# ANNUAL REPORT 2020

Sky Light Holdings Limited

天彩控股有限公司

Stock Code 3882

Incorporated in the Cayman Islands wih limited liability

# Sky Light Holdings Limited

2020

ANNUAL REPORT

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# Financial Highlights

| | 2020<br>HK$'000 | 2019<br>HK$'000 | CHANGE |
|---|---|---|---|
| **REVENUE** | **437,111** | 549,123 | (20.4%) |
| **COST OF SALES** | **(376,040)** | (486,640) | (22.7%) |
| **GROSS PROFIT** | **61,071** | 62,483 | (2.3%) |
| **GROSS PROFIT MARGIN (%)** | **14.0%** | 11.4% | 2.6 p.p.t. |
| **LOSS FOR THE YEAR** | **(71,063)** | (84,476) | (15.9%) |
| **LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT BASIC AND DILUTED** (EXPRESSED IN HK$ PER SHARE) | **HK$(6.7) cents** | HK$(8.8) cents | (23.9%) |
| **TOTAL EQUITY** | **215,830** | 273,349 | (21.0%) |

# Corporate Information

## Board of Directors

### *Executive Directors*

Mr. Tang Wing Fong Terry *(Chairman)*
Mr. Lu Yongbin

### *Non-executive Director*

Ms. Tang Kam Sau

### *Independent Non-executive Directors*

Mr. Tse Yat Hong
Dr. Cheung Wah Keung
Mr. Chan Tsu Ming Louis

## Committees of the Board

### *Audit Committee*

Mr. Tse Yat Hong *(Chairman)*
Dr. Cheung Wah Keung
Mr. Chan Tsu Ming Louis

### *Remuneration Committee*

Mr. Tse Yat Hong *(Chairman)*
Mr. Tang Wing Fong Terry
Mr. Chan Tsu Ming Louis

### *Nomination Committee*

Mr. Tang Wing Fong Terry *(Chairman)*
Mr. Tse Yat Hong
Mr. Chan Tsu Ming Louis

## Authorized Representatives

Mr. Tang Wing Fong Terry
Mr. Lu Yongbin

## Company Secretary

Mr. Lu Yongbin

## Registered Office

Second Floor, Century Yard, Cricket Square,
P.O. Box 902, Grand Cayman, KY1-1103,
Cayman Islands

## Head Office, Headquarters and Principal Place of Business in the People's Republic of China ("China" or the "PRC")

No. 8 & 9 Building
Antuoshan High-tech Industrial Park
Xinsha Road, Shajing, Bao'An
Shenzhen
PRC

## Principal Place of Business in Hong Kong

Room 1910 19/F Kwong Sang Hong Centre
151–153 Hoi Bun Road
Kwun Tong
Kowloon
Hong Kong

## Auditors

Ernst & Young
Certified Public Accountants and
Registered Public Interest Entity Auditor
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

## Hong Kong Legal Adviser

Mayer Brown
16th–19th Floors, Prince's Building
10 Charter Road
Central
Hong Kong

# Corporate Information

## Cayman Islands Principal Registrar and Transfer Office

Tricor Services (Cayman Islands) Limited
Second Floor, Century Yard, Cricket Square,
P.O. Box 902, Grand Cayman, KY1-1103,
Cayman Islands

## Hong Kong Branch Share Registrar

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

## Principal Bankers

Hongkong and Shanghai Banking
Corporation Limited
Level 10 HSBC Main Building
1 Queen's Road Central
Hong Kong

## Stock Code

3882

## Company Website Address

www.sky-light.com.hk

# Chairman's Statement

To all shareholders,

First of all, on behalf of the Board of Directors (the "Directors") (the "Board"), thank you for your continued support for Sky Light Holdings Limited ("Sky Light"or the "Company"or "our Company") and its subsidiaries (together, the "Group" or "our Group" or "we").

For the year ended 31 December 2020 ("FY2020"), the Group's total revenue was around HK$437.1 million (2019: approximately HK$549.1 million), which was approximately 20.4% lower than that for the year ended 31 December 2019 ("FY2019"). We recorded a loss of about HK$71.1 million in FY2020.

