in relation to the health and safety of the workplace, and neither work-related fatalities nor work injury was notified.

Aspect B3: Development and Training

The Group regards our staff as the most valuable assets. In our efforts to cater towards the needs of our staff, the Group develops yearly plans regarding the staff training and development. Internal training programmes held during the year include induction training for new staff, on-the-job training as well as a three-year graduate training programme. To promote continuous development, staff is encouraged to engage in external programmes, such as online courses for continuous professional development and skill set enhancement.

The Group dedicates significant resources to attract and retain talented employees, and to ensure that our staffs grow in competence and skill sets alongside the business. Our training programmes for the Reporting Year, included but was not limited to the following:

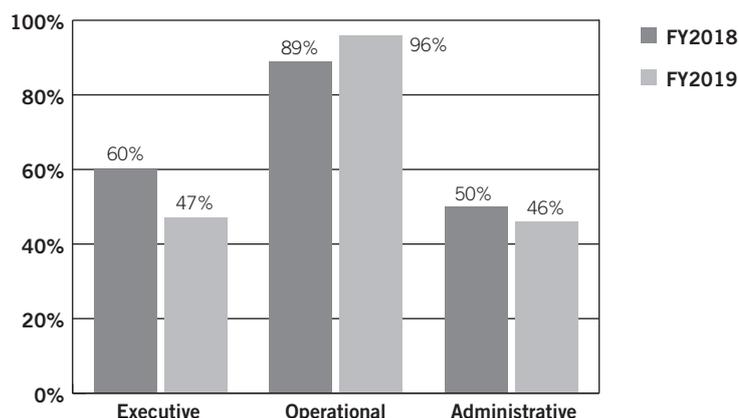
- We conducted over 120 hours of safety-related training sessions that include programs enhancing the Group's capacity to improve our machinery safety management systems and employees health and safety awareness;
- We organised over 100 hours of a range of internal and external training sessions to enhance knowledge and skill sets in various stage within product development cycles in respective departments;
- All directors are provided with training materials covering the topics of "Connected Transaction Rules" and "Anti-Money Laundering and Counter-Terrorist Financing Guidelines", while the Company Secretary and Financial Controller and the Company Secretarial Manager of the Company have attended 35 hours of trainings relating to Listing Rules, Companies Ordinance and SFO etc..

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

9. EMPLOYEE CARE *(continued)*

Aspect B3: Development and Training *(continued)*

Percentage of employees trained by employee category



Aspect B4: Labor Standard

Child and forced labour, though seemingly irrelevant to most developed societies, are in fact easily present in the value chain of any business operation. Seeking elimination of such practices, the Group prohibits all forms of child labour and forced labour or modern slavery, as defined by International Labour Organisation, not only in our operations but also throughout our supply chain.

The Group has established and implemented the Slavery and Human Trafficking Statement which contains fundamental principles as set out in the International Bill of Human Rights. We prohibit any form of forced, bonded or compulsory labour, human trafficking and other kinds of slavery and servitude. Any form of discrimination, harassment or bullying is not tolerated. We extend our commitment to our suppliers by requiring all business partners to take measures to avoid and eliminate any form of forced, bonded or compulsory labour, or human trafficking. The rights and freedoms of every individual is protected as no worker is asked to surrender identification documents nor lodge deposits as a condition of employment. Cases of child labour in our businesses are averted by conducting age verification of all job applicants.

During the Reporting Year under review, the Group has encountered no incident of non-compliance with all applicable laws and regulations related to anti-child and anti-forced labour practices at all operating regions. Major applicable laws and regulations include but are not limited to Modern Slavery Act, Law on the Protection of Minors.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

10. ETHICAL OPERATIONS

The Group commits to the delivery of quality products grounded on ethical business conduct and supply chain management, as well as to meaningful engagements with the community.

Aspect B5: Supply Chain Management

Due to the nature of its principal business activities, the Group has no major suppliers during the Reporting Period. To integrate the environmental vision into the procurement of office supplies, the Group avoids disposable products and chooses suppliers who provide durable products with less packaging materials, and priority is given to environmentally friendly products, such as refillable ballpoint pens and mechanical pencils, and environmental paper, so as to raise its awareness of sustainable development.

- The Group established supplier management system to ensure internal operation is fully complied with the legal requirements under the “Prevention of Bribery Ordinance”. It is committed to developing and maintaining effective and productive working relationships with its supply chain stakeholders. The majorities of its suppliers are local businesses;
- Meanwhile, the Group conducts a survey of raw materials on environmental management substances and review whether the supplier’s environmental quality meets statutory regulation. The Group set up “Environmental Protection Agreement”, “Pledge against Use of Environment-related Materials” and “Prohibited and Restricted Material Agreement” with the suppliers so that the products from these suppliers will be free from hazardous substances and meet environmental standards, laws and regulation;
- Suppliers that have obtained environmental certifications (e.g, IECQ QC08000, SONY GP/GB) are given priority as qualified suppliers and the relevant qualified suppliers are registered in the “List of Approved Suppliers”. The Chief operations officer visits the factory of the candidate supplier and verifies the certification of materials and quality;
- During the Reporting Period, the Group did not aware of any suppliers who have had significant violation to the code of conduct or other potential negative impact on the business ethics, environmental protection, human rights and labour practices, nor did any of them have any non-compliance incident in respect of human rights issues.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

10. ETHICAL OPERATIONS *(continued)*

Aspect B6: Product Responsibility

The Group offers quality products and services grounded on responsible operating practices. We commit to meeting customer needs through innovation and sound business ethics.

Product quality and safety

Assuring the quality and safety of our products is of topmost importance. The Group's Quality Management System ("QMS"), certified under the requirements of the ISO 9001 Quality Management standards, ensures all our business activities are brought out through quality processes. In addition, the Group's products also meet the requirements of relevant standards, including "Audio, Video and Similar Electronic Equipment Safety Requirements (GB8898-2011)" and "Information Technology Equipment Safety Part 1: General Requirements (GB4943. 1-2011)". During the Reporting Year, the Group has encountered no incident of non-compliance with all applicable laws and regulations related to product/service quality and safety at all operating regions.

With a customer-focused and process-based approach, the Group strives for continual improvement to product quality. The QMS manual is implemented by the quality assurance manager through the following processes.

- Product design, modification and manufacture, and ex-certified product recall processes meet the ISO/IEC 80079-34 and ATEX directive, which ensure both the safety of products being used in explosive atmospheres (i.e. work areas that contain flammable gases, mists or vapours, and/or combustible dusts);
- All safety critical components or sub-assemblies from manufacturers are required to acquire a Certificate of Conformity that indicates full conformance to test specifications. In the event none has been acquired, we will carry out independent inspection before accepting the components;
- Product risk analysis is conducted to assist in identification and mitigation of product quality and safety risks. In addition, internal audits are carried out periodically that ensure proper implementation of the QMS manual;
- The Group has physical laboratories and chemical laboratories to perform corresponding tests on raw materials, products and electroplating chemicals, including raw material analysis, sampling for reliability testing and other tests, such as backlight testing, and chemical composition analysis;
- Customer complaints are handled by a service center led by the quality assurance manager. Adhering to ISO 9001 guidelines, a formal complaint mechanism handles all cases in a fair and systematic manner. In FY2019, the number of received complaints amounted to 6. They are mainly related to generic product functionality issues, and were promptly handled;
- During the Reporting Year, no products were subject to recalls for safety and health reasons.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

10. ETHICAL OPERATIONS *(continued)*

Aspect B6: Product Responsibility *(continued)*

Product quality and safety *(continued)*

The Group's scientific research team has established highly recognized technologies over the years. The Group has a number of patents which are well recognised within the electronic products industry. These patents cover, including but not limited to:

- Aluminium nitride ceramic packaging technology;
- Multi-layer leadless gold finger circuit board manufacturing method;
- High-density interconnect and high-reliability multilayer circuit board;
- Bright copper-oriented high thermal conductivity ceramic circuit board;
- Teflon high-frequency circuit board.

Ethical operating practices

The Group places great value in conducting all aspects of our businesses with integrity and honest values. From protection the data privacy and intellectual property to ethical marketing communication, our robust management approaches ensure even the most trivial of aspects is not looked over.

Marketing communication and product labelling

Responsible marketing practices are crucial to gaining customer trust and confidence. Clear guidelines have been established on the ethical usage of all forms of sales promotion and direct marketing and digital marketing communications. All product brochures available on our website are reviewed to ensure the information is complete and accurate. Product labelling serves a critical function, ensuring unique product identification and that customers are informed of any possible product risks. All direct marketing and digital marketing communications, especially product endorsements, should uphold transparency. Ongoing assessment of policies is conducted through periodic assessment.

Aspect B7: Anti-corruption

The Group is committed to achieving and maintaining the highest standards of openness, probity and accountability. All employees are expected to carry out their work in a honest and ethical manner as outlined by the Employment Handbook. It is every employee's responsibility and it is all interest of the Group to ensure that any inappropriate behavior or organisational malpractice compromising the interest of the shareholders, investors, customers and the wider public do not occur under any circumstances.

The Group has adopted Code of Conduct in the Group's Employment Handbook and Procedures Manual that includes provisions for conflicts of interest, privacy and confidentiality of information, due diligence, bribery and anti-corruption. Whistle-blowing policy is implemented to encourage employees and others who have serious concerns about the integrity of the works should point out or disassociate with misconducts and illegal acts. Employees who breach anti-corruption policy will face disciplinary action, which could result in dismissal.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

10. ETHICAL OPERATIONS *(continued)*

Aspect B7: Anti-corruption *(continued)*

The development of robust internal controls is the key to our management approach. We have established a code of conduct on the prohibition of bribery and corruption, acceptance/offering of gifts/advantages and abuse of office, as well as the declaring of conflict of interests. The soliciting or accepting of advantages from parties as a reward for or inducement to doing any act in relation to the company's business is strictly prohibited. The established guidelines make it clear to all staff the criteria of accepting and offering of gifts and advantages becomes beyond that of a courtesy/token gift. Senior management is also provided the guidance clearly on what constitutes the office abuse, such as regarding the misuse of company's assets for personal interest. With regard to conflict of interests, the fundamental rule is to avoid any conflict of interest as far as practicable.

Aspect B8: Community Investment

The Group is committed to operating as a responsible corporate and continually supporting the economic and social vitality of local communities through corporate sponsorships, charitable donations and innovative product development. As part of the electronic industry and general community, the Group directs the charitable efforts towards elderly and underprivileged groups as the primary focus.

11. SUSTAINABILITY

The Group understands the importance of achieving economic, environmental and social sustainability for the long term success of the business. The sustainability guidelines lay out the principles and actions for managing and performing in an ethical manner, throughout the operational flow. The Group shall continue to deliver safe and quality services that do not come at the expense of the environment. The Group shall also continue to provide hearty services to customers, as well as give back to the community.

DIRECTORS' REPORT

The directors (the “**Directors**”) present their annual report and the audited consolidated financial statements of TC Orient Lighting Holdings Limited (the “**Company**”, and together with its subsidiaries collectively referred to as the “**Group**”) for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company, whose major operating subsidiaries are principally engaged in the manufacturing and trading of light emitting diode (LED) lighting, and single-sided, doubled-sided and multi-layered printed circuit boards (PCBs). The activities of its principal subsidiaries are more particularly set out in note 38 to the consolidated financial statements.

Further discussion and analysis of these activities as regulated by Schedule 5 to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (the “**Company Ordinance**”), including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2019, and an indication of likely future development in the Group’s business, can be found in the sections headed “Statement from the Board” and “Management Discussion and Analysis” of this Annual Report. The above sections form part of this report of the Directors.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 are more particularly set out in the consolidated statement of profit or loss and other comprehensive income on page 67.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2019 and 2018.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 154.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of financial position on page 68 and note 26 to the consolidated financial statement respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company’s has no distributable reserve available to shareholders at 31 December 2019 (2018: NIL) were as follows:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---------------------|------------------|------------------|
| Share premium | 566,877 | 566,877 |
| Contributed surplus | 145,058 | 145,058 |
| Accumulated losses | (993,975) | (885,430) |
| | (282,040) | (173,495) |

DIRECTORS' REPORT

DISTRIBUTABLE RESERVES OF THE COMPANY *(continued)*

Under the Companies Law of the Cayman Islands, the share premium account and the contributed surplus are distributable to the shareholders of the Company provided that immediately following the date on which any dividend is proposed to be distributed; the Company will be able to pay its debts as they fall due in the ordinary course of business.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital and warrants of the Company are set out in note 25 to the consolidated financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

EXECUTIVE DIRECTORS

Mr. Zeng Yongguang

Mr. Xu Ming *(appointed as Chief Executive Officer on 9 April 2020)*

Mr. Guo Jun Hao

Mr. Mai Huazhi

Mr. Yau Yan Ming Raymond *(Appointed on 18 November 2019 and resigned on 9 April 2020)*

Mr. Chen Hua *(Resigned on 13 August 2019)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Hongxiang

Mr. Wong Kwok On

Mr. Bonathan Wai Ka Cheung

Dr. Loko Yu (alias Loke Hoi Lam)

DIRECTORS' SERVICE CONTRACTS

No director to be proposed for re-election at the forthcoming AGM has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REPORT

EQUITY-LINKED AGREEMENTS

Details of the equity-linked agreements entered into during the year or subsisting at the end of the year are set out below:

SHARE OPTION SCHEME

Old Share Option Scheme

The share option scheme of the Company which was adopted on 5 June 2006 (the “**Old Share Option Scheme**”) was established before the Company's listing on The Stock Exchange of Hong Kong Limited in June 2006 for the purposes of attracting and retaining the best available personnel, providing additional incentive to employees, directors, consultants and advisers of the Group and promoting the success of the business of the Group. A summary of the principal terms of the Old Share Option Scheme can be founded on pages V-12 to V-20 of the Company's prospectus.

The Old Share Option Scheme had a life span of ten years and expired on 4 June 2016. Upon expiry of the Old Share Option Scheme, no further share option should be granted under the expired scheme but in all other respects the rules of the Old Share Option Scheme remain in full force and effect to the extent necessary to give effect to the exercise of any share options granted prior thereto or otherwise as may be required in accordance with the rules of the Old Share Option Scheme, and share options which were granted prior to the termination or expiry of the Old Share Option Scheme will continue to be valid and exercisable in accordance with the rules of the Old Share Option Scheme and their terms of issue.

As disclosed by the Company on 22 July 2016 and 20 December 2017, as a result of the completion of the open offer and rights issue on 25 July 2016 and 20 December 2017, respectively, the exercise price of the share options and the number of Shares to be allotted and issued upon the exercise of the share options granted under the Old Share Option Scheme were adjusted. As at the date of this report, the number of Shares issuable on exercise of the outstanding options under the Old Share Option Scheme were 30,992,575 Shares, representing 1.14% of the existing issued share capital of the Company.

New Share Option Scheme

Following the expiry of the Old Share Option Scheme, the Company adopted a new share option scheme at its extraordinary general meeting held on 19 August 2016 (the “**New Share Option Scheme**”) for the purposes of providing the Company with a flexible means of giving incentive or rewards to directors, employees, consultants, advisers, contractors of the Group or any of its invested entities, or discretionary trust or controlled corporation of any of the foregoing (the “**Eligible Participants**”) for their retention and contribution or potential contribution to the Group and providing the Eligible Participants with an opportunity to have a personal stake in the Company with a view to motivating the Eligible Participants to utilise their performance and efficiency for the benefit of the Group and attracting and retaining or otherwise maintaining an on-going relationship with the Eligible Participants whose contributions are or will be beneficial to the long term growth of the Group. A summary of the principal terms of the New Share Option Scheme can be found on pages 9 to 17 of the Company's circular dated 29 July 2016.

DIRECTORS' REPORT

SHARE OPTION SCHEME *(continued)*

New Share Option Scheme *(continued)*

The New Share Option Scheme had a life span of ten years running from 19 August 2016 to 18 August 2026. Under the terms of the New Share Option Scheme, the Board may, at its discretion, grant options to Eligible Participants to subscribe for Shares. Initially, the maximum number of Shares which may be issued upon the exercise of all options to be granted under the New Share Option Scheme (the “**Scheme Mandate Limit**”) was 90,225,766 Shares, being 10% of the Shares in issue as at the date of approval of the New Share Option Scheme on 19 August 2016. The maximum entitlement of each Eligible Participant in any 12-month period must not exceed 1% of the shares in issue, provided that the maximum entitlement for any grantee being a substantial shareholder or an independent non-executive director or their associates shall be capped at 0.1% of the shares in issue (or HK\$5 million in value based on the closing price of the shares underlying the options, whichever is higher). Any grant exceeding these individual limits shall be subject to shareholders' approval, with the relevant grantees and their associates abstaining from voting. The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the Shares in issue from time to time.

Unless otherwise determined by the Directors at their sole discretion, there is no requirement of a minimum period for which an Option must be held or any performance target which must be satisfied or achieved before such an Option can be exercised. An Option shall be exercisable at any time during an exercise period to be notified by the Board to each grantee, provided that no Option shall be exercisable later than ten years after its date of grant. The subscription price of the options must be at least the highest of: (a) the closing price of a Share as stated in the daily quotations sheet of the Stock Exchange on the date of grant which must be a business day; (b) the average of the closing prices of the Shares as shown on the daily quotations sheets of the Stock Exchange for the five Business Days immediately preceding the date of grant; and (c) the nominal value of a Share. HK\$1.00 is payable by each Eligible Participant to the Company on acceptance of an offer of an Option, which shall be paid within 21 days from the date of offer.

On 6 December 2017, the Company granted 90,000,000 share options under the New Share Option Scheme (the “**2017 Options**”) to eligible participants at an exercise price of HK\$0.178 per share. All the 2017 Options lapsed without exercise on or before 31 December 2019.

At the annual general meeting of the Company held on 6 June 2018, the Scheme Mandate Limit was refreshed to allow the Company to grant up to the maximum of 226,519,747 Options, representing 10% of the Shares in issue on the date of approval of the refreshment. On 8 October 2019, the Company granted 220,000,000 share options under the New Share Option Scheme (the “**2019 Options**”) to eligible participants at an exercise price of HK\$0.10 per share. As at the date of this report, the number of Shares issuable on exercise of the outstanding 2019 Options under the New Share Option Scheme were 220,000,000 Shares, representing 8.09% of the existing issued share capital of the Company, leaving behind 6,519,747 Options being available for grant.

DIRECTORS' REPORT

SHARE OPTION SCHEME (continued)

New Share Option Scheme (continued)

| Grantee | Date of grant | Exercise price per share HK\$ | Outstanding as at 1 January 2019 '000 | Granted during the period '000 | Reclassification during the period '000 | Exercised during the period '000 | Lapsed/ Forfeited during the Year '000 | Outstanding as at 31 December 2019 '000 | |
|------------------------|------------------|----------------------------------|--|-----------------------------------|--|-------------------------------------|---|--|----------|
| Directors: | | | | | | | | | |
| Mai Huazhi | 8 October 2019 | 0.100 | - | 5,000 | - | - | - | 5,000 | (Note 5) |
| Xu Ming | 6 December 2017 | 0.178 | 5,000 | - | - | - | (5,000) | - | (Note 4) |
| | 8 October 2019 | 0.100 | - | 1,000 | - | - | - | 1,000 | (Note 5) |
| Chen Hua | 6 December 2017 | 0.178 | 1,000 | - | - | - | (1,000) | - | (Note 4) |
| Guo Jun Hao | 6 December 2017 | 0.178 | 1,000 | - | - | - | (1,000) | - | (Note 4) |
| | 8 October 2019 | 0.100 | - | 1,000 | - | - | - | 1,000 | (Note 5) |
| Li Hongxiang | 6 December 2017 | 0.178 | 1,000 | - | - | - | (1,000) | - | (Note 4) |
| | 8 October 2019 | 0.100 | - | 1,000 | - | - | - | 1,000 | (Note 5) |
| Wong Kwok On | 6 December 2017 | 0.178 | 1,000 | - | - | - | (1,000) | - | (Note 4) |
| | 8 October 2019 | 0.100 | - | 1,000 | - | - | - | 1,000 | (Note 5) |
| Bonathan Wai Ka Cheung | 6 December 2017 | 0.178 | 1,000 | - | - | - | (1,000) | - | (Note 4) |
| | 8 October 2019 | 0.100 | - | 1,000 | - | - | - | 1,000 | (Note 5) |
| Loke Hoi Lam | 8 October 2019 | 0.100 | - | 1,000 | - | - | - | 1,000 | (Note 5) |
| Subtotal | | | 10,000 | 11,000 | - | - | (10,000) | 11,000 | |
| Consultants: | | | | | | | | | |
| | 29 November 2010 | 2.316 | 1,903 | - | - | - | - | 1,903 | (Note 1) |
| | 22 October 2014 | 0.854 | 15,870 | - | - | - | - | 15,870 | (Note 3) |
| | 6 December 2017 | 0.178 | 34,000 | - | - | - | (34,000) | - | (Note 4) |
| | 8 October 2019 | 0.100 | - | 22,000 | - | - | - | 22,000 | (Note 5) |
| Subtotal | | | 51,773 | 22,000 | - | - | (34,000) | 39,773 | |
| Employees: | | | | | | | | | |
| | 2 September 2011 | 1.440 | 6,295 | - | - | - | - | 6,295 | (Note 2) |
| | 22 October 2014 | 0.854 | 6,924 | - | - | - | - | 6,924 | (Note 3) |
| | 6 December 2017 | 0.178 | 25,000 | - | - | - | (25,000) | - | (Note 4) |
| | 8 October 2019 | 0.100 | - | 187,000 | - | - | - | 187,000 | (Note 5) |
| Subtotal | | | 38,219 | 187,000 | - | - | (25,000) | 200,219 | |
| Total | | | 99,992 | 220,000 | - | - | (69,000) | 250,992 | |

Note 1: These options have vested (i) as to 30% on the date of grant of 29 November 2010; (ii) as to further 30% one year after the date of grant; and (iii) as to the remaining 40% two years after the date of grant. These options will expire on the 10th anniversary after the date of grant. As disclosed in the Company's announcement dated 20 December 2017, the exercise price of this series of options were adjusted from HK\$2.807 (before 20 December 2017) to HK\$2.316 (after 20 December 2017) as a result of the Company's one-for-one rights issue in 2017.

Note 2: These options have vested (i) as to 25% on 2 March 2012 (i.e. six months after the date of grant); (ii) as to further 25% on 2 March 2013; (iii) as to further 25% on 2 March 2014; and (iv) as to the remaining 25% on 2 March 2015. These options will expire on the 10th anniversary after the date of grant, i.e. on 2 September 2021. As disclosed in the Company's announcement dated 20 December 2017, the exercise price of this series of options were adjusted from HK\$1.747 (before 20 December 2017) to HK\$1.440 (after 20 December 2017) as a result of the Company's one-for-one rights issue in 2017.

DIRECTORS' REPORT

SHARE OPTION SCHEME *(continued)*

New Share Option Scheme *(continued)*

Note 3: Options are exercisable on or after the date of grant of 22 October 2014. These options will expire on the 10th anniversary after the date of grant. As disclosed in the Company's announcement dated 20 December 2017, the exercise price of this series of options were adjusted from HK\$1.035 (before 20 December 2017) to HK\$0.854 (after 20 December 2017) as a result of the Company's one-for-one rights issue in 2017.

Note 4: These options have vested (i) as to 50% from 1 January 2018; and (ii) as to further 50% from 1 January 2019. These options have expired on 31 December 2019.

Note 5: These options are vesting (i) as to 50% from 8 October 2019; and (ii) as to further 50% from 1 January 2021. These options will expire on 31 December 2021.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Other than the Company's share option scheme disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed in note 34 to the consolidated financial statements, no contracts of significance, to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACT

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

CONNECTED TRANSACTIONS

The Company has not entered into any connected transactions during the year, and no continuing connected transactions of the Company subsisted as at 31 December 2019.

DIRECTORS' REPORT

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, the interests or short positions of the directors and chief executives and their associates in the shares, underlying shares and debenture of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (“SFO”), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”), were as follows:

Interests in Shares:

| Name of Directors | Capacity | Number of shares held (Long position) | Percentage of issued share capital |
|----------------------------------|-----------------------------|---------------------------------------|------------------------------------|
| Xu Ming | Beneficial Owner (Note 1) | 1,000,000 | 0.04% |
| Guo Jun Hao | Beneficial Owner (Note 1) | 1,000,000 | 0.04% |
| Li Hongxiang | Beneficial Owner (Note 1) | 1,000,000 | 0.04% |
| Wong Kwok On | Beneficial Owner (Note 1) | 1,000,000 | 0.04% |
| Bonathan Wai Ka Cheung | Beneficial Owner (Note 1) | 1,000,000 | 0.04% |
| Dr. Loke Yu (alias Loke Hoi Lam) | Beneficial Owner (Note 1) | 1,000,000 | 0.04% |
| Mai Huazhi | Beneficial Owner (Note 1) | 5,000,000 | 0.18% |
| Zeng Yongguang | Interest of Spouse (Note 2) | 1,000,000 | 0.04% |

Note 1: Based on the DI filings made by the relevant person(s), the underlying Shares may be issued upon full exercise of the share options granted to the relevant directors on 29 October 2019, further details of which are set out in the section headed “Share Option Schemes”.

Note 2: Based on the DI filings made by the relevant person, Mr. Zeng Yongguang is deemed to be interested in the 1,000,000 shares of the Company held by his spouse, Ms. Zeng Xiaoxian.

Other than disclosed above, none of the directors and chief executives nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2019.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, the following person (other than a director or chief executive of the Company) had an interest or short position in the shares and underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Interest in shares:

| Name of Shareholders | Capacity | Number of shares held (long position) | Percentage of issued share capital |
|--|------------------------------------|---------------------------------------|------------------------------------|
| Intelligent South Network Group Limited (Note 1) | Beneficial Owner | 216,000,000 | 7.95% |
| Zhu Dechao (Note 1) | Interest in controlled corporation | 216,000,000 | 7.95% |

Note 1: Based on DI filing made by the relevant person(s), these 216,000,000 Shares were held by Intelligent South Network Group Limited, which is a company wholly owned by Mr. Zhu Dechao.

Other than disclosed above, as at 31 December 2019, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the incumbent independent non-executive director confirmed that he is independent within the definition of Rule 3.13 of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Year, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of its own listed securities.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's largest customer contributed 9.1% to the total sales for the year. The Group's five largest customers accounted for 25.3% of the Group's total turnover for the year.

The Group's largest supplier contributed 16.4% to the total purchases for the year. The Group's five largest suppliers accounted for 50.5% of the total purchases for the Year.

At no time during the Year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

DIRECTORS' REPORT

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2019.

AUDIT COMMITTEE

The Audit Committee of the Company ("**AC**") comprises of four independent non-executive Directors, namely, Dr. Loke Yu (alias Loke Hoi Lam), Mr. Li Hongxiang, Mr. Wong Kwok On and Mr. Bonathan Wai Ka Cheung. Dr. Loke Yu (alias Loke Hoi Lam) is the chairman of the AC. One out of four AC members, Dr. Loke Yu (alias Loke Hoi Lam) possesses recognised professional qualifications in accounting and has wide experience in audit and accounting.

No former partner of the Company's existing auditing firm acted as a member of the AC within two years from ceasing to be a partner or having any financial interest in the auditing firm. The AC was delegated with the authority of the Board of the Company to investigate any activity within its terms of reference. The primary function of the AC is to review and supervise the Group's financial reporting process and internal controls. The AC has also reviewed arrangements to enable employees of the Group to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters, and to ensure proper arrangements that in place for fair and independent investigation and follow up actions. The full terms of reference of the AC are available on the Company's website: www.tatchun.com and the website of the Stock Exchange: www.hkexnews.hk.

The Group's audited financial statements for the year ended 31 December 2019 have been reviewed by the audit committee, which is of the opinion that such statements comply with applicable accounting standards, the Listing Rules and other legal requirements, and that adequate disclosures have been made.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set out by the Remuneration Committee on the basis of their merit, qualifications, and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

DIVIDEND POLICY

The Company adopts a dividend policy ("**Dividend Policy**"), taking into account all circumstances in particular the following factors before declaring or recommending dividends: (a) the current and projected financial performance of the Company; (b) the Company's growth and investment opportunities; (c) the availability of distributable amounts under the Company's constitution and applicable company laws; (d) other macro and micro economic factors; and (e) other factors and events which the Board may consider relevant from time to time.

The Board do not recommend the payment of any dividend in respect of the year.

DIRECTORS' REPORT

DONATION

During the year, the Group made charitable and other donations amounting to Nil.

AUDITOR

A resolution will be submitted to the upcoming AGM of the Company to re-appoint Messrs. HLB Hodgson Impey Cheng Limited as the auditor of the Company.

BANK BORROWINGS

Bank borrowings of the Company at 31 December 2019 and 2018 are set out in the consolidated statement of financial position on page 68 and note 22 to the consolidated financial statements respectively.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company follows the Model Code as the code of conduct for Directors in their dealings in the Company's securities. Further details of the Model Code are set out in the Corporate Governance Report on page 5 of this Annual Report.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 5 to 14 of this Annual Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Group is committed to contributing to the sustainability of the environment and maintaining a high standard of corporate social governance essential for creating a framework for motivating staff, and contributes to the community in which we conduct our businesses and creating a sustainable return to the Group.

Working Conditions

The Company adopted the Board diversity policy in accordance with the requirement set out in the CG Code. The Company recognizes that the Board diversity is an essential element contributing to the sustainable development of the Company. In designing the Board's composition, the Board diversity has been considered from a number of aspects, including but not limited to the skills, knowledge, gender, age, cultural and educational background or professional experience. A Board Diversity Policy, with the aim of enhancing the quality of the Board's performance by diversity, was adopted in August 2013.

The Group encourages its staff to participate in external seminars and lectures to keep abreast of changes and updates on areas of legal, compliance, financial accounting and reporting, and market industry practices. Through these types of training, we believe that the Group can increase its efficiency and productivity while overall reduction of risk and uncertainties of the Group can be reduced.

The Company encourages continuous professional development training for the Directors and senior management to develop and refresh their knowledge and skills which includes seminars and workshops, updates on regulatory requirements and development and corporate governance practices.

DIRECTORS' REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE *(continued)*

Health and Safety

The Group strives to provide a healthy and safe working environment to the employees. In order to maintain a healthy and safe working environment, the Group has upgraded and maintained tools, office and IT equipment.

Environment Protection

Conservation of the environment is a key focus for the Group. The Group complies with environmental legislation, encourages environmental protection and promotes environmental protection awareness to all employees of the Group.

Community Involvement

The Group is committed to participating in community events from time to time, and to the improvement of community wellbeing and social services. The Group supports and encourages staff to actively participate in a wide range of charitable events outside working hours, to raise awareness and concern for the community, and to inspire more people to take part in serving the community.

Compliance With Laws and Regulations

The Group has compliance and risk management policies and procedures, and members of the senior management are delegated with the continuing responsibility to monitor adherence and compliance with all significant legal and regulatory requirements.

As far as the Company is aware, save as already disclosed in the Company's announcements, it has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries.

INDEMNITY OF DIRECTORS

A permitted indemnity provision that provides for indemnity against liability incurred by directors and chief executives of the Group is currently in force and was in force throughout the year ended 31 December 2019.

On behalf of the Board

Zeng Yongguang

Executive Director

Hong Kong
11 May 2020

INDEPENDENT AUDITORS' REPORT



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The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF TC ORIENT LIGHTING HOLDINGS LIMITED

達進東方照明控股有限公司

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of TC Orient Lighting Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 67 to 153 which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 3 in the consolidated financial statements, which indicates that the Group incurred a loss of approximately HK\$120,572,000 during the year ended 31 December 2019 and, as of that date, the Group’s current liabilities exceeded its current assets by approximately HK\$94,641,000. As stated in Note 3, these events or conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast significant doubt on the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITORS' REPORT

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 year. 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. In addition to the matter described in the “Material Uncertainty Related to Going Concern” section, we have determined the matters described below to be the key audit matters to be communicated in our report.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| <p><i>Valuation of property, plant and equipment</i></p> <p>Refer to Note 15 to the consolidated financial statements and the accounting policies in Note 3 to the consolidated financial statements.</p> <p>Included in the property, plant and equipment, the Group has building amounted to approximately HK\$111,922,000 as at 31 December 2019 and are stated at revalued amounts. Independent external valuations were obtained in order to support management's estimates. The valuations are dependent on certain key assumptions that require significant management judgement, including market price and conditions of the properties.</p> | <p>Our procedures in relation to the management's valuation of property, plant and equipment included:</p> <ul style="list-style-type: none"> • Evaluating the independent valuer's competence, capabilities and objectivity; • Assessing the methodologies used and the appropriateness of the key assumption based on our knowledge of the property industry and using our valuation experts; • Checking on a sample basis, the accuracy and relevance of the input data used. <p>We found the key assumptions were supported by the available evidence.</p> |

INDEPENDENT AUDITORS' REPORT

Key audit matter

How our audit addressed the key audit matter

Allowance for expected credit losses assessment of trade receivables

Refer to note 18 to the consolidated financial statements.