For FY2020, the result is not good due to the following reasons:

1. Due to the spread of the coronavirus ("COVID-19") in the first half of the year, our production was greatly affected. Even customer orders returned to normal in the second half of the year, our revenue was nonetheless limited by the shortage in the supply of semiconductor chips in the market;

2. Because of the US tariffs imposed on the products made in China, we moved about 50% of production equipment to our factory in Vietnam. Unfortunately, our Chinese management and technical staff were not able to travel to the factory to support the production there until the second half of 2020 due to the entry restrictions implemented by the Vietnamese Government in response to the COVID-19 pandemic;

3. The labor shortage in China and appreciation of renminbi has caused an increase on our costs;

4. The appreciation of the renminbi against the HK dollar caused an exchange loss.

In 2021, we believe the shortage of semiconductor chips and the increase of component prices are the main challenges our business faces. We will work closely with suppliers and actively negotiate with customers on prices and material preparation mechanisms to reduce the related risks.

We focused on reorganizing our customer portfolio in FY2020, mainly serving quality medium to large-scale customers. We believe that will be an important step to drive future business. Furthermore, we will continue to optimize the Group's operation so that we can provide efficient service to customers. With our production bases in China and Vietnam, we can provide flexibility for our customers manufacturing in Vietnam and avoid paying US tariffs. To enhance our competitive advantages, we will strengthen our audio and video streaming technology and provide more value to our customers. In any case, we will actively develop market-driven business and products and strive to improve our financial performance.

## Appreciation

On behalf of the Board of Directors, I would like to express my sincere gratitude to all business partners, customers and shareholders for their support, as well as the management team and all employees of the Group for their contributions in the past years. We believe that, with everybody's dedication and efforts, the Group will be well-positioned to achieve further success.

**Tang Wing Fong Terry**
*Chairman*
Hong Kong, 29 March 2021

# Management Discussion and Analysis

## Business review

The Group is principally engaged in the sales, development and manufacture of home surveillance cameras, police cameras, video conference devices, 360-degree cameras, baby monitors, remote learning devices and other imaging products for various purposes. Leveraging its substantial experience in various digital imaging products, the Group sets itself apart from other manufacturers by providing customers with design-driven joint design manufacturing ("JDM") and original design manufacturing ("ODM") solutions.

## ODM/JDM business

For FY2020, the Group's total turnover from the ODM/JDM business was approximately HK$437.1 million, which was about 20% lower compared to HK$549.1 millions for FY2019. We recorded a loss of about HK$71.1 million in FY2020.

The decrease in revenue was primarily due to our production being greatly affected by the outbreak of COVID-19 in the first half of 2020. Even customer orders returned to normal in the second half of 2020, our revenue was nonetheless limited by the shortage in the supply of semiconductor chips in the market. Furthermore, our Chinese management and technical staff were not able to travel to Vietnam to support the production there until the second half of 2020 due to the entry restrictions implemented by the Vietnamese Government in response to the COVID-19 pandemic.

Our factory is located in Hanoi, Vietnam, plant area of about 7,000 square meters, has five SMT placement machine production lines and 12 assembly packaging production lines. By the end of 2020, the Vietnam factory has more than 600 employees and a monthly production capacity of 130,000 units. In 2020, it has become one of the company's main production bases, and its products are mainly sold to the American market.

In FY2020, our revenue was mainly generated by manufacturing home surveillance cameras, police cameras, baby monitors and remote learning devices. These businesses are expected to continue growing in 2021.

## Prospects

In 2021, we believe the shortage of semiconductor chips and increase of component prices are the main challenges our business faces. We will work closely with suppliers and actively negotiate with customers on prices and material preparation mechanisms to reduce the related risks.

We focused on reorganizing our customer portfolio in FY2020, mainly serving medium to large-scale customers. We believe this will be an important step to promote future business development. With the products made in Vietnam, our US customers do not have to pay tariffs, which will greatly help to expand our business with US customers.

In 2021, we will continue to optimize the Group's operation so that we can provide efficient service to customers. Because of the travel restrictions, we believe the demand for video conference equipment will increase. Therefore, we will develop more of these products.