As at 31 December 2019, the Group had gross trade receivables with normal credit terms of approximately HK\$192,941,000 and allowance for expected credit losses of approximately HK\$87,187,000.

As at 31 December 2019, the Group had gross trade receivables with extended credit terms of approximately HK\$74,426,000 and allowance for expected credit losses of approximately HK\$11,356,000.

In general, the credit terms granted by the Group to the customers ranged between 30 to 180 days (2018: 30 to 180 days) on PCB customers and trading of towers and electric cable customer with normal credit term and credit period ranging from one year to ten years on its trade on LED customers with extended credit terms which is based on contractual repayment schedule. Management performed periodic assessment on the recoverability of the trade receivables and the sufficiency of provision for impairment based on information including credit profile of different customers, ageing of the trade receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant customers. Management also considered forward-looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the allowance for expect credit loss assessment.

We focused on this area due to the allowance for expect credit loss assessment of trade receivables under the expected credit losses model involved the use of significant management judgements and estimates.

Our procedures in relation to management's assessment of the trade receivables as at 31 December 2019 included:

- Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk, and validating the control effectiveness on a sample basis;
- Checking, on a sample basis, the ageing profile of the trade receivables as at 31 December 2019 to the underlying financial records and post year-end settlements to bank receipts;
- Inquiring of management for the status of each of the material trade receivables past due as at year end and corroborating explanations from management with supporting evidence, such as performing public search of selected customers, understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with the customers; and
- Assessing the appropriateness of the expected credit loss provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit losses.

We found that the management judgment and estimates used to assess the recoverability of the trade receivables and determine the impairment provision to be supportable by available evidence.

INDEPENDENT AUDITORS' REPORT

Key audit matter

How our audit addressed the key audit matter

Allowance for expected credit losses assessment of other receivables

Refer to Note 18 to the consolidated financial statements.

As at 31 December 2019, the Group's other receivables amounted to HK\$105,332,000 was recognised in the Group's consolidated statement of financial position.

The balance of allowance for expected credit losses of other receivables represents the management's best estimates at the balance sheet date of expected credit losses under Hong Kong Financial Reporting Standard 9: Financial Instruments expected credit losses models.

Management assesses whether the credit risk of other receivables have increased significantly since their initial recognition, and apply a three-stage impairment model to calculate their expected credit losses. The measurement models of expected credit losses involves significant management judgments and assumptions, primarily including the following:

- Selection of appropriate model and determination of relevant key measurement parameters, including probability of default, loss given default and exposure at default;
- Criteria for determining whether or not there was a significant increase in credit risk or a default; and
- Economic indicator for forward-looking measurement, and the application of economic scenarios and weightings.

We focus on this area due to the magnitude of the other receivables and the significant estimates and judgement involved in determining the expected credit impairment losses allowance on the other receivables.

Our procedures in relation to management's assessment on allowance for expected credit losses of other receivables as at 31 December 2019 included:

- understood and tested the key control procedures performed by management, including its procedures on periodic review on overdue receivables and the assessment of expected credit losses allowance on the other receivables;
- understood and evaluated the modelling methodologies for expected credit losses measurement, assessed the reasonableness of the model selection and key measurement parameters determination;
- for the historical information, discussed with management to understand the management's identification of significant increase in credit risk, defaults and credit-impaired loans, corroborated management's explanation with supporting evidence;
- for forward-looking measurement, we assessed the reasonableness of economic indicator selection, economic scenarios and weightings application, assessed the reasonableness of the estimation by comparing with industry data; and
- checked major data inputs used in the expected credit losses models on sample basis to the Group's record.

Based on the above, we found that the estimates and judgement made by management in respect of the expected credit losses allowance and the collectability of the other receivables were supportable by the available evidence.

INDEPENDENT AUDITORS' REPORT

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon (the "**Other Information**").

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

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

RESPONSIBILITIES OF THE DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITORS' REPORT

AUDITORS' 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 auditors' report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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 HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 director on the audit resulting in this independent auditors' report is Wong Sze Wai, Basilia.

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

Wong Sze Wai, Basilia

Practicing Certificate Number: P05806

Hong Kong, 11 May 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

| | Notes | 2019 HK\$'000 | 2018 HK\$'000 |
|--|-------|------------------|------------------|
| Turnover | 5 | 274,477 | 340,415 |
| Cost of sales | | (272,651) | (336,115) |
| Gross profit | | 1,826 | 4,300 |
| Other income | 6 | 11,327 | 18,866 |
| Other gains and losses | 7 | (19,236) | (71,487) |
| Selling and distribution expenses | | (18,830) | (19,417) |
| Administrative expenses | | (71,495) | (73,204) |
| Finance costs | 8 | (24,114) | (24,601) |
| Loss before tax | | (120,522) | (165,543) |
| Income tax expense | 9 | (50) | (54) |
| Loss for the year | 10 | (120,572) | (165,597) |
| Other comprehensive loss | | | |
| <i>Items that will not be reclassified to profit or loss</i> | | | |
| Deficit on revaluation of properties | | (6,587) | (8,440) |
| Deferred tax assets arising from revaluation of properties | | 1,647 | 2,110 |
| | | (4,940) | (6,330) |
| <i>Items that may be subsequently reclassified to profit or loss</i> | | | |
| Exchange differences arising on translation | | (1,583) | 1,478 |
| Other comprehensive loss for the year | | (6,523) | (4,852) |
| Total comprehensive loss for the year | | (127,095) | (170,449) |
| Loss for the year attributable to: | | | |
| Owners of the Company | | (102,896) | (133,768) |
| Non-controlling interests | | (17,676) | (31,829) |
| | | (120,572) | (165,597) |
| Total comprehensive loss attributable to: | | | |
| Owners of the Company | | (108,664) | (139,933) |
| Non-controlling interests | | (18,431) | (30,516) |
| | | (127,095) | (170,449) |
| Loss per share | | | |
| Basic and diluted (in HK cents) | 14 | (3.88) | (6.10) |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

| | Notes | 2019 HK\$'000 | 2018 HK\$'000 |
|--|-------|------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment | 15 | 141,211 | 156,213 |
| Prepaid lease payment – non-current portion | 16 | – | 16,998 |
| Right-of-use assets | 16 | 19,851 | – |
| Trade receivables with extended credit terms | 18(a) | 5,742 | 17,088 |
| | | 166,804 | 190,299 |
| Current assets | | | |
| Inventories | 17 | 34,366 | 40,982 |
| Prepaid lease payments – current portion | 16 | – | 615 |
| Trade and other receivables | 18(a) | 281,937 | 396,259 |
| Bills receivables | 18(b) | – | 7,894 |
| Pledged bank deposits | 19 | 14,768 | 10,333 |
| Bank balances, deposits and cash | 19 | 22,433 | 21,150 |
| | | 353,504 | 477,233 |
| Current liabilities | | | |
| Trade and other payables | 20(a) | 198,236 | 268,903 |
| Contract liabilities | 21 | 10,825 | 14,263 |
| Bills payables | 20(b) | 29,994 | 23,015 |
| Taxation payables | | 63,606 | 64,781 |
| Lease liabilities | 23 | 1,040 | – |
| Bank borrowings – due within one year | 22 | 144,444 | 145,402 |
| | | 448,145 | 516,364 |
| Net current liabilities | | (94,641) | (39,131) |
| Total assets less current liabilities | | 72,163 | 151,168 |
| Non-current liabilities | | | |
| Lease liabilities | 23 | 1,797 | – |
| Deferred taxation | 24 | 12,856 | 14,503 |
| | | 14,653 | 14,503 |
| Net assets | | 57,510 | 136,665 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

| | Notes | 2019 HK\$'000 | 2018 HK\$'000 |
|--|-------|------------------|------------------|
| Capital and reserves | | | |
| Share capital | 25 | 271,824 | 226,520 |
| Reserves | 26 | (157,678) | (50,539) |
| Equity attributable to owners of the Company | | 114,146 | 175,981 |
| Non-controlling interests | | (56,636) | (39,316) |
| Total equity | | 57,510 | 136,665 |

The consolidated financial statements on pages 67 to 153 were approved and authorised for issue by the Board of Directors on 11 May 2020 and are signed on its behalf by:

Zeng Yongguang
Executive Director

Guo Jun Hao
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

| | Share capital | Share premium | Capital redemption reserve | Property revaluation reserve | The People's Republic of China (the "PRC") statutory reserve | Special reserve | Share option reserve | Capital contribution reserve | Exchange reserve | Accumulated (losses)/ profits | Total | Non-controlling interests | Total equity |
|---|----------------|----------------|----------------------------|------------------------------|--|-----------------|----------------------|------------------------------|------------------|-------------------------------|----------------|---------------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | | | (note 26) | | (note 26) | (note 26) | | (note 26) | | | | | |
| A 1 January 2018 | 205,927 | 566,877 | 470 | 47,926 | 15,003 | 1,156 | 25,512 | 1,893 | 14,966 | (587,579) | 292,151 | (8,800) | 283,351 |
| Loss for the year | - | - | - | - | - | - | - | - | - | (133,768) | (133,768) | (31,829) | (165,597) |
| Exchange differences arising on translation | - | - | - | - | - | - | - | - | (4,668) | - | (4,668) | 1,313 | (3,355) |
| Release on exchange differences upon disposal of subsidiaries | - | - | - | - | - | - | - | - | 4,833 | - | 4,833 | - | 4,833 |
| Deficit on revaluation at properties | - | - | - | (8,440) | - | - | - | - | - | - | (8,440) | - | (8,440) |
| Deferred tax liabilities arising from revaluation of properties | - | - | - | 2,110 | - | - | - | - | - | - | 2,110 | - | 2,110 |
| Total comprehensive expense for the year | - | - | - | (6,330) | - | - | - | - | 165 | (133,768) | (139,933) | (30,516) | (170,449) |
| Equity-settled share-based transaction | - | - | - | - | - | - | 3,170 | - | - | - | 3,170 | - | 3,170 |
| Issue of shares upon subscription, net | 20,593 | - | - | - | - | - | - | - | - | - | 20,593 | - | 20,593 |
| Lapse of share options | - | - | - | - | - | - | (2,363) | - | - | 2,363 | - | - | - |
| Subtotal | 20,593 | - | - | - | - | - | 807 | - | - | 2,363 | 23,763 | - | 23,763 |
| At 31 December 2018 and 1 January 2019 | 226,520 | 566,877 | 470 | 41,596 | 15,003 | 1,156 | 26,319 | 1,893 | 15,131 | (718,984) | 175,981 | (39,316) | 136,665 |
| Loss for the year | - | - | - | - | - | - | - | - | - | (102,896) | (102,896) | (17,676) | (120,572) |
| Exchange differences arising on translation | - | - | - | - | - | - | - | - | (828) | - | (828) | (755) | (1,583) |
| Deficit on revaluation of properties | - | - | - | (6,587) | - | - | - | - | - | - | (6,587) | - | (6,587) |
| Deferred tax liabilities arising from revaluation of properties | - | - | - | 1,647 | - | - | - | - | - | - | 1,647 | - | 1,647 |
| Total comprehensive income (expenses) for the year | - | - | - | (4,940) | - | - | - | - | (828) | (102,896) | (108,664) | (18,431) | (127,095) |
| Issue of shares upon subscriptions new shares | 45,304 | - | - | - | - | - | - | - | - | - | 45,304 | - | 45,304 |
| Incorporation of a new subsidiary | - | - | - | - | - | - | - | - | - | - | - | 1,111 | 1,111 |
| Lapse of share option | - | - | - | - | - | - | (5,096) | - | - | 5,096 | - | - | - |
| Share-based payment | - | - | - | - | - | - | 1,525 | - | - | - | 1,525 | - | 1,525 |
| Subtotal | 45,304 | - | - | - | - | - | (3,571) | - | - | 5,096 | 46,829 | 1,111 | 47,940 |
| At 31 December 2019 | 271,824 | 566,877 | 470 | 36,656 | 15,003 | 1,156 | 22,748 | 1,893 | 14,303 | (816,784) | 114,146 | (56,636) | 57,510 |

Upon the adoption of HKFRS 9 "Financial instruments" on 1 January 2018, an accumulated impact of HK\$12,856,000 was recorded as an adjustment to the accumulated losses and non-controlling interests as at 1 January 2018, which represented the allowance for expected credit losses.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

| | Notes | 2019 HK\$'000 | 2018 HK\$'000 |
|---|-------|------------------|------------------|
| OPERATING ACTIVITIES | | | |
| Loss before tax | | (120,522) | (165,543) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 15 | 10,629 | 13,217 |
| Interest expenses | 8 | 24,114 | 24,601 |
| Loss/(Gain) on disposal of property, plant and equipment | 7 | 242 | (430) |
| Allowance for expected credit losses recognised on trade receivables net with normal credit terms | 7 | 1,739 | 70,186 |
| Allowance for expected credit losses recognised on other receivables | 7 | 17,391 | 3,650 |
| Imputed interest on trade receivables with extended credit terms | 6 | (1,542) | (2,478) |
| Interest income | 6 | (650) | (542) |
| Depreciation of right-of-use assets/amortisation of prepaid lease payments | 16 | 2,712 | 615 |
| Reversal of allowance for expected credit losses previously recognised for trade receivables with extended credit terms | 7 | (191) | (1,074) |
| Share-based payment | | 1,525 | 3,170 |
| Write-down of inventories | 7 | 866 | 2,286 |
| Gain on disposal of subsidiaries | 7 | - | (1,931) |
| Operating cash flow before movements in working capital | | (63,687) | (54,273) |
| Decrease in inventories | | 5,750 | 3,337 |
| Decrease in trade and other receivables | | 101,384 | 26,068 |
| Decrease in bills receivable | | 7,894 | 8,814 |
| Decrease in trade and other payables | | (29,701) | (21,669) |
| (Decrease)/Increase in contract liabilities | | (3,438) | 3,163 |
| Increase/(Decrease) in bills payable | | 6,979 | (24,782) |
| Cash generated from/(used in) operations | | 25,181 | (59,342) |
| PRC Enterprise Income Tax paid | | (63) | (54) |
| NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES | | 25,118 | (59,396) |
| INVESTING ACTIVITIES | | | |
| Withdrawal of pledged bank deposits | | 69,064 | 112,826 |
| Interest received | | 650 | 542 |
| Proceeds from disposal of property, plant and equipment | | 547 | 516 |
| Placement of pledged bank deposits | | (73,499) | (101,119) |
| Purchase of property, plant and equipment | | (3,003) | (13,794) |
| Incorporation of a new subsidiary | | 1,111 | - |
| Net cash inflow on disposal of subsidiaries | 39 | - | 19,792 |
| NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES | | (5,130) | 18,763 |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

| | Notes | 2019 HK\$'000 | 2018 HK\$'000 |
|--|-------|------------------|------------------|
| FINANCING ACTIVITIES | | | |
| Repayment of bank borrowings | | (229,502) | (249,500) |
| Interest paid | | (24,027) | (24,601) |
| Bank borrowings raised | | 228,544 | 238,516 |
| Proceeds from issue of shares, net | | 45,304 | 20,593 |
| Repayment of other borrowings | | (104,588) | (71,902) |
| Repayment of lease liabilities | | (2,200) | – |
| Other borrowing raise | | 65,332 | 104,132 |
| <hr/> | | | |
| NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES | | (21,137) | 17,238 |
| <hr/> | | | |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | (1,149) | (23,395) |
| <hr/> | | | |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | 21,150 | 43,633 |
| <hr/> | | | |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | 2,432 | 912 |
| <hr/> | | | |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | | | |
| Represented by bank balances, deposits and cash | | 22,433 | 21,150 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 12 November 2004 and was registered as a non-Hong Kong Company under Part 16 of Hong Kong Companies Ordinance (Cap. 622) (“**new CO**”). Its shares are listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). Intelligent South Network Group Limited (“**Intelligent South Network**”) is a shareholder of the Company. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 38.

The consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”), which is also the functional currency of the Company and all values are rounded to nearest thousand except otherwise indicated.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

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

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

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

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

HKFRS 16 Leases

Transition and summary of effects arising from initial application of HKFRS 16

On 1 January 2019, the Group has applied HKFRS 16. HKFRS 16 superseded HKAS 17, and the related interpretations. The Group applied the HKFRS 16 in accordance with the transition provisions of HKFRS 16.