# Management Discussion and Analysis

In order to improve our financial performance and turn losses into profits as soon as possible, we will strive to increase our market share and provide customers with high-quality products and solutions through the following strategies.

- Continue to develop innovative products driven by the market.
- Actively explore the market of Japan, Europe and Mainland China.
- Strengthen our audio/video streaming technology to enhance our competitiveness.
- Optimize the Group's operation and provide efficient service to customers.

## Financial review

### *Turnover*

The Group's products mainly consist of the following three categories: (i) home surveillance cameras, (ii) digital imaging products, and (iii) other products. It generates revenue predominantly from sales of these products, as well as from other income, such as research and development ("R&D") service and tooling fees associated with products that it manufactures for customers. It is expected that the contribution from home surveillance cameras will increase in the next few years. The following table sets out the breakdown of the revenue from sales of major products by product type for the periods indicated:

| | 2020 HK$'000 | % of total revenue | 2019 HK$'000 | % of total revenue | Revenue change |
|---|---|---|---|---|---|
| Home surveillance cameras | **184,983** | **42.3%** | 281,167 | 51.2% | (34.2%) |
| Digital imaging products | **165,327** | **37.8%** | 159,548 | 29.1% | 3.6% |
| Other products | **86,801** | **19.9%** | 108,408 | 19.7% | (19.9%) |
| **TOTAL** | **437,111** | **100.0%** | 549,123 | 100.0% | (20.4%) |

For FY2020, the Group recorded a turnover of approximately HK$437.1 million from the ODM/JDM business (FY2019: approximately HK$549.1 million), representing a decrease of approximately 20.4% as compared to FY2019. The decrease was mainly due to the delayed shipment from certain customers arising from the low demand of the consumer market resulting from the outbreak of COVID-19 globally, and the COVID-19 prevention measures implemented by the relevant local government also lowered the operating efficiencies of the Group's manufacturing.

# Management Discussion and Analysis

The Group sells its products mainly to customers in the US and European Union and it is expected that the US and European Union market will continue to account for majority of the Group's revenue in the foreseeable future. The significant decrease in the sales in the US and European Union was due to the decrease in the sales from home surveillance cameras to the Group's key customers, which are located in the US and European Union. The following table sets out the breakdown of revenue by location of customers for the periods indicated:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| United States of America | **265,059** | 300,781 |
| Mainland China | **46,009** | 65,891 |
| European Union | **93,242** | 140,670 |
| Hong Kong | **3,028** | 7,814 |
| Other countries/regions | **29,773** | 33,967 |
| | **437,111** | 549,123 |

### *Cost of sales*

Cost of sales represents costs and expenses directly attributable to the manufacture of the Group's products which comprise (i) raw materials, components and parts, including, among others, key components such as digital signal processors, lenses and sensors; (ii) direct labour; and (iii) production overhead, mainly including depreciation of production equipment and indirect labour.

For FY2020, cost of sales of the Group amounted to approximately HK$376.0 million (FY2019: approximately HK$486.6 million), representing a decrease of approximately 22.7% as compared to FY2019, and amounted to approximately 86.0% (FY2019: approximately 88.6%) of its turnover for FY2020. This decrease was mainly attributable to a decrease in the shipment units of home surveillance cameras.

### *Gross profit and gross profit margin*

The Group recorded a gross profit of approximately HK$61.1 million for FY2020 (FY2019: approximately HK$62.5 million), representing a decrease of approximately 2.3% as compared to FY2019. The gross profit margin increased from approximately 11.4% for FY2019 to approximately 14.0% for FY2020. This increase was mainly attributable to the reduction of the impairment losses for inventories amounted HK$44.5 million.

### *Other income and gains*

Other income and gains mainly include (i) bank interest income; (ii) government grants, which mainly consist of rewards and subsidies for research activities granted by the local government with no unfulfilled conditions or contingencies; and (iii) compensation by customers for cancellation of orders.

For FY2020, other income and gains of the Group significantly increased by approximately HK$7.8 million to approximately HK$17.4 million as compared to FY2019, which was primarily attributable to an increase of approximately HK$8.2 million in compensation by customers for cancellation of orders and approximately HK$1.2 million in government subsidies.