Definition of a lease

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(continued)*

2.1 New and Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

HKFRS 16 Leases (continued)

As a lessor

During the year ended 31 December 2019, application of HKFRS 16 by the Group as a lessor has no material impact on the Group’s consolidated financial statements.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

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

- i. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- ii. applied a single discount rate to a portfolio of leases with a similar remaining term for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties was determined on a portfolio basis;
- iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension options;
- iv. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and
- v. relied on the assessment of whether lease are onerous by applying HKAS 37 Provision Contingent Liabilities and Contingent Assets as an alternative of impairment view.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

2.1 New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

HKFRS 16 Leases (continued)

As a lessee (continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The incremental borrowing rate applied by relevant group entities was 7.0%.

| | At 1 January 2019 HK\$'000 |
|--|-------------------------------------|
| Operating lease commitments disclosed as at 31 December 2018 | 2,300 |
| Recognition exemption –short term or low value leases | (97) |
| Effect from discounting at the incremental borrowing rate as at 1 January 2019 | (185) |
| Lease liabilities as at 1 January 2019 | 2,018 |
| Analysed as: | |
| Current | 1,497 |
| Non-current | 521 |
| | 2,018 |

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

| | Right-of-use assets HK\$'000 |
|---|------------------------------------|
| Lease liabilities as at 1 January 2019 | 2,018 |
| Reclassification from prepaid lease payments (note) | 17,613 |
| | 19,631 |
| By class | |
| Property Leases | 2,018 |
| Land use rights in the PRC under medium-term leases | 17,613 |
| | 19,631 |

Notes: Upfront payments for leasehold lands in the PRC for own used properties were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK\$615,000 and HK\$16,998,000 respectively were reclassified to right-of-use assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(continued)*

2.1 New and Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

HKFRS 16 Leases (continued)

The following table summarises the impacts of the adoption HKFRS 16 on the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

| | Carrying amounts previously report at 31 December 2018 HK\$'000 | Adjustments HK\$'000 | Carrying amounts under HKFRS 16 at 1 April 2019 HK\$'000 |
|---|---|-------------------------|--|
| Non-current assets | | | |
| Right-of-use assets | – | 19,631 | 19,631 |
| Prepaid lease payment – non-current portion | 16,998 | (16,998) | – |
| Current assets | | | |
| Prepaid lease payment – current portion | 615 | (615) | – |
| Current liabilities | | | |
| Lease liabilities – due within one year | – | (1,497) | (1,497) |
| Non-current liabilities | | | |
| Lease liabilities – due over one year | – | (521) | (521) |

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(continued)*

2.2 New and revised HKFRSs in issued but not yet effective

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

¹ Effective for annual periods beginning on or after a date to be determined

² Effective for annual periods beginning on or after 1 January 2021

³ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

⁴ Effective for annual periods beginning on or after 1 January 2020

In addition to the above new and amendments to HKFRSs, a revised “Conceptual Framework for Financial Reporting” was issued in 2018. Its consequential amendments, the “Amendments to References to the Conceptual Framework in HKFRSs”, will be effective for annual periods beginning on or after 1 January 2020. The directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation of Financial Statements

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of Preparation of Financial Statements *(continued)*

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

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

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

Going concern basis

The Group incurred a loss approximately HK\$120,572,000 during the year ended 31 December 2019 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK\$94,641,000. In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group. The Directors adopted the going concern basis for the preparation of the consolidated financial statements and implemented the following measures in order to improve the working capital and liquidity and cash flow position of the Group:

(1) Financial support

Intelligent South Network Group Ltd, a shareholder of the Company, has agreed to continuously provide financial support for the continuing operations of the Company so as to enable it to meet its liabilities when they fall due and carry on its business without a significant curtailment of operations in the twelve months from 31 December 2019.

(2) Alternative sources of external funding

On 28 April 2020, the Company and the subscribers entered into the subscription agreements pursuant to which the Company has conditionally agreed to allot and issue, and the subscribers have agreed to subscribe for, an aggregate of 543,600,000 subscription shares at the subscription price of HK\$0.10 per subscription share. The net proceeds from the subscriptions amount to approximately HK\$54,100,000. For details of the subscriptions, please refer to the Company's announcement dated 28 April 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of Preparation of Financial Statements *(continued)*

Going concern basis *(continued)*

(3) Necessary facilities

The Group is in the process of negotiating with its bankers to secure necessary facilities to meet the Group's working capital and financial requirements in the near future.

In the opinion of the Directors, in light of the various measures or arrangements implemented after the end of reporting period together with the expected results of the other measures, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to remain a commercially viable concern. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any future liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

Basis of Consolidation

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of Preparation of Financial Statements *(continued)*

Going concern basis *(continued)*

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

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

Changes in the Group's Ownership Interests in Existing Subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Revenue Recognition and Other Income Recognition

Revenue from contracts with customers

Revenue is recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time.

Control of the good or service is transferred over time if the Group's performance:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue Recognition and Other Income Recognition *(continued)*

Revenue from contracts with customers (continued)

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

Revenue from the sale of printed circuit boards, tower and electric cable are recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products. The normal credit term is 30 days to 180 days upon delivery. Payment in advance is required for some contracts.

A contract liability is recognised when the consideration is received from customers before the goods are delivered. A receivable is recognised when the goods are delivered and accepted as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest come is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, Plant and Equipment

Property, plant and equipment, excluding buildings and construction in progress, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses.

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, Plant and Equipment *(continued)*

Any revaluation increase arising on revaluation of buildings is recognised in other comprehensive income and accumulated in revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

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

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Costs include professional fees and borrowing costs capitalised for qualifying assets in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets.

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

Ownership interests in leasehold land and building

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

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

Prepaid Lease Payments (before adoption of HKFRS 16 as at 1 January 2019)

Payments for obtaining land use rights are accounted for as prepaid lease payments and are charged to profit or loss on a straight-line basis over the lease terms as stated in the relevant land use right certificates granted for usage by the Group in the PRC. Prepaid lease payments which are to be charged to profit or loss in the next twelve months are classified as current assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Impairment Losses on Non-Financial Assets

At the end of the reporting period, the Group reviews the carrying amounts of its non-financial assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit (“CGU”) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When allocating an impairment loss to individual assets within a CGU, the carrying amount of an individual asset should not be reduced below the highest of its fair value less cost of disposal (if measurable), its value in use (if determinable), and zero. If this results in an amount being allocated to an asset which is less than its pro rata share of the impairment loss, the excess is allocated to the remaining assets within the CGU on a pro rata basis.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the CGU) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Financial instruments

Financial assets and financial liabilities are recognised when the group entity becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value except for trade receivable arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets

Classification and measurement of financial assets at amortised cost

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

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

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

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

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

A financial asset is classified as held for trading if:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Amortised cost and interest income

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

Financial assets at FVTPL

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

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

Impairment of financial assets

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, pledged bank deposit and cash and bank balances). The amount of ECL is updated at each reporting period to reflect changes in credit risk since initial recognition.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Significant increase in credit risk

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

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

Credit-impaired financial assets

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

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

Write-off policy

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Measurement and recognition of ECL

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

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

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

- Nature of financial instruments (i.e. the Group's trade and other receivable) and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for ECL on an individual basis;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Financial liabilities and equity instruments

Classification as financial liabilities or equity

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities and equity instruments *(continued)*

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables, bills payables, lease liabilities and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Derecognition

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing (upon application of HKFRS 16 as at 1 January 2019)

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

As a lessee

Allocation of consideration to components of a contract

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

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

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

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of property that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing (upon application of HKFRS 16 as at 1 January 2019) *(continued)*

As a lessee (continued)

Right-of-use assets

The cost of right-of-use asset includes:

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

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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

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

Refundable rental deposits

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

Lease liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing (upon application of HKFRS 16 as at 1 January 2019) *(continued)*

As a lessee (continued)

Lease liabilities (continued)

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

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

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

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing (upon application of HKFRS 16 as at 1 January 2019) *(continued)*

As a lessee (continued)

Lease modifications

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

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

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

As a lessor

Classification and measurement of leases

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

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing (upon application of HKFRS 16 as at 1 January 2019) *(continued)*

As a lessor (continued)

Classification and measurement of leases (continued)

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Lease modification

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

Leasing (before adoption of HKFRS 16 as at 1 January 2019)

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

The Group as lessor

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing (before adoption of HKFRS 16 as at 1 January 2019) *(continued)*

The Group as lessee (continued)

Lease payments are apportioned between finance expenses and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

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

Equity-Settled Share-Based Payment Transactions

Share options granted to directors, employees and others providing similar services rendered by employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

When the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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

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

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

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

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign Currencies

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

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

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

Borrowing Costs

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.

Government Grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Other government grants are recognized as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement Benefits Costs

Payments to the Mandatory Provident Fund Scheme and the state-managed retirement benefit schemes, which are defined contribution schemes, are recognised as an expense when employees have rendered services entitling them to the contributions.

Segment Reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the consolidated financial statements provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Related Party Transactions

A party is considered to be related to the Group if:

- (i) A person or a close member of that person's family is related to the Group if that person:
 - (a) has control or joint control over the Group;
 - (b) has significant influence over the Group; or
 - (c) is a member of the key management personnel of the Group or of a parent of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related Party Transactions *(continued)*

- (ii) An entity is related to the Group if any of the following conditions applies:
- (a) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiaries is related to the others);
 - (b) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group which the other entity is a member);
 - (c) both entities are joint ventures of the same third party;
 - (d) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (e) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employees are also related to the Group;
 - (f) the entity is controlled or jointly controlled by a person identified in (i);
 - (g) a person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
 - (h) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or the Group's parent.

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

A transaction is considered to be a related party transaction when there is a transfer of resources, or obligations between the Group and a related party, regardless of whether a price is charged.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Estimated Impairment of Property, Plant and Equipment and Right-of-use Assets

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

As at 31 December 2019, the carrying amounts of property, plant and equipment and right-of-use assets are HK\$141,211,000 and HK\$19,851,000 (2018: HK\$156,213,000 and nil). No impairment losses were recognised during the year ended 31 December 2019. Details are disclosed in note 15 and 16.

Estimated Allowance for Expected Credit Losses of Trade Receivables and Other Receivables

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in note 30.

Fair Value Measurements and Valuation Processes

As set out in note 15, properties were revalued as at 31 December 2019 basis by a firm of independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each of reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Income Tax and Deferred Taxation

Determining income tax provisions involve judgment on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

Write Down of Inventories

The Group writes down inventories based on an assessment of the net realisable value of inventories. Allowance is applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgment and estimates on the conditions and usefulness of the inventories. The management may consider the aging analysis, technology development of the industry, net realisable value for obsolete and slow-moving inventories that are no longer suitable for use in operation and subsequent sales or usage. Where the actual outcome or expectation of the net realisable value of inventories is different from the original estimate, such difference will impact the carrying value of inventories and writedown for inventories in the period in which such estimate has changed. The carrying amount of inventories at 31 December 2019 was HK\$34,366,000, net of write down of HK\$866,000 (2018: HK\$40,982,000 (net of write down of HK\$2,286,000)).

Valuation of Share Options

As explained in note 28, share option expense is subject to the limitations of the option pricing models adopted and the uncertainty in estimates used by management in the assumptions. Should the estimates including limited early exercise behavior, expected interval and frequency of open exercise periods in the share option life and the relevant parameters of the share option model be changed, there would be material changes in the amount of share option benefits recognised in the profit or loss and share-based payment reserve.

The Binominal Option Pricing Model and Black-Scholes Option Pricing Model were applied to estimate the fair value of share options granted by the Company. These pricing models require the input of highly subjective assumptions, including the volatility of share price. The changes in input assumptions can materially affect the fair value estimate.

Determining the Lease Term

As explained in note 2, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying assets to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. TURNOVER

All revenue contracts are for period of one year or less, as permitted by practical expedient under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Please refer to note 3 for details of revenue recognition.

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Disaggregation of revenue from contracts with customers | | |
| An analysis of the Group's turnover is by types of goods as follows: | | |
| Sales of printed circuit boards ("PCB") | 274,477 | 306,112 |
| Tradings of tower and electric cable | – | 34,303 |
| Total revenue recognised at a point in time | 274,477 | 340,415 |
| Time of revenue recognition | | |
| At a point in time | 274,477 | 340,415 |
| Over time | – | – |
| | 274,477 | 340,415 |
| Geographic market: | | |
| The PRC | 168,235 | 230,180 |
| Hong Kong | 43,360 | 60,658 |
| Others | 62,882 | 49,577 |
| | 274,477 | 340,415 |

6. OTHER INCOME

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Bank interest income | 650 | 542 |
| Imputed interest on trade receivables with extended credit terms | 1,542 | 2,478 |
| Sales of scrap materials | 6,948 | 10,639 |
| Government grants (note) | 633 | – |
| Others | 1,554 | 5,207 |
| | 11,327 | 18,866 |

Note: Government grants were mainly granted to the Group as subsidies to support the operation of the PRC subsidiaries. The government grants had no conditions or contingencies attached to them and they were non-recurring in nature.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

7. OTHER GAINS AND LOSSES

| | 2019 | 2018 |
|--|-----------------|-----------------|
| | HK\$'000 | HK\$'000 |
| Write-down of inventories | (866) | (2,286) |
| Net foreign exchange gain | 893 | 1,431 |
| Allowance for expected credit losses recognised on other receivables | (17,391) | (3,650) |
| Allowance for expected credit losses recognised on trade receivables net with normal credit terms | (1,739) | (70,186) |
| Reversal of allowance for expected credit losses previously recognised on trade receivables with extended credit terms | 191 | 1,074 |
| (Loss)/gain on disposal of property, plant and equipment | (242) | 430 |
| Gain on disposal of subsidiaries | – | 1,931 |
| Others | (82) | (231) |
| | (19,236) | (71,487) |

8. FINANCE COSTS

| | 2019 | 2018 |
|---|---------------|---------------|
| | HK\$'000 | HK\$'000 |
| Interest on: | | |
| – Bank and other borrowing wholly repayable within five years | 24,027 | 24,601 |
| – Lease liabilities | 87 | – |
| | 24,114 | 24,601 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

9. INCOME TAX EXPENSE

| | 2019 HK\$'000 | 2018 HK\$'000 |
|-----------------------------------|------------------|------------------|
| The charge comprises: | | |
| Current tax: | | |
| PRC Enterprise Income Tax ("EIT") | 50 | 54 |
| Hong Kong Profits Tax | – | – |
| | 50 | 54 |

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK\$2,000,000 will be taxed at 16.5%. The assessable profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits arising in Hong Kong for both years.

Under the Law of the People's Republic of China on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Loss before tax | (120,522) | (165,543) |
| Tax rate applicable to the major operations of the Group | 25% | 25% |
| Tax at the applicable rate | (30,131) | (41,386) |
| Tax effect of expenses not deductible for tax purpose | 5,164 | 21,972 |
| Tax effect of income not taxable for tax purpose | (433) | (56) |
| Tax effect of tax losses not recognised | 22,899 | 17,208 |
| Tax effect of different tax rate of subsidiaries | 2,451 | 2,316 |
| Income tax expense | 50 | 54 |

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For the year ended 31 December 2019

10. LOSS FOR THE YEAR

| | 2019 | 2018 |
|---|---------------|---------------|
| | HK\$'000 | HK\$'000 |
| Loss for the year has been arrived at after charging: | | |
| Employee expenses, including directors' and chief executive officer's remuneration (note) | 71,255 | 80,043 |
| Retirement benefit schemes contributions (note) | 6,199 | 7,890 |
| Total employee expenses | 77,454 | 87,933 |
| Auditors' remuneration: | | |
| Audit service | 1,800 | 1,800 |
| Cost of inventories recognised as an expense | 272,651 | 336,115 |
| Depreciation of property, plant and equipment | 10,629 | 13,217 |
| Research and development costs recognised as an expense | 575 | 487 |
| Amortisation of prepaid lease payments | – | 615 |
| Depreciation of right-of-use assets | 2,712 | – |
| Expenses relating to short-term leases | 305 | – |
| Share-based payment | 1,525 | 3,170 |

Note: Employee expenses and retirement benefit schemes contributions were included the direct and indirect labour cost and share base payment expenses, they have been recognised in the cost of inventories and administrative expenses.

11. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS

The emoluments of the directors and chief executive officer were as follows:

2019

| | Guo Jun Hao (note a) | Chen Hua (note b) | Zeng Yong Guang (note c) | Li Hongxiang (note d) | Xu Ming (note e) | Wong Kwok On (note f) | Cheung Wai Ka (note g) | Loke Yu (note h) | Mai Huazhi (note i) | Yau Yan Ming Raymond (note j) | Total |
|---|-------------------------|----------------------|-----------------------------|--------------------------|---------------------|--------------------------|---------------------------|---------------------|------------------------|----------------------------------|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Fee | – | – | – | 240 | – | 120 | 240 | 180 | – | – | 780 |
| Salaries and other benefits | 240 | 223 | 138 | – | 360 | – | – | – | 240 | 43 | 1,244 |
| Share-based payments | 7 | – | – | 7 | 7 | 7 | 7 | 7 | 35 | – | 77 |
| Retirement benefit scheme contributions | 12 | 11 | 4 | – | 18 | – | – | – | 8 | – | 53 |
| Total emoluments | 259 | 234 | 142 | 247 | 385 | 127 | 247 | 187 | 283 | 43 | 2,154 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

11. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS (continued)

2018

| | Guo Jun Hao (note a) | Wang Shi Jin (note k) | Chen Yongsan (note l) | Chen Hua (note b) | Zeng Yongguang (note c) | Anson Poon Wai Kong (note m) | Li Hongxiang (note d) | Xu Ming (note e) | Wong Kwok On (note f) | Cheung Wai Ka (note g) | Loke Yu (note h) | Mai Huazhi (note i) | Total |
|---|-------------------------|--------------------------|--------------------------|----------------------|----------------------------|---------------------------------|--------------------------|---------------------|--------------------------|---------------------------|---------------------|------------------------|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Fee | - | - | - | - | - | 77 | 240 | - | 120 | 240 | 103 | - | 780 |
| Salaries and other benefits | 240 | 250 | 732 | 360 | 431 | - | - | 360 | - | - | - | 140 | 2,513 |
| Share-based payments | 35 | 352 | 352 | 35 | - | 35 | 35 | 177 | 35 | 35 | - | - | 1,091 |
| Retirement benefit scheme contributions | 12 | 8 | 6 | 18 | - | - | - | 18 | - | - | - | 7 | 69 |
| Total emoluments | 287 | 610 | 1,090 | 413 | 431 | 112 | 275 | 555 | 155 | 275 | 103 | 147 | 4,453 |

Notes:

- (a) Mr. Guo Jun Hao was appointed as an executive director on 10 April 2017.
- (b) Mr. Chen Hua was appointed as an executive director on 29 February 2016 and resigned on 13 August 2019.
- (c) Mr. Zeng Yongguang was appointed as an executive Director on 27 March 2018.
- (d) Mr. Li Hongxiang was appointed as an independent non-executive director on 4 July 2016.
- (e) Mr. Xu Ming was appointed as an executive director on 14 September 2016 and the Chief Executive Officer on 9 April 2020.
- (f) Mr. Wong Kwok On was appointed as an independent non-executive director on 14 September 2016.
- (g) Mr. Bonathan Wai Ka Cheung was appointed as an independent non-executive director on 14 September 2016.
- (h) Dr. Loke Yu was appointed as an independent non-executive Director on 6 June 2018.
- (i) Mr. Mai Huazhi was appointed as an executive Director on 28 May 2018.
- (j) Mr. Yau Yan Ming Raymond was appointed as an executive Director on 12 November 2019 and resigned on 9 April 2020.
- (k) Mr. Wang Shi Jin was appointed as an executive director on 29 January 2015 and the Chief Executive Officer on 16 November 2015 and resigned as an Executive Director and the Chief Executive Officer on 5 June 2018.
- (l) Mr. Chen Yongsan was appointed as an executive director on 12 August 2015 and was appointed as the Chairman on 16 November 2015 and resigned as an executive director and the Chairman on 20 April 2018.
- (m) Mr. Anson Poon Wai Kong was appointed as an independent non-executive director on 1 June 2015 and resigned on 6 June 2018.

None of the director agreed to waive or has waived any emoluments during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group for the year, one (2018: three) were directors of the Company whose emoluments are included in the disclosure in note 11 above. The emoluments of the remaining four (2018: two) individuals were as follows:

| | 2019 | 2018 |
|--|--------------|----------|
| | HK\$'000 | HK\$'000 |
| Salaries and other benefits | 3,512 | 1,500 |
| Retirement benefit schemes contributions | 50 | 23 |
| Share-based payment | 7 | – |
| | 3,569 | 1,523 |

| | 2019 | 2018 |
|---|----------|------|
| Their emoluments were within the following bands: | | |
| Nil to HK\$1,000,000 | 4 | 1 |
| HK\$1,000,001 to HK\$1,500,000 | – | 1 |
| Above HK\$1,500,001 | – | – |
| | 4 | 2 |

The emoluments paid or payable to members of senior management (excluding the Directors) were within the following bands:

| | 2019 | 2018 |
|--------------------------------|------|------|
| Nil to HK\$1,000,000 | 1 | 1 |
| HK\$1,000,001 to HK\$1,500,000 | – | – |
| Above HK\$1,500,001 | – | – |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

13. DIVIDENDS

The Board of Directors do not recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil).

14. LOSS PER SHARE

The calculation of the basic and diluted loss per share for the year is based on the following data:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Loss | | |
| Loss for the purposes of basic and diluted loss per share, loss for the year | (102,896) | (133,768) |

| | 2019 '000 | 2018 '000 |
|---|------------------|--------------|
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | 2,654,936 | 2,192,418 |

The basic and diluted loss per share are the same for the years ended 31 December 2019 and 2018. The calculation of the diluted loss per share for both years did not assume the exercise of the Company's outstanding share options as the effect is anti-dilutive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15. PROPERTY, PLANT AND EQUIPMENT

| | Construction in progress | Buildings | Plant and machinery | Furniture and fixtures | Motor vehicles | Office equipment | Leasehold improvements | Total |
|--|-----------------------------|-----------|------------------------|---------------------------|-------------------|---------------------|---------------------------|----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| COST OR VALUATION | | | | | | | | |
| At 1 January 2018 | 9,914 | 132,297 | 371,974 | 2,430 | 6,936 | 8,104 | 96,247 | 627,902 |
| Exchange realignment | (457) | - | - | - | - | - | - | (457) |
| Addition | - | - | 6,993 | - | - | - | 6,801 | 13,794 |
| Disposal/written off | - | - | (18,282) | - | (175) | - | - | (18,457) |
| Disposal of subsidiaries | (9,457) | - | - | - | - | - | - | (9,457) |
| Deficit on revaluation | - | (8,440) | - | - | - | - | - | (8,440) |
| At 31 December 2018 and 1 January 2019 | - | 123,857 | 360,685 | 2,430 | 6,761 | 8,104 | 103,048 | 604,885 |
| Addition | - | - | 2,961 | - | - | - | 42 | 3,003 |
| Disposal | - | - | (22,022) | - | - | - | - | (22,022) |
| Deficit on revaluation | - | (6,587) | - | - | - | - | - | (6,587) |
| At 31 December 2019 | - | 117,270 | 341,624 | 2,430 | 6,761 | 8,104 | 103,090 | 579,279 |
| DEPRECIATION AND IMPAIRMENT | | | | | | | | |
| At 1 January 2018 | - | - | 349,601 | 1,977 | 6,594 | 8,014 | 87,640 | 453,826 |
| Provide for the year | - | 2,685 | 7,769 | 91 | 253 | 57 | 2,362 | 13,217 |
| Disposal/written off | - | - | (18,212) | - | (159) | - | - | (18,371) |
| At 31 December 2018 and 1 January 2019 | - | 2,685 | 339,158 | 2,068 | 6,688 | 8,071 | 90,002 | 448,672 |
| Provide for the year | - | 2,663 | 5,526 | 110 | 49 | 25 | 2,256 | 10,629 |
| Disposal | - | - | (21,233) | - | - | - | - | (21,233) |
| At 31 December 2019 | - | 5,348 | 323,451 | 2,178 | 6,737 | 8,096 | 92,258 | 438,068 |
| CARRY VALUES | | | | | | | | |
| At 31 December 2019 | - | 111,922 | 18,173 | 252 | 24 | 8 | 10,832 | 141,211 |
| At 31 December 2018 | - | 121,172 | 21,527 | 362 | 73 | 33 | 13,046 | 156,213 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line method at the following rates per annum:

| | |
|------------------------|---|
| Buildings | Over the remaining term of the leases |
| Leasehold improvements | 10% or over the term of lease, whichever is shorter |
| Plant and machinery | 10% |
| Furniture and fixtures | 10% |
| Motor vehicles | 18% |
| Office equipment | 18% |

The carrying value of the Group's buildings and construction in progress shown above are situated in the PRC under medium-term leases.

Impairment Losses Recognised in the Current Year

During the year, as the result of the unexpected poor performance of a manufacturing plant, the Group carried out a review of the recoverable amount of that plant and machinery. These assets are used in the Group's electronic equipment reportable segments. No impairment loss has been recognised for the years ended 31 December 2019 and 2018. The recoverable amount of the relevant assets has been determined on the basis of their value in use and greater than carrying values. The discount rate used in measuring value in use was 9.5% per annum.

The Group's buildings were valued on 31 December 2019 and 2018 by Roma Appraisals Limited, an independent qualified professional valuer not connected with the Group.

If buildings had not been revalued, they would have been included in these consolidated financial statements at historical cost less accumulated depreciation of HK\$81,284,000 (2018: HK\$83,638,000).

The Group has pledged buildings having carrying amounts of HK\$111,922,000 (2018: HK\$121,172,000), to secure general banking facilities granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

16. RIGHT-OF-USE ASSETS/PREPAID LEASE PAYMENTS

The Group's right-of-use assets/prepaid lease payments comprise:

| | Land use rights in the PRC under medium-term leases HK\$'000 | Property leases HK\$'000 | Total HK\$'000 |
|---|---|-----------------------------|-------------------|
| Cost | | | |
| At 1 January 2019 (Note 2) | 2,018 | 17,613 | 19,631 |
| Additions | 2,932 | – | 2,932 |
| At 31 December 2019 | 4,950 | 17,613 | 22,563 |
| Accumulated depreciation and impairment losses | | | |
| At 1 January 2019 (Note 2) | – | – | – |
| Charge provided for the year | 2,097 | 615 | 2,712 |
| At 31 December 2019 | 2,097 | 615 | 2,712 |
| Carrying amounts | | | |
| At 31 December 2019 | 2,853 | 16,998 | 19,851 |
| At 1 January 2019 (restated) | 2,018 | 17,613 | 19,631 |

The right-of-use assets are charged to profit or loss over the respective term of the lease on a straight-line basis.

During the year, the Group leases property for own use. Lease contracts are entered into for fixed term of three years. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

As at 31 December 2019, the Group has pledged the land use rights of carrying amount of HK\$16,998,000 (2018: HK\$17,613,000) to secure general banking facilities granted to the Group.

Upon initial application of HKFRS 16, prepaid lease payments were classified as right-of use assets.

17. INVENTORIES

| | 2019 HK\$'000 | 2018 HK\$'000 |
|------------------|------------------|------------------|
| Raw materials | 15,945 | 20,030 |
| Work in progress | 1,655 | 5,260 |
| Finished goods | 16,766 | 15,692 |
| | 34,366 | 40,982 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

17. INVENTORIES *(continued)*

During the year ended 31 December 2019, obsolete inventories amounting to approximately HK\$866,000 (2018: HK2,286,000) were written off.

18. TRADE, BILLS AND OTHER RECEIVABLES

(a) Trade and Other Receivables

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|
| Trade receivables with normal credit terms | 192,941 | 282,669 |
| Less: Allowance for expected credit losses | (87,187) | (85,448) |
| | 105,754 | 197,221 |
| Trade receivables with extended credit terms | 74,426 | 87,547 |
| Less: Allowance for expected credit losses | (11,356) | (11,547) |
| | 63,070 | 76,000 |
| Total trade receivables, net of allowance for doubtful debts | 168,824 | 273,221 |
| Less: Non-current portion of trade receivables with extended credit terms | (5,742) | (17,088) |
| Current portion of trade receivables | 163,082 | 256,133 |
| Advances to suppliers | 7,773 | 8,236 |
| Value-added tax recoverable | 5,750 | 6,082 |
| | 13,523 | 14,318 |
| Other receivables (note ii) | 105,332 | 125,808 |
| | 118,855 | 140,126 |
| Trade and other receivables shown under current assets | 281,937 | 396,259 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

18. TRADE, BILLS AND OTHER RECEIVABLES *(continued)*

(a) Trade and Other Receivables *(continued)*

The Group generally allows an average credit period of 30 days to 180 days to its trade on PCB customers and tradings of towers and electric cable customers with normal credit terms and credit period ranging from one year to ten years to its trade on LED lighting customers with extended credit terms which is based on the contractual repayment schedule. The following is an aging analysis of trade receivables with normal credit terms and trade receivables with extended credit terms, net of allowance for doubtful debts, respectively, presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

| | Extended credit terms | | Normal credit terms | | Total | |
|---------------|-----------------------|----------|---------------------|----------|----------------|----------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| 0 – 30 days | – | – | 20,622 | 24,053 | 20,622 | 24,053 |
| 31 – 60 days | – | – | 27,240 | 22,458 | 27,240 | 22,458 |
| 61 – 90 days | – | – | 14,489 | 18,345 | 14,489 | 18,345 |
| 91 – 180 days | – | – | 32,372 | 57,630 | 32,372 | 57,630 |
| Over 180 days | 63,070 | 76,000 | 11,031 | 74,735 | 74,101 | 150,735 |
| | 63,070 | 76,000 | 105,754 | 197,221 | 168,824 | 273,221 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

18. TRADE, BILLS AND OTHER RECEIVABLES *(continued)*

(a) Trade and Other Receivables *(continued)*

For the year ended 31 December 2019

Movement in lifetime ECL that has been recognized for trade receivables with normal credit terms in accordance with the simplified approach set out in HKFRS 9 for the year ended 31 December 2019.

| | HK\$'000 |
|---|----------|
| Balance as at 1 January 2018 | 15,262 |
| Allowance for expected credit losses | 70,186 |
| Balance as at 31 December 2018 and 1 January 2019 | 85,448 |
| Allowance for expected credit losses | 1,739 |
| Balance as at 31 December 2019 | 87,187 |

Notes:

i. Trade Receivables with Extended Credit Terms

At 31 December 2019, the balances represent the carrying amounts of trade receivables with extended credit terms of HK\$63,070,000 (2018: HK\$76,000,000) resulting from the sales of LED lighting products to external customers ("LED Receivables") which will mostly be settled by instalments ranging from one to ten years pursuant to the supply contracts. The fair value of the considerations recognised is determined using an imputed rate of interest.

At the end of the reporting period, the Group has LED Receivables which fall due as follows:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---------------------------------------|------------------|------------------|
| Within one year | 31,201 | 43,557 |
| In the second to fifth year inclusive | 31,869 | 32,443 |
| | 63,070 | 76,000 |

Included in the trade receivables with extended credit terms are balances of HK\$27,706,000 (2018: HK\$38,456,000) receivable from certain government authorities in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

18. TRADE, BILLS AND OTHER RECEIVABLES *(continued)*

(a) Trade and Other Receivables *(continued)*

Notes: *(continued)*

i. Trade Receivables with Extended Credit Terms *(continued)*

Movement in lifetime ECL that has been recognized for trade receivables with extended credit terms in accordance with the simplified approach set out in HKFRS 9 for the year ended 31 December 2019 and 2018.

| | HK\$'000 |
|--|---------------|
| Adjusted balance as at 1 January 2018 | 12,621 |
| Allowance for expected credit losses | – |
| Reverse of allowance for expected credit losses (note) | (1,074) |
| Balance as at 31 December 2018 and 1 January 2019 | 11,547 |
| Reverse of allowance for expected credit losses (note) | (191) |
| Balance as at 31 December 2019 | 11,356 |

Note: Reversal of allowance of expected credit losses is due to the Group's recovery of receivable.

ii. Movement in the Allowance for expected credit losses

Movement in lifetime ECL that has been recognized for other receivable in accordance with the general approach set out in HKFRS 9 for the year ended 31 December 2019.

| | HK\$'000 |
|--|---------------|
| Balance as at 1 January 2018 | 4,767 |
| Allowance for expected credit losses | 3,650 |
| Adjusted balance as at 1 January 2019 | 8,417 |
| Allowance for expected credit losses | 17,391 |
| Balance as at 31 December 2019 | 25,808 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

18. TRADE, BILLS AND OTHER RECEIVABLES *(continued)*

(b) Bills Receivables

The following is an aged analysis of bills receivable based on issue date of the bills at the end of the reporting period:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--------------|------------------|------------------|
| 0 – 30 days | – | – |
| 31 – 60 days | – | – |
| Over 60 days | – | 7,894 |
| | – | 7,894 |

The trade, bills and other receivables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--------------------------------|------------------|------------------|
| United States dollars (“US\$”) | 42,844 | 43,232 |
| Renminbi (“RMB”) | 99,656 | 126,085 |
| | 142,500 | 169,317 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

19. PLEDGED BANK DEPOSITS/BANK BALANCES, DEPOSITS AND CASH

As at 31 December 2019, the pledged bank deposits comprise deposits for the issue of bills payable of HK\$14,768,000 (2018: HK\$10,333,000). The pledged bank deposits are classified as current assets because the bills payable being secured are due within one year.