### *Selling and distribution expenses*

Selling and distribution expenses include mainly (i) salaries and benefits of its sales and marketing staff; (ii) marketing, exhibition and advertising costs; and (iii) entertainment expenses relating to its sales and marketing activities.

For FY2020, selling and distribution expenses of the Group significantly increased approximately 22.3% to approximately HK$32.8 million from approximately HK$26.8 million for FY2019, mainly due to the increase of marketing expense and advertising approximately HK$7.4 million for FY2020.

### *Administrative expenses*

Administrative expenses mainly include (i) salaries and benefits of the Group's management, administrative and finance staff; (ii) rental and office expenses; (iii) professional fees; (iv) other taxes and levies payable to government authorities; and (v) entertainment expenses.

For FY2020, administrative expenses of the Group significantly decreased by approximately 19.2% to approximately HK$49.4 million (FY2019: approximately HK$61.1 million). The decrease was mainly due to the Group's stringent cost control during FY2020.

### *Research and development costs*

Research and development costs include (i) salaries and benefits of the Group's research and development and product planning staff; (ii) raw materials, components and parts used for research and development and product planning; and (iii) other miscellaneous costs and expenses such as rental fees, design service fees, depreciation and certification fees.

For FY2020, the Group recorded research and development costs of approximately HK$50.1 million, which significantly decreased by approximately 13.5% from approximately HK$57.9 million for FY2019. The decrease was mainly due to the Group's stringent cost control during FY2020.

### *Other expenses*

Other expenses include principally (i) exchange losses arising mainly from fluctuations in exchange rates between the invoice and settlement dates of its sales and purchases and from translation of its US$-denominated trade payables and receivables; and (ii) impairment losses of assets.

For FY2020, other expenses of the Group significantly increased to approximately HK$15.0 million from approximately HK$7.7 million for FY2019. The increase mainly consisted of the increase of exchange loss approximately HK$10.7 million caused by the appreciation of RMB against US dollar during FY2020.

### *Finance costs*

For FY2020, the finance costs of the Group decreased to approximately HK$2.2 million (FY2019: approximately HK$3.0 million), representing a decrease by approximately 27.2% as compared to FY2019. This decrease was attributable to the reduction of the interest expense of bank loan.

# Management Discussion and Analysis

### *Income tax expense*

For FY2020, there was no income tax expense due to the loss for the year.

### *Net loss*

As a result of the foregoing, the Group recorded a loss of approximately HK$71.1 million for FY2020 (attributable to non-controlling interests is a loss of approximately HK$7.0 million).

### *Liquidity and capital resources*

The Group's principal cash requirements are to pay for working capital needs, capital expenditures for the expansion and upgrade of production facilities. The Group meets these cash requirements by relying on cash flows generated from operating activities and proceeds from issue of shares as its principal sources of funding. The following table sets out its selected consolidated cash flow for the periods indicated:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Net cash flows (used in)/from operating activities | **(6,314)** | 44,924 |
| Net cash flows from/(used in) investing activities | **2,916** | (5,400) |
| Net cash flows used in financing activities | **(20,488)** | (21,028) |
| Net (decrease)/increase in cash and cash equivalents | **(23,886)** | 18,496 |
| Cash and cash equivalents at beginning of year | **106,899** | 95,132 |
| Effect of foreign exchange rate, net | **17,187** | (6,729) |
| Cash and cash equivalents at end of year | **100,200** | 106,899 |

Net cash flow used in operating activities for FY2020 was approximately HK$6.3 million, which primarily reflected (i) the adjusted loss before tax of approximately HK$4.9 million; (ii) the decrease in trade receivables of approximately HK$15.9 million; (iii) the increase in inventory balances of approximately HK$44.0 million; (iv) the increase in prepayments and other receivables of approximately HK$3.9 million; and (v) the increase in trade payables of approximately HK$24.7 million.

Net cash flow from investing activities for FY2020 was approximately HK$2.9 million. This mainly consisted of (i) payment of approximately HK$3.9 million for purchases of property, plant and equipment and intangible assets primarily for the upgrade of certain equipment and software to support the production of high-quality products; (ii) receipt of approximately HK$3.3 million for disposal of items of property, plant and equipment,and (iii) receipt of approximately HK$2.8 million for disposal of financial assets at fair value through profit or loss.