Pledged bank deposits and bank balances and deposits with original maturity less than three months carry interest at market interest rates ranging from 0.01% to 1.40% (2018: 0.01% to 1.40%) per annum.

The pledged bank deposits and bank balances, deposits and cash that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | 2019 | 2018 |
|------|---------------|----------|
| | HK\$'000 | HK\$'000 |
| US\$ | 4,569 | 7,527 |
| RMB | 27,593 | 19,908 |
| HK\$ | 3,586 | 4,048 |
| | 35,748 | 31,483 |

Included in the pledged bank deposits and bank balances, deposits and cash were amounts in RMB of approximately HK\$27,593,000 (2018: HK\$19,908,000) which were not freely convertible into other currencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

20. TRADE, BILLS AND OTHER PAYABLES

(a) Trade and other Payables

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

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| 0 – 30 days | 12,930 | 12,415 |
| 31 – 60 days | 11,894 | 9,623 |
| 61 – 90 days | 12,933 | 12,331 |
| 91 – 180 days | 20,850 | 35,963 |
| Over 180 days | 62,560 | 49,994 |
| Total trade payables | 121,167 | 120,326 |
| Other payables (note) | 56,922 | 125,610 |
| Accrued salaries and other accrued charges | 20,147 | 22,967 |
| | 198,236 | 268,903 |

The credit period on purchases of goods ranged from 90 days to 120 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Note: At the end of the reporting period, including in the Group's other payables is an amount of 15,866,000 (2018: HK\$55,122,000) loan from other borrowers at interest rate of 8% to 18% (2018: 18% to 20%) and repaid in accordance with the terms of the loan agreements. During the year ended 31 December 2019, HK\$13,330,000 (2018: HK\$13,363,000) interests were paid and recognised in the finance cost of consolidated statements of profit or loss.

(b) Bills Payables

The aged analysis of bills payable based on issue date of the bill at the end of the reporting period is as follows:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---------------|------------------|------------------|
| 0 – 30 days | 817 | – |
| 31 – 60 days | 14,895 | – |
| 61 – 90 days | 14,282 | 8,564 |
| 91 – 180 days | – | 14,378 |
| Over 180 days | – | 73 |
| | 29,994 | 23,015 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20. TRADE, BILLS AND OTHER PAYABLES *(continued)*

(b) Bills Payables *(continued)*

The trade, bills and other payables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|------|------------------|------------------|
| US\$ | 3,520 | 5,360 |
| RMB | 126,662 | 167,018 |
| | 130,182 | 172,378 |

21. CONTRACT LIABILITIES

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|--------------------------|
| Receipts in advance from customers | 10,825 | 14,263 |
| | | Total HK\$'000 |
| Balance at 1 January 2018 | | 11,100 |
| Decrease in contract liability as a result of recognising revenues during the year that was included in the contract liabilities at the beginning of the year | | (11,100) |
| Increase in contract liabilities excluding amount recognised as revenue during the year | | 14,263 |
| Balance at 31 December 2018 and 1 January 2019 | | 14,263 |
| Decrease in contract liability as a result of recognising revenues during the year that was included in the contract liabilities at the beginning of the year | | (14,263) |
| Increase in contract liabilities excluding amount recognised as revenue during the year | | 10,825 |
| Balance at 31 December 2019 | | 10,825 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

22. BANK BORROWINGS

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|----------------------|----------------------|
| Bank loans | 144,444 | 145,402 |
| Analysed as: | | |
| Secured – Fixed rate borrowings | 144,444 | 145,402 |
| Unsecured | – | – |
| | 144,444 | 145,402 |
| Carrying amounts repayable within one year based on scheduled payment dates set out in the loan agreements | 144,444 | 145,402 |
| Carrying amounts not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities) | – | – |
| Less: Amounts due within one year shown under current liabilities | 144,444 (144,444) | 145,402 (145,402) |
| Amounts shown under non-current liabilities | – | – |

The bank borrowings were secured by assets of the Group was disclosed in note 32.

The above bank borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|-----|------------------|------------------|
| RMB | 144,444 | 145,402 |
| | 144,444 | 145,402 |

The ranges of interest rates on the Group's bank borrowings are as follows:

| | 2019 | 2018 |
|---------------------------|------------------|-----------------|
| Effective interest rates: | | |
| Fixed-rate borrowings | 5.655% to 5.755% | 5.655 to 5.755% |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23. LEASE LIABILITIES

The Group's lease liabilities arise from the lease of properties of 3 years. Interest rate underlying for the lease was 6.97% per annum.

At 31 December 2019, the Group had lease liabilities repayable as follows:

| | 2019 | |
|--------------------------------------|---|--|
| | Present value of the minimum lease payments HK\$'000 | Total minimum lease payments HK\$'000 |
| Within 1 year | 1,040 | 1,200 |
| After 1 year but within 2 years | 1,112 | 1,200 |
| After 2 years but within 5 years | 685 | 700 |
| | 1,797 | 1,900 |
| | 2,837 | 3,100 |
| Less: total future interest expenses | | (263) |
| Present value of lease liabilities | | 2,837 |
| Presented as: | | |
| Non-current | | 1,797 |
| Current | | 1,040 |
| | | 2,837 |

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

24. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--------------------------|------------------|------------------|
| Deferred tax liabilities | (12,856) | (14,503) |

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior years.

| | Revaluation of properties HK\$'000 | Undistributable profits of PRC subsidiaries HK\$'000 | Total HK\$'000 |
|--|--|---|-------------------|
| At 1 January 2018 | (16,213) | (400) | (16,613) |
| Charge to other comprehensive income | 2,110 | – | 2,110 |
| At 31 December 2018 and 1 January 2019 | (14,103) | (400) | (14,503) |
| Charge to other comprehensive income | 1,647 | – | 1,647 |
| At 31 December 2019 | (12,456) | (400) | (12,856) |

At 31 December 2019, the Group has unused tax losses of HK\$148,716,000 (2018: HK\$134,732,000) available for offset against future assessable profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

25. SHARE CAPITAL

| | Number of shares | | Amount | |
|--|------------------|----------------|-----------|----------|
| | 2019 | 2018 | 2019 | 2018 |
| | Number '000 | Number '000 | HK\$'000 | HK\$'000 |
| Authorised: | | | | |
| Ordinary of shares of HK\$0.10 each | | | | |
| At 1 January | 4,000,000 | 4,000,000 | 400,000 | 400,000 |
| Increase during the year (note (i)) | 8,000,000 | – | 800,000 | – |
| At 31 December | 12,000,000 | 4,000,000 | 1,200,000 | 400,000 |
| Issued and full paid: | | | | |
| Ordinary shares of HK\$0.10 each | | | | |
| At 1 January | 2,265,198 | 2,059,271 | 226,520 | 205,927 |
| Issue of new shares (notes (ii) and (iii)) | 453,039 | 205,927 | 45,304 | 20,593 |
| At 31 December | 2,718,237 | 2,265,198 | 271,824 | 226,520 |

- (i) On 12 December 2019, the authorised share capital of the Company was increased from HK\$400,000,000 divided into 4,000,000,000 shares to HK\$1,200,000,000 divided into 12,000,000,000 shares by the creation of additional 8,000,000,000 shares of par value of HK\$0.10 each.
- (ii) On 31 May 2018, an aggregate of 205,927,043 subscription shares were allotted and issued to the share subscribers at the subscription price of HK\$0.10 per subscription share. The net proceeds were used for settlement of the Group's loans and trade payable to suppliers as they fall due. Details of the share subscriptions were disclosed in the Company's announcements dated 10 May 2018 and 31 May 2018.
- (iii) On 21 February 2019, an aggregate of 453,039,495 subscription shares were allotted and issued to the share subscribers at the subscription price of HK\$0.10 per Subscription Share. The net proceeds from the Subscriptions were used for the Group's business development, investments, acquisition, repayment of loans and general working capital purposes. Details of the share subscriptions were disclosed in the Company's announcements dated 17 January 2019 and 21 February 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

26. RESERVES

(a) PRC Statutory Reserve

As stipulated by the relevant PRC laws and regulations, certain subsidiaries of the Company in the PRC shall set aside certain percent of their net profit after taxation prepared in accordance with generally accepted accounting policies in the PRC for the PRC statutory reserve (except where the reserve balance has reached 50% of the paid-up capital of the respective enterprises). The reserve can only be used, upon approval by the board of directors of respective enterprises and by relevant authority, to offset accumulated losses or increase capital.

(b) Special Reserve

The special reserve represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of subsidiaries acquired pursuant to the group reorganisation.

(c) Capital Contribution Reserve

The capital contribution reserve represents a fair value adjustment on non-current interest-free loan from a shareholder.

(d) Capital Redemption Reserve

The capital redemption reserve represents the aggregate par value of shares which have been repurchased and cancelled.

(e) Distributable Reserve

The Company has no distributable reserve available to shareholders at 31 December 2019 (2018: HK\$Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

27. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

| | Bank borrowings | Bill payables | Other borrowings | Lease liabilities | Total |
|---|--------------------|------------------|---------------------|----------------------|-----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2018 | 156,386 | 47,797 | 22,892 | – | 227,075 |
| Accrued interest | 9,273 | 1,965 | 13,363 | – | 24,601 |
| Interest paid | (9,273) | (1,965) | (13,363) | – | (24,601) |
| Financing cash inflows | 238,516 | 90,450 | 104,132 | – | 433,098 |
| Financing cash outflows | (249,500) | (115,232) | (71,902) | – | (436,634) |
| At 31 December 2018 and 1 January 2019 | 145,402 | 23,015 | 55,122 | – | 223,539 |
| Addition to lease | – | – | – | 4,950 | 4,950 |
| Accrued interest | 8,918 | 1,779 | 13,330 | 87 | 24,114 |
| Interest paid | (8,918) | (1,779) | (13,330) | – | (24,027) |
| Financing cash inflows | 228,544 | 76,580 | 65,332 | – | 370,456 |
| Financing cash outflows | (229,502) | (69,601) | (104,588) | (2,200) | (405,891) |
| At 31 December 2019 | 144,444 | 29,994 | 15,866 | 2,837 | 193,141 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

28. SHARE OPTION SCHEME

Old Share Option Scheme

The share option scheme of the Company which was adopted on 5 June 2006 (the “**Old Share Option Scheme**”) had a life span of ten years and expired on 4 June 2016. Upon expiry of the Old Share Option Scheme, no further share option should be granted under the expired scheme but in all other respects the rules of the Old Share Option Scheme remain in full force and effect to the extent necessary to give effect to the exercise of any share options granted prior thereto or otherwise as may be required in accordance with the rules of the Old Share Option Scheme, and share options which were granted prior to the termination or expiry of the Old Share Option Scheme will continue to be valid and exercisable in accordance with the rules of the Old Share Option Scheme and their terms of issue.

As disclosed by the Company on 22 July 2016 and 20 December 2017, as a result of the completion of the open offer and rights issue on 25 July 2016 and 20 December 2017, respectively, the exercise price of the share options and the number of Shares to be allotted and issued upon the exercise of the share options granted under the Old Share Option Scheme were adjusted. Following the adjustment, the number of Shares issuable on exercise of the outstanding options under the Old Share Option Scheme became 30,992,575 Shares, representing 1.14% of the issued share capital of the Company on the date of this report.

New Share Option Scheme

Following the expiry of the Old Share Option Scheme, the Company adopted a new share option scheme at its extraordinary general meeting held on 19 August 2016 (the “**New Share Option Scheme**”) with a life span of ten years. Under the terms of the New Share Option Scheme, the Board may, at its discretion, grant options to eligible participants to subscribe for Shares.

On 6 December 2017, the Company granted 90,000,000 share options under the New Share Option Scheme (the “**2017 Options**”) to eligible participants (as defined under the New Share Option Scheme) at an exercise price of HK\$0.178 per share. All the 2017 Options lapsed without exercise on or before 31 December 2019.

At the annual general meeting of the Company held on 6 June 2018, the Scheme Mandate Limit was refreshed to allow the Company to grant up to the maximum of 226,519,747 Options, representing 10% of the Shares in issue on the date of approval of the refreshment. On 8 October 2019, the Company granted 220,000,000 share options under the New Share Option Scheme (the “**2019 Options**”) to eligible participants at an exercise price of HK\$0.10 per share. As at the date of this report, the number of Shares issuable on exercise of the outstanding 2019 Options under the New Share Option Scheme were 220,000,000 Shares, representing 8.09% of the existing issued share capital of the Company, leaving behind 6,519,747 Options being available for grant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

28. SHARE OPTION SCHEME (continued)

New Share Option Scheme (continued)

| | Exercise price since 20 December 2017 | At 1 January 2018 | Granted during the period | Reclassified during the period | Exercised during the period | Lapsed/ Forfeited during the period | At 31 December 2018 | Granted during the period | Reclassified during the period | Exercised during the period | Lapsed/ Forfeited during the period | At 31 December 2019 |
|------------------------------------|---------------------------------------|--------------------------------|---------------------------|--------------------------------|-----------------------------|-------------------------------------|--------------------------------|---------------------------|--------------------------------|-----------------------------|-------------------------------------|--------------------------------|
| | '000 | '000 | '000 | '000 | '000 | '000 | '000 | '000 | '000 | '000 | '000 | '000 |
| Directors | 0.178 0.100 | 31,000 - | - - | - - | - - | (21,000) - | 10,000 - | 11,000 - | - - | - - | (10,000) - | - 11,000 |
| Subtotal | | 31,000 | - | - | - | (21,000) | 10,000 | 11,000 | - | - | (10,000) | 11,000 |
| Consultants | 2.316 0.884 0.178 0.100 | 1,903 15,870 34,000 - | - - - - | - - - - | - - - - | - - - - | 1,903 15,870 34,000 - | - - 22,000 - | - - - - | - - - - | - - (34,000) - | 1,903 15,870 - 22,000 |
| Subtotal | | 51,773 | - | - | - | - | 51,773 | 22,000 | - | - | (34,000) | 39,773 |
| Employees | 1.440 0.884 0.178 0.100 | 6,295 6,924 25,000 - | - - - - | - - - - | - - - - | - - - - | 6,295 6,924 25,000 - | - - 187,000 - | - - - - | - - - - | - - (25,000) - | 6,295 6,924 - 187,000 |
| Subtotal | | 38,219 | - | - | - | - | 38,219 | 187,000 | - | - | (25,000) | 200,219 |
| Total | | 120,992 | - | - | - | (21,000) | 99,992 | 220,000 | - | - | (69,000) | 250,992 |
| Exercisable at the end of the year | | 129,190 | - | - | - | - | 99,992 | - | - | - | - | 140,992 |
| Weighted average exercise price | | 0.40 | - | - | - | - | 0.45 | - | - | - | - | 0.22 |

Note 1: These options have vested (i) as to 30% on the date of grant of 29 November 2010; (ii) as to further 30% one year after the date of grant; and (iii) as to the remaining 40% two years after the date of grant. These options will expire on the 10th anniversary after the date of grant. As disclosed in the Company's announcement dated 20 December 2017, the exercise price of this series of options were adjusted from HK\$2.807 (before 20 December 2017) to HK\$2.316 (after 20 December 2017) as a result of the Company's one-for-one rights issue in 2017.

Note 2: These options have vested (i) as to 25% on 2 March 2012 (i.e. six months after the date of grant); (ii) as to further 25% on 2 March 2013; (iii) as to further 25% on 2 March 2014; and (iv) as to the remaining 25% on 2 March 2015. These options will expire on the 10th anniversary after the date of grant, i.e. on 2 September 2021. As disclosed in the Company's announcement dated 20 December 2017, the exercise price of this series of options were adjusted from HK\$1.747 (before 20 December 2017) to HK\$1.440 (after 20 December 2017) as a result of the Company's one-for-one rights issue in 2017.