Net cash flow used in the financing activities for FY2020 was approximately HK$20.5 million, which was mainly reflected (i) the decrease in the use of interest-bearing bank borrowings to repay trade payable resulting in repayment of bank borrowings of approximately HK$4.7 million; and (ii) the principal portion of lease payments to approximately HK$15.6 million.

The Group's cash and cash equivalents were denominated in US$, HK$, VN$ and RMB as at 31 December 2020.

# Management Discussion and Analysis

### *Borrowing and the pledge of assets*

The Group's bank facilities amounting to HK$23.0 million (FY2019: HK$23.0 million), of which HK$11.3 million (FY2019: HK$16.7 million) had been utilised as at the 31 December 2020.

As at 31 December 2020, a keyman insurance purchased from the bank was pledged to secure certain banking facilities for the Group (31 December 2019: an insurance and a wealth management product purchased from the bank were pledged to secure certain banking facilities for the Group).

The Group's bank borrowings are all denominated in US$. As at 31 December 2020, the annual interest rate of secured bank borrowings ranged from 1.4% to 1.5% (FY2019: 3.1% to 4.0%).

### *Gearing ratio*

Gearing ratio is calculated by dividing total debt (which equals interest-bearing bank borrowings) by total equity as at the end of the each period end. The Group's gearing ratio as at 31 December 2019 and 31 December 2020 was approximately 6.1% and approximately 5.6%, respectively. The decrease in gearing ratio was mainly due to the significant decrease in outstanding interest-bearing bank borrowings during FY2020.

### *Capital expenditure*

During FY2020, the Group invested approximately HK$5.2 million (FY2019: approximately HK$19.4 million) in fixed assets and intangible assets, which was mainly due to the decrease of renovation costs from Vietnam factory.

### *Off balance sheet transactions*

During FY2020, the Group did not enter into any material off balance sheet transactions.

### *Foreign exchange exposure and exchange rate risk*

The Group has transactional currency exposure, which arises from sales or purchase by operating units in currencies other than the units' functional currencies. Approximately 83.1% (FY2019: 89.7%) of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sales, whilst approximately 47.0% (FY2019: 50.6%) of costs were denominated in their functional currencies.

During the year, there was no material impact to the Group arising from the fluctuation in the exchange rates of these currencies. The Group did not engage in any derivatives activities and did not commit to any financial instruments to hedge its foreign exchange exposure during FY2020 (FY2019: Nil).

### *Events after the reporting period*

There are no significant events occurring after the reporting period of FY2020 up to date of this annual report.

# Management Discussion and Analysis

### *Treasury policies*

The Group has implemented its internal treasury investment policies since January 2015 (updated in December 2015), which provide the guidelines, requirements and approval process with respect to its treasury investment activities. It regularly evaluates the risks and returns of its wealth management products.

Under its treasury investment policies, the Group is only allowed to invest in wealth management products with the two lowest risk rating classified by the banks and debentures with ratings above "BBB" or "baa" or similar ratings. All the treasury products must also meet the following criteria: (i) be issued by well-recognised publicly-listed banks, (ii) no default history, and (iii) have a maturity term of less than one year or can be easily converted into cash in the market. Such treasury investment policies also provide that the outstanding balance of the Group's wealth management products shall not exceed 50% of its total amount of cash and cash equivalents and wealth management products. Any plan to increase this limit must be approved by the Board. No single investment can exceed 35% of the total amount invested.

The Group has an experienced management team and strict procedures in place to ensure the wealth management products are purchased in compliance with its internal policies and requirements under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The management, internal auditors and the Board (including the independent non-executive Directors) regularly review its compliance with the treasury investment policies and assess the risks associated with these investments.

During FY2020, the Group did not have any investment under its treasury policies.

### *Employees and emoluments policy*

As at 31 December 2020, the Group employed a total of 1,482 employees (31 December 2019: 1,200). The staff costs of the Group, excluding directors' emoluments were approximately HK$96.7 million for FY2020 (FY2019: approximately HK$118.8 million), approximately HK$0.3 million (FY2019: approximately HK$2.4 million) of which are expenses for the Group's share option schemes. All of the Group's employees are paid a fixed salary and a bonus depending on their performance as determined by quarterly assessments. The Group seeks to provide compensation for its research and development staff at above-market levels to attract and retain talents. It regularly reviews compensation and benefit policies to ensure that its practices are in line with the market and in compliance with relevant labour regulations. To provide its employees, among others, additional incentives to enhance its business performance, the Group has adopted the pre-IPO share option scheme and the share option scheme, under which grantees are entitled to exercise the options to subscribe for shares subject to the terms and conditions of the respective schemes.

### Significant investments held

The Group held 9.82% equity interest in a start-up company, Kandao Technology Co., Ltd ("Kandao"). The investment was acquired by the Group from the period November 2016 to January 2017 at an initial amount of HK$45.4 million.

Kandao was established on January 2016, which focuses on the technology and development of software and hardware for imaging electronics products. The main products includes 6-eye 8K resolution three-dimensional professional panoramic camera, 8K resolution consumer panoramic camera and 360-degree smart conference video.

Kandao's products have won the best innovation award in the Consumer Electronics Show of digital imaging category.

As at 31 December 2020, the investment accounted for 5.3% of the Group's total assets and the fair value of this investment held by the Group was approximately HK$24.4 million (31 December 2019: approximately HK$26.1 million) presenting HK$1.7 million unrealized loss as at 31 December 2020. No dividend was received from this investment during FY2020 (FY2019: Nil).

The Board believe that imaging products and solutions will be widely used with different applications, especially in the upcoming 5G era.

The Group will continue to hold this unlisted equity investment for the following reasons:

(i) This investment still has potential for growth in the future;

(ii) This investment has synergies with the Group's business and can widen sales channel.

Saved as disclosed above, there is no investment held by the Group with a value of 5% or more of the Company's total assets as at 31 December 2020.

### Commitment

As at 31 December 2020, the Group's capital commitment amounted to approximately HK$0.2 million (31 December 2019: approximately HK$1.1 million).

### Future plans for material investments or capital assets

In the near term, the Group did not have any plans for material investments or capital assets as at the date of this annual report.

### Material acquisitions and disposals of subsidiaries and associated companies

The Group did not have any material acquisitions and disposals of subsidiaries, associated companies and joint ventures during FY2020.

# Management Discussion and Analysis

### *Contingent liabilities*

As at 31 December 2020, the Group had no significant contingent liabilities.

### *Annual general meeting*

The annual general meeting of the Company (the "AGM") is scheduled to be held on Wednesday, 26 May 2021. A notice convening the AGM will be issued and disseminated to the Shareholders in due course.

### *Dividends*

The Board did not recommend the payment of any final dividend for FY2020 (FY2019: Nil).

### *Closure of register of members*

The register of members of the Company will be closed from Friday, 21 May 2021 to Wednesday, 26 May 2021 (both days inclusive) during which no transfers of shares shall be effected. In order to determine the entitlement to attend and vote at the forthcoming AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 20 May 2021.

# Director and Senior Management

## Executive Directors

**Mr. Tang Wing Fong Terry (鄧榮芳)**, aged 62, is the Chairman, an executive Director and the chief executive officer of our Company and the founder of our Group. Mr. Tang is chairman of Nomination Committee and a member of Remuneration Committee of the Company. He was appointed as the Chairman and an executive Director with effect from 18 December 2013. He has been the general manager of our Group and is a director of each of the subsidiaries of our Company. Mr. Tang is primarily responsible for the overall strategic planning and overseeing the general management of our Group. Mr. Tang has over 20 years of experience in the digital imaging, computer peripherals and consumer electronics industry. Mr. Tang and his associate are controlling shareholders which held approximately 68.41% of total issued shares in the Company as at 31 December 2020.

Prior to establishing our predecessor business in 2000, Mr. Tang co-founded Peer Industries Ltd., a company engaged in the trading of materials and production equipment for manufacturing computer diskettes, in 1992.