Note 3: Options are exercisable on or after the date of grant of 22 October 2014. These options will expire on the 10th anniversary after the date of grant. As disclosed in the Company's announcement dated 20 December 2017, the exercise price of this series of options were adjusted from HK\$1.035 (before 20 December 2017) to HK\$0.854 (after 20 December 2017) as a result of the Company's one-for-one rights issue in 2017.

Note 4: These options have vested (i) as to 50% from 1 January 2018; and (ii) as to further 50% from 1 January 2019. These options have expired on 31 December 2019.

Note 5: These options are vesting (i) as to 50% from 8 October 2019; and (ii) as to further 50% from 1 January 2021. These options will expire on 31 December 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

29. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 22, and equity attributable to owners of the Company as disclosed in the consolidated statement of changes in equity.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, issue of new shares and share buy-back as well as the issue of new debt or the redemption of existing debt.

30. FINANCIAL INSTRUMENTS

(a) Categories of Financial Instruments

| | 2019 | 2018 |
|--|----------|----------|
| | HK\$'000 | HK\$'000 |
| Financial assets | | |
| Amortised cost (including cash and cash equivalents) | 311,365 | 438,225 |
| Financial liabilities | | |
| Amortised cost | 375,511 | 428,607 |

(b) Financial Risk Management Objectives and Policies

The Group's major financial instruments include trade and other receivables, bills receivable, pledged bank deposits, bank balances, deposits and cash, trade and other payables, bills payables, lease liabilities and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to initiate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial Risk Management Objectives and Policies *(continued)*

Market risk

(i) Currency risk

The Group operates in Hong Kong and the PRC with most of the transactions denominated and settled in US\$, HK\$ and RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The management do not expect the net foreign currency risk from these activities to be significant and hence; the Group do not pre-emptively hedge the foreign exchange risks. The Group periodically review liquid assets and liabilities held in currencies other than the functional currencies of the respective subsidiaries to evaluate its foreign exchange risk, exposure and with consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the monetary assets and liabilities that are denominated in currencies other than the functional currencies of the relevant group entities at the reporting date are as follows:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--------------------|------------------|------------------|
| Assets | | |
| US\$ | 47,413 | 49,019 |
| RMB | 127,249 | 140,484 |
| HK\$ | 3,586 | 40,275 |
| Liabilities | | |
| US\$ | 2,221 | 5,359 |
| RMB | 358,083 | 316,072 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial Risk Management Objectives and Policies *(continued)*

Market risk *(continued)*

(i) *Currency risk (continued)*

Sensitivity analysis

The Group's currency risk is mainly concentrated on the fluctuation of US\$ and RMB.

Since HK\$ is pegged to US\$, the Group does not expect any significant movement in US\$/HK\$ exchange rate. If the HK\$ weakened by 2% (2018: 2%) against RMB, the Group's loss for the year ended 31 December 2019 would increase by HK\$4,617,000 (2018: increase by HK\$3,512,000). If the HK\$ strengthened by 2% (2018: 2%) against RMB, there would be an equal and opposite impact on the loss for the year. No sensitivity analysis for HK\$ against RMB is presented as management considered that it is not significant. Management will monitor foreign exchange exposure to mitigate the foreign currency risk.

(ii) *Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and interest bearing other borrowing (see notes 20 and 22 for details of these borrowings).

The Group is also exposed to cash flow interest rate risk in relation to its bank balances (see note 19 for details) and its variable-rate bank borrowings and other borrowing (see note 20 and 22 for details of these borrowings). The Group currently does not have any interest rate hedging policy. Management will also consider hedging significant interest rate exposure should the needs arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's borrowings. The Group considered interest rate risk on bank balances and its variable-rate bank borrowing is insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial Risk Management Objectives and Policies *(continued)*

Credit risk

As at 31 December 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group has concentration of credit risk on certain major customers of the electronics industry. At the end of the reporting period, the five largest receivable balances accounted for approximately 31% (2018: 14%) of the trade receivables with normal credit terms and the largest trade receivable attributable to the Group's trade receivables with normal credit terms was approximately 15% (2018: 4%). The major customers are located in Hong Kong ("HK") and the PRC and are mainly engaged in the manufacturing and trading of consumer electronics. The five largest customers under normal credit terms have continuous repayment history and credit quality with reference to the track records of these customers under internal assessment by the Group.

The Group also has concentration of credit risk on certain major customers of the LED lighting industry. At the end of the reporting period, the five largest receivable balances accounted for approximately 62% (2018: 71%) of the trade receivables with extended credit terms and the largest trade receivable attributable to the Group's trade receivables with extended credit terms was approximately 25% (2018: 31%). The major customers are located in the PRC including certain government authorities in the PRC and corporations which are mainly engaged in the construction industry. The trade receivables from certain government authorities in the PRC accounted for approximately 44% (2018: 51%) of the trade receivables with extended credit terms.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial Risk Management Objectives and Policies *(continued)*

Credit risk (continued)

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit loss. It considers available reasonable and supportive forwarding-looking information.

| | 0 to 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | Over 180 days | Total |
|----------------------------------|-----------------|------------------|------------------|-------------------|------------------|----------|
| As at 31 December, 2019 | | | | | | |
| Expected credit loss rate | 0.08% | 0.11% | 0.62% | 1.06% | 56.96% | 36.86% |
| Gross carrying amount (HK\$'000) | 20,639 | 27,271 | 14,580 | 32,720 | 172,157 | 267,367 |
| Lifetime ECL (HK\$'000) | (17) | (31) | (91) | (348) | (98,056) | (98,543) |
| | 20,622 | 27,240 | 14,489 | 32,372 | 74,101 | 168,824 |

| | 0 to 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | Over 180 days | Total |
|----------------------------------|-----------------|------------------|------------------|-------------------|------------------|----------|
| As at 31 December, 2018 | | | | | | |
| Expected credit loss rate | 0.07% | 0.04% | 0.73% | 0.97% | 38.97% | 26.19% |
| Gross carrying amount (HK\$'000) | 24,071 | 22,469 | 18,481 | 58,200 | 246,995 | 370,216 |
| Lifetime ECL (HK\$'000) | (18) | (11) | (136) | (570) | (96,260) | (96,995) |
| | 24,053 | 22,458 | 18,345 | 57,630 | 150,735 | 273,221 |

As at 31 December 2019, trade receivables that are individually significant have been separately assessed for impairment. The Group makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial Risk Management Objectives and Policies *(continued)*

Credit risk (continued)

Other receivables

| | As at 31 December 2019 | | | |
|---|------------------------|----------|----------|----------|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Other receivables, gross | – | 92,675 | – | 92,675 |
| Less: Lifetime ECL on other receivables | – | (20,559) | – | (20,559) |
| Other receivables, net | – | 72,116 | – | 72,116 |

Movements for ECL of other receivables are as follows:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|----------|----------|----------|----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2018 | 4,767 | – | – | 4,767 |
| Allowance for ECL on other receivables | 3,650 | – | – | 3,650 |
| At 31 December 2018 and 1 January 2019 | 8,417 | – | – | 8,417 |
| Allowance for ECL on other receivables | (3,168) | 20,559 | – | 17,391 |
| As at 31 December 2019 | 5,249 | 20,559 | – | 25,808 |

Other receivables are categorised into the following stages by the Group:

Stage 1

Other receivables have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months ECL (12-month ECLs).

Stage 2

Other receivables to customers have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime ECL (Lifetime ECLs non credit-impaired).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial Risk Management Objectives and Policies *(continued)*

Credit risk *(continued)*

Other receivables (continued)

Stage 3

Other receivables that are in default and considered credit impaired (Lifetime ECLs credit impaired).

In assessing whether the credit risk of other receivables has increased significantly since initial recognition, the Group compares the risk of default occurring on the other receivables assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is past due for more than 90 days. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forwardlooking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in other receivables's external or internal credit rating (if available);
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group; and
- the financial asset is past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial Risk Management Objectives and Policies *(continued)*

Credit risk *(continued)*

Pledged bank deposit and bank balance, deposit and cash

The credit risk on pledged bank deposit and bank balance, deposit and cash are limited because the majority of the counterparties are bank with high credit-ratings assigned by International credit-ratio agencies. The Group has no other significant concentration of credit risk.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The Group has net current liabilities of HK\$94,641,000 as at 31 December 2019 (2018: net current liabilities of HK\$39,131,000).

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both principal and interest cash outflows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial Risk Management Objectives and Policies *(continued)*

Liquidity risk (continued)

| | Weighted average effective interest rate % | On demand HK\$'000 | Within 1 year HK\$'000 | 1–2 years HK\$'000 | 2–3 years HK\$'000 | Over 3 years HK\$'000 | Total undiscounted cash flow HK\$'000 | Carrying amount HK\$'000 |
|--------------------------------------|---|--------------------------|------------------------------|--------------------------|--------------------------|-----------------------------|--|--------------------------------|
| 2019 | | | | | | | | |
| Non-derivative financial liabilities | | | | | | | | |
| Trade and other payables | 13.1 | – | 200,314 | – | – | – | 200,314 | 198,236 |
| Bills payable | – | – | 29,994 | – | – | – | 29,994 | 29,994 |
| Lease liabilities | 6.97 | – | 1,200 | 1,200 | 700 | – | 3,100 | 2,837 |
| Bank borrowings | | | | | | | | |
| – fixed rate | 5.70 | – | 152,677 | – | – | – | 152,677 | 144,444 |
| | | – | 384,185 | 1,200 | 700 | – | 386,085 | 375,511 |

| | Weighted average effective interest rate % | On demand HK\$'000 | Within 1 year HK\$'000 | 1–2 years HK\$'000 | 2–3 years HK\$'000 | Over 3 years HK\$'000 | Total undiscounted cash flow HK\$'000 | Carrying amount HK\$'000 |
|--------------------------------------|---|--------------------------|------------------------------|--------------------------|--------------------------|-----------------------------|--|--------------------------------|
| 2018 | | | | | | | | |
| Non-derivative financial liabilities | | | | | | | | |
| Trade and other payables | 18.06 | – | 255,843 | – | – | – | 255,843 | 245,927 |
| Bills payable | – | – | 23,015 | – | – | – | 23,015 | 23,015 |
| Bank borrowings | | | | | | | | |
| – fixed rate | 5.70 | – | 152,371 | – | – | – | 152,371 | 145,402 |
| | | – | 431,229 | – | – | – | 431,229 | 414,344 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. FINANCIAL INSTRUMENTS *(continued)*

(c) Fair Value

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

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

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

31. LEASES COMMITMENT

Lease Commitments

The Group as lessee

Minimum lease payments paid under leases:

| | 2018 HK\$'000 |
|----------|------------------|
| Premises | 1,718 |

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable leases in respect of rented premises which fall due as follows:

| | 2018 HK\$'000 |
|---------------------------------------|------------------|
| Within one year | 1,700 |
| In the second to fifth year inclusive | 600 |
| | 2,300 |

Lease payments represent rentals payable by the Group for certain of its offices and warehouse. Leases are negotiated for an average term ranging from two to five years with fixed rental.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

31. LEASES COMMITMENT *(continued)*

Lease Commitments *(continued)*

The Group as lessor

During the year ended 31 December 2018, the Group did not earn any property rental income.

32. PLEDGED OF ASSETS

At the respective end of the reporting periods, the following assets were pledged to banks and other borrowers to secure general banking facilities granted to the Group:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Buildings | 111,922 | 121,172 |
| Pledged bank deposits | 14,768 | 10,333 |
| Right-of-use assets/Prepaid lease payments | 16,998 | 17,613 |
| | 143,688 | 149,118 |

33. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the “MPF Scheme”) for all qualifying employees in Hong Kong. The MPF Scheme is a registered scheme under the MPF Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employers and their employees are each required to make contributions to the MPF Scheme at a rate specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the MPF Scheme. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees and capped at HK\$1,500 per month. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefit scheme contributions arising from the MPF Scheme charged to profit or loss represent contributions payable to the funds by the Group at rates specified in the rules of the MPF Scheme.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

34. MATERIAL RELATED PARTY DISCLOSURES

Save as disclosed elsewhere in this annual report, the Group entered the following material related party transactions:

Related Party Transactions

Compensation of key management personnel

The remuneration of key management for the Group (representing directors and the chief executive officer) during the year are set out as follows:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--------------------------|------------------|------------------|
| Short-term benefits | 2,277 | 3,536 |
| Post-employment benefits | 57 | 73 |
| Share-based payments | 77 | 1,091 |
| | 2,411 | 4,700 |

35. SEGMENTAL INFORMATION

The Group determines its operating segment based on the reports reviewed by the chief operating decision maker for making strategic decisions. The Group is engaged in the manufacturing and trading of PCB and LED lighting and trading of towers and electric cable and the information reported to the chief operating decision maker was analysed based on the three types of PCB, LED lighting and trading of towers and electric cable which represent the operating segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

- Manufacturing and trading of Single-sided PCB ("**Single-sided PCB**")
- Manufacturing and trading of Double-sided PCB ("**Double-sided PCB**")
- Manufacturing and trading of Multi-layered PCB ("**Multi-layered PCB**")
- Manufacturing and trading of LED lighting
- Trading of tower and electric cable

No information of segment assets and liabilities is available for the assessment of performance of different operating segments. Therefore, only segment turnover and segment results are presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. SEGMENTAL INFORMATION *(continued)*

Segment Turnover and Results

The following is an analysis of the Group's turnover and results by reportable and operating segment.

| | 2019 | 2018 |
|---------------------------------------|------------------|------------------|
| | HK\$'000 | HK\$'000 |
| TURNOVER – external sales | | |
| Single-sided PCB | 83,113 | 102,556 |
| Double-sided PCB | 145,745 | 159,371 |
| Multi-layered PCB | 45,619 | 44,185 |
| LED lighting | – | – |
| Tradings of tower and electric cable | – | 34,303 |
| Total | 274,477 | 340,415 |
| RESULTS | | |
| Segment losses | | |
| – Single-sided PCB | (25,664) | (28,128) |
| – Double-sided PCB | (37,615) | (37,771) |
| – Multi-layered PCB | (8,566) | (10,472) |
| – LED lighting | (6,303) | (8,658) |
| – Trading of tower and electric cable | (18,675) | (57,073) |
| | (96,823) | (142,102) |
| Other income | 4,962 | 3,364 |
| Central administrative costs | (4,547) | (2,204) |
| Finance costs | (24,114) | (24,601) |
| Loss before tax | (120,522) | (165,543) |

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment loss represents the loss incurred by each segment after allocation of selling and administrative staff cost with reference to turnover and without allocation of certain other income, central administrative costs (mainly including audit fee, exchange loss and depreciation of property, plant and equipment for administrative purpose) and finance costs. This is the measure reported to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. SEGMENTAL INFORMATION *(continued)*

Other Segment Information

Amounts included in the measure of segment results:

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Depreciation and amortisation | | |
| – Single-sided PCB | 4,008 | 4,293 |
| – Double-sided PCB | 5,875 | 6,671 |
| – Multi-layered PCB | 1,338 | 1,849 |
| – LED lighting | – | – |
| – Trading of tower and electric cable | – | – |
| | 11,221 | 12,813 |
| – Unallocated | 2,120 | 404 |
| | 13,341 | 13,217 |
| Net impairment loss/(amount recovered) recognised in respect of trade and other receivables | | |
| – Single-sided PCB | 187 | 5,967 |
| – Double-sided PCB | 274 | 9,268 |
| – Multi-layered PCB | 62 | 2,570 |
| – LED lighting | (191) | (1,302) |
| – Trading of tower and electric cable | 18,607 | 56,259 |
| | 18,939 | 72,762 |
| Write-down of inventories | | |
| – Single-sided PCB | 203 | 1,227 |
| – Double-sided PCB | 555 | 829 |
| – Multi-layered PCB | 108 | 230 |
| – LED lighting | – | – |
| – Trading of tower and electric cable | – | – |
| | 866 | 2,286 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

35. SEGMENTAL INFORMATION *(continued)*

Geographical Information

Detailed below is information about the Group's turnover from external customers and information about its non-current assets (excluding trade receivables with extended credit terms and interests in associates), analysed by their geographical location: Group's operations are located in HK and the PRC.

| | Turnover from external customers For the year ended 31 December | | Non-current assets As at 31 December | |
|------------------------------------|--|----------|---|----------|
| | 2019 | 2018 | 2019 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Asia: | | | | |
| HK | 43,360 | 60,658 | 2,904 | 79 |
| Taiwan | 8,148 | 8,377 | – | – |
| The PRC (other than HK and Taiwan) | 168,235 | 230,180 | 158,158 | 173,132 |
| Other Asian countries | 1,710 | 15 | – | – |
| Europe: | | | | |
| Austria | 5,496 | 8,561 | – | – |
| Hungary | 14,367 | 174 | – | – |
| Turkey | 26,360 | 17,128 | – | – |
| France | 1,766 | 4,541 | – | – |
| Germany | 1,477 | 663 | – | – |
| Other European countries | 3,558 | 5,919 | – | – |
| Others | – | 4,199 | – | – |
| | 274,477 | 340,415 | 161,062 | 173,211 |

The non-current assets excluded trade receivables with extended credit terms.

Information About Major Customers

No customer of Group has individually contributed 10% or more of the Group during the year 2019 and no information about major customer is presented accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

36. SUMMARISED FINANCIAL INFORMATION OF THE COMPANY

| | 2019 | 2018 |
|-------------------------------|------------------|-----------|
| | HK\$'000 | HK\$'000 |
| ASSETS | | |
| Investments in subsidiaries | 85,878 | 128,094 |
| Amounts due from subsidiaries | – | 378,015 |
| Other receivables | 1,157 | 1,222 |
| Bank balances and cash | 961 | 1,077 |
| | 87,996 | 508,408 |
| LIABILITIES | | |
| Amounts due to subsidiaries | 69,338 | 422,562 |
| Other payables | 3,763 | 4,139 |
| | 73,101 | 426,701 |
| Net assets | 14,895 | 81,707 |
| CAPITAL AND RESERVES | | |
| Share capital | 271,824 | 226,520 |
| Reserves (note) | (256,929) | (144,813) |
| | 14,895 | 81,707 |

The financial statements were approved and authorised for issue by the Board of Directors on 11 May 2020 and are signed on its behalf by:

Zeng Yongguang
Executive Director

Guo Jun Hao
Executive Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

36. SUMMARISED FINANCIAL INFORMATION OF THE COMPANY *(continued)*

Note:

Reserves of the Company:

| | Share premium | Capital redemption | Share option reverse | Capital contribution reserve | Contributed surplus | Accumulated (losses)/ profit | Total reserve |
|--|---------------|--------------------|----------------------|------------------------------|---------------------|------------------------------|---------------|
| 1 January 2018 | 566,877 | 470 | 25,512 | 1,893 | 145,058 | (657,687) | 52,123 |
| Loss and total comprehensive expense of the year | - | - | - | - | - | (200,106) | (200,106) |
| Equity-Settled Share-based transaction | - | - | 3,170 | - | - | - | 3,170 |
| Release upon lapse of share option | - | - | (2,363) | - | - | 2,363 | - |
| At 31 December 2018 and 1 January 2019 | 566,877 | 470 | 26,319 | 1,893 | 145,058 | (885,430) | (144,813) |
| Loss and total comprehensive expense of the year | - | - | - | - | - | (113,641) | (113,641) |
| Share-based payment | - | - | 1,525 | - | - | - | 1,525 |
| Release upon lapse of share option | - | - | (5,096) | - | - | 5,096 | - |
| At 31 December 2019 | 566,877 | 470 | 22,748 | 1,893 | 145,058 | (993,975) | (256,929) |

Note: The capital contribution surplus of the Company represents the difference between the underlying net assets of Tat Chun Printed Circuit Board Company Limited and Tat Chun PCB International Company Limited acquired by the Company under the group reorganisation and the nominal amount of the ordinary shares issued by the Company in exchange thereof.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. LITIGATION

- (a) The Company was informed by its legal advisers that a writ of summons dated 10 May 2016 under Hong Kong High Court Action No. 1228/2016 (the “**Legal Action**”) was filed by Mr. Li Jian Chao (“**Mr. Li**”), seeking to claim from the Company an alleged outstanding special bonus payment in the amount of HK\$1,640,000. Mr. Li was formerly the chief executive officer and executive director of the Company before he resigned on 5 June 2015. On 12 July 2016, the Company filed a defence and counterclaim against Mr. Li (re-amended on 3 May 2018, the “**Counterclaim**”), whereby the Company denied (inter alia) that Mr. Li is entitled to the alleged amount and counterclaimed from Mr. Li (inter alia) a total sum of HK\$5,240,000, being wrongful receipts by Mr. Li based on certain invalid resolutions purportedly passed by the Board between 31 December 2014 and 4 June 2015, and/or damages for breach of fiduciary duties by Mr. Li when he was a director of the Company between 1 September 2014 and 5 June 2015. The Company will continue to uphold its rights in the Legal Action and the Counterclaim. In the meantime, the Board considers that the Legal Action and the Counterclaim are unlikely to result in any material adverse effect to the Company’s operations or financial position. Further details relating to the Legal Action and Counterclaim are more particularly set out in the Company’s announcements dated 13 May and 14 July 2016.
- (b) On 13 August 2018, TC Orient (Jiangsu) Optoelectronic Company Limited (達進東方(江蘇)光電有限公司) (“**TCO Jiangsu**”), a subsidiary of the Company, received a writ issued by 連雲港嘉銳建築工程有限公司 (the “**Plaintiff**”) against TCO Jiangsu and filed with Lianyungang City Lianyung District People’s Court (“**Lianyungang Court**”) together with the related court summons, whereby the Plaintiff alleged that TCO Jiangsu shall make a payment of RMB11,062,094.81 (approximately HK\$12,863,000) to them in settlement of certain construction cost (the “**Jiangsu Legal Action**”). The Company has instructed its legal advisor to uphold its right in the Jiangsu Legal Action. In the meantime, the Board considers that the Jiangsu Legal Action is unlikely to result in any material adverse effect to the Company’s operations or financial position.

During the year ended 31 December 2018, the Group entered into a sale and purchase agreement to dispose its 100% equity interest in Best Pursue Holdings Limited (“**Best Pursue**”), TC Orient Jiangsu Holdings Company Limited (“**TC Orient (JS) Holdings**”) and TCO Jiangsu to an independent third party (the “**Purchaser**”) for cash consideration of HK\$20,000,000. The disposal was completed on 31 December 2018. Details of disposal are set out in Note 39.

- (c) In January 2019, 吳川榮森貿易有限公司 (“**Wuchuan Rongsen**”), a subsidiary of the Company, applied to Wuchuan City District People’s Court (吳川市人民法院) (“**Wuchuan Court**”) to have 廣東威立電力器材有限公司 (“**Guangdong Weili**”) liquidated (the “**Liquidation Application**”) due to its failure to repay trade receivables of RMB48,944,917 on or before 30 May 2018, despite its previous undertaking to Wuchuan Rongsen to do so pursuant to a settlement agreement (the “**Settlement Agreement**”) entered into by the parties in December 2017. As a prudent measure, impairment loss on trade receivables for the year ended 31 December 2018 was made in respect of the entire sum of trade receivables of RMB48,944,917.
- (d) During the year, 廣東達進電子科技有限公司 (“**Guangdong Dajin**”), a subsidiary of the Company, sue two customers for failing to repay their trade receivables. The expected credit losses on trade receivables was made in respect of the two customers for RMB7,848,569 for the year ended 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

38. PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries are set out below:

| Name of subsidiary | Place of Incorporation/operation | Issued and fully paid share capital/registered capital | Proportion of Nominal value of issued share capital paid up capital held by the Company | | | | Principal activities |
|---|----------------------------------|---|---|-------|------------|-------|---|
| | | | Directly | | Indirectly | | |
| | | | 2019 | 2018 | 2019 | 2018 | |
| Tat Chun PCB International Company Limited 達進電路版國際有限公司 | HK | Ordinary shares HK\$10,000 | 100% | 100% | – | – | Investment holding |
| Tat Chun Printed Circuit Board Company Limited 達進電路版有限公司 | HK | Ordinary shares HK\$600,000 | 100% | 100% | – | – | Trading of printed circuit boards |
| TC Hong Kong Electric Company Limited 達進香港電子有限公司 | HK | Ordinary shares HK\$1 | 100% | 100% | – | – | Trading of printed circuit boards |
| Zhongshan Tat Chun Printed Circuit Board Company Limited 中山市達進電子有限公司 | The PRC (note i) | Registered capital HK\$236,500,000 | – | – | 100% | 100% | Manufacturing and trading of printed circuit boards |
| Guangdong Tat Chun 廣東達進電子科技有限公司 | The PRC (notes ii & iii) | Registered capital HK\$417,676,502 Paid up capital HK\$265,008,609 | 55.5% | 55.5% | 45.5% | 45.5% | Manufacturing and trading of printed circuit boards |
| 達進東方照明(深圳)有限公司 | The PRC (note ii) | Registered capital HK\$113,827,000 | – | – | 70% | 70% | Manufacturing and trading of LED lighting |
| 達進東方能源管理(啟東)有限公司 | The PRC (note i) | Registered capital HK\$62,121,300 | – | – | 100% | 100% | Trading of LED lighting |
| 吳川榮森貿易有限公司 | The PRC (note iv) | Registered capital HK\$595,000 Paid up capital HK\$303,450 | – | – | 51% | 51% | Trading of tower and electric cable |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

38. PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

Notes:

- (i) The companies are wholly foreign-owned enterprises established in the PRC.
- (ii) The company is a sino-foreign equity joint ventures.
- (iii) As at 31 December 2019, the Group had capital commitment in respect of capital not yet injected into a PRC subsidiary amounted to HK\$146,194,439 (2018: HK\$152,667,893).
- (iv) As at 31 December 2018, the company has incorporated at a capital amounted to HK\$595,000. The Group has 51% interest of the company and a paid-up capital amounted to HK\$303,450.

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

The above table includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Details of Non-Wholly Owned Subsidiaries that have Material Non-Controlling Interests

Details of 達進東方照明(深圳)有限公司 (“TC Orient (SZ)”) and 吳川榮森貿易有限公司 (“RS”), non-wholly owned subsidiary with material non-controlling interests, and other individually immaterial subsidiaries with non-controlling interests are set out below.

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|
| Loss allocated to non-controlling interest of TC Orient (SZ) (note a) | 2,910 | 2,218 |
| Loss allocated to non-controlling interest of RS (note b) | 501 | 30,212 |
| Individually immaterial subsidiaries | 14,265 | (601) |
| | 17,676 | 31,829 |
| Accumulated non-controlling interests TC Orient (SZ) (note a) | (5,914) | (3,782) |
| Accumulated non-controlling interests of RS (note b) | (29,417) | (28,813) |
| Individually immaterial subsidiaries | (21,305) | (6,721) |
| | (56,636) | (39,316) |

Summarised financial information in respect to TC Orient (SZ) and RS are set out below. The summarised financial information below represents the amounts before intra-group eliminations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

38. PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

(a) TC Orient (SZ)

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Current assets | 257,871 | 262,117 |
| Non-current assets | 77,307 | 88,652 |
| Current liabilities | (341,185) | (349,668) |
| Total equity | (6,007) | 1,101 |
| Revenue | – | – |
| Expenses | (9,700) | (7,393) |
| Loss for the year | (9,700) | (7,393) |
| Other comprehensive income for the year | 2,592 | 3,196 |
| Total comprehensive loss for the year | (7,108) | (4,197) |
| Net cash inflow from operating activities | 9,658 | 9,386 |
| Net cash inflow from investing activities | – | – |
| Net cash outflow from financing activities | (10,556) | (8,993) |
| Net cash (outflow)/inflow | (898) | 393 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

38. PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

(b) 吳川榮森貿易有限公司 (“RS”)

| | 2019 HK\$'000 | 2018 HK\$'000 |
|--|------------------|------------------|
| Current assets | 2,764 | 8,272 |
| Non-current assets | – | – |
| Current liabilities | (62,008) | (66,283) |
| Total equity | (59,244) | (58,011) |
| Revenue | – | 27,575 |
| Expenses | (1,023) | (89,233) |
| Loss for the year | (1,023) | (61,658) |
| Other comprehensive (loss)/income for the year | (210) | 20 |
| Total comprehensive loss for the year | (1,233) | (61,638) |
| Net cash outflow from operating activities | (4,764) | (41,837) |
| Net cash inflow from investing activities | – | 2 |
| Net cash inflow from financing activities | – | 35,507 |
| Net cash outflow | (4,764) | (6,328) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

39. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2018, the Group entered into a sale and purchase agreement to disposal of its 100% equity interest in Best Pursue Holdings Limited (“**Best Pursue**”), TC Orient Jiangsu Holdings Company Limited (“**TC Orient (JS) Holdings**”) and TC Orient Jiangsu LED Company Limited (“**TC Orient (JS)**”) to an independent third party (the “**Purchaser**”) for cash consideration of HK\$20,000,000. The disposal was completed on 31 December 2018. Summary of the effects of the disposal is as follows:

| | HK\$'000 |
|---------------------|----------|
| Total Consideration | 20,000 |

Analysis of assets and liabilities over which control was lost:

| | Acquiree's carrying amount and fair value HK\$'000 |
|--|--|
| NON-CURRENT ASSETS | |
| Property, plant and equipment | 9,457 |
| Prepaid lease payments – non-current portion | 12,764 |
| CURRENT ASSETS | |
| Inventories | 48 |
| Trade and other receivables | 20,984 |
| Prepaid lease payments – current portion | 319 |
| Amounts due to subsidiaries/fellow subsidiaries | (27,042) |
| Bank balances and cash | 208 |
| CURRENT LIABILITIES | |
| Trade and other payables | (20,681) |
| Taxation payables | (9,863) |
| Net liabilities | (13,806) |
| Release of exchange reserve upon disposal | 4,833 |
| | (8,973) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

39. DISPOSAL OF SUBSIDIARIES *(continued)*

| | Acquiree's carrying amount and fair value HK\$'000 |
|---|--|
| Gain on disposal: | |
| Consideration receivable | 20,000 |
| Net liabilities disposal | 13,806 |
| Waiver of amounts due to Group | (27,042) |
| Release of exchange reserve upon disposal | (4,833) |
| | 1,931 |
| Net cash flow on disposal of subsidiary | |
| Consideration received in cash and bank balance | 20,000 |
| Less: cash and bank balance disposal of | (208) |
| | 19,792 |

40. NON-CASH TRANSACTION

- (a) During the year, the share-based payment recognised was approximately HK\$1,525,000.
- (b) During the year, the additions to right-of-use assets and lease liabilities were approximately HK\$2,932,000 in respect of lease arrangements of property.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. EVENT AFTER REPORTING PERIOD

- (a) Since January 2020, the outbreak on Novel Coronavirus (“**COVID-19**”) has impacted the global business environment. Up to the date of these consolidated financial statements, COVID-19 cause significant decrease in the Group’s revenue. Pending the development and spread of COVID-19 subsequent to the date of the consolidated financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these consolidated financial statements. The Group will continue to monitor the development of COVID-19 and react actively to its impact on the financial position and operating results of the Group.
- (b) On 28 April 2020, the Company and the subscribers entered into the subscription agreements pursuant to which the Company has conditionally agreed to allot and issue, and the subscribers have agreed to subscribe for, an aggregate of 543,600,000 subscription shares at the subscription price of HK\$0.10 per subscription share. The net proceeds from subscription amount to approximately HK\$54,100,000. It is intended that the net proceeds from the subscription will be used by the Company for improving the Group’s liquidity, acquiring and upgrading production facilities and the repayment of the Group’s debts and liabilities when they fall due.

FINANCIAL SUMMARY

For the year ended 31 December 2019

RESULTS

| | Year ended 31 December | | | | |
|-------------------|------------------------|----------|----------|-----------|------------------|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Turnover | 533,608 | 395,450 | 559,443 | 340,415 | 274,477 |
| Loss for the year | (84,431) | (92,522) | (98,458) | (133,768) | (120,572) |

ASSETS AND LIABILITIES

| | As at 31 December | | | | |
|---|-------------------|-----------|-----------|-----------|-----------------|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Total assets | 980,210 | 922,392 | 894,955 | 667,532 | 520,308 |
| Total liabilities | (694,715) | (657,027) | (598,748) | (530,867) | 462,798 |
| Total equity | 285,495 | 265,365 | 296,207 | 136,665 | 57,510 |
| Equity attributable to owners of the Company | 280,572 | 265,505 | 302,727 | 175,981 | 114,146 |
| Non-controlling interests | 4,923 | (140) | (6,520) | (39,316) | (56,636) |
| | 285,495 | 265,365 | 296,207 | 136,665 | 57,510 |