Mr. Tang received a part-time higher certificate of mechanical engineering from the Hong Kong Polytechnic University in 1982.

**Mr. Lu Yongbin (盧勇斌)**, aged 48, is an executive Director, the chief financial officer and the company secretary of our Company. Mr. Lu joined our Group in 2005 and was appointed as an executive Director with effect from 25 March 2015. He is currently the head of our finance department and is primarily responsible for the management of overall financial and accounting affairs of our Group. Mr. Lu has over 25 years of experience in accounting and related financial management and over 15 years of experience in the digital imaging industry.

Mr. Lu graduated from the Hubei Normal University with an associate degree in accounting and finance in 1998. Mr. Lu became as a certified public accountant in the PRC in 2004 and is a fellow member of the Chinese Institute of Certified Public Accountants and the China Certified Tax Agents Association.

## Non-Executive Directors

**Ms. Tang Kam Sau (鄧錦繡)**, aged 58, is a non-executive Director of our Company. Ms. Tang joined our Group in 2005 and was appointed as a non-executive Director with effect from 25 March 2015. Ms. Tang has over 10 years of experience in the digital imaging industry.

Ms. Tang is a director of a company which is principally engaged in manufacturing multimedia product packaging materials since 2009.

Ms. Tang is also a director of Sky Light Imaging Limited, Sky Light Shenzhen and Sky Light Digital Limited. Ms. Tang has been appointed as a director of Vupoint Solutions Inc, a member of the Group, with effect from 22 January 2016.

# Director and Senior Management

## Independent Non-Executive Directors

**Mr. Tse Yat Hong (謝日康)**, aged 51, is an independent non-executive Director of our Company. Mr. Tse joined our Group on 5 December 2017 and was appointed as an independent non-executive Director with effect from 5 December 2017. He is chairman of the Audit Committee and Remuneration Committee, and a member of the Nomination Committee of the Company.

Mr. Tse is currently an independent non-executive Director of China Huirong Financial Holdings Limited (Stock Code: 1290) and China Bohai Bank Co., Limited (Stock Code: 9668) since October 2013 and June 2020 respectively. Also, he is an independent non-executive Director of Radiance Holdings (Group) Company Limited (Stock Code: 9993) and E-Star Commercial Management Company Limited (Stock Code: 6668) since October 2020 and December 2020 respectively. All of these companies are listed on the Main Board of the Stock Exchange.

From June 2000 to May 2019, Mr. Tse served as the Chief Financial Officer of Shenzhen International Holdings Limited (stock code: 00152), a company listed on the Main Board of the Stock Exchange. He also served as a non-executive director of Shenzhen Expressway Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 00548) and the Shanghai Stock Exchange (stock code: 600548) during the period from December 2008 to December 2017. Prior to this, Mr. Tse worked in the audit profession in one of the international accounting firms for years. Mr. Tse has extensive experience in accounting, finance and corporate governance matters of listed companies and has broad knowledge in accounting and financial rules and regulations in Hong Kong and China.

Mr. Tse is a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of Certified Public Accountants Australia. Mr. Tse graduated from Monash University in Melbourne, Australia in April 1992 with a bachelor's degree in accounting and computer science.

**Dr. Cheung Wah Keung (張華強)**, aged 59, is an independent non-executive Director of our Company. Dr. Cheung joined our Group on 12 June 2015 and was appointed as an independent non-executive Director with effect from 12 June 2015. Dr. Cheung is a member of Audit Committee of the Company. Dr. Cheung has more than 30 years of experience in trading and manufacturing of consumer electronic products.

Dr. Cheung is currently the chairman of Shinhint Group and Tai Sing Industrial Company Limited. He is an independent non-executive director of Casablanca Group Limited (Stock Code: 2223) since May 2017 and is also an independent non-executive director and an independent non-executive chairman of PanAsialum Holdings Company Limited (Stock Code: 2078) since March 2018 and August 2019 respectively. Also, he is an independent non-executive director of Activation Group Holdings Limited (Stock Code: 9919) since December 2019. All of these companies are listed on the Main Board of the Stock Exchange.

Dr. Cheung obtained a bachelor's degree in business administration, a master's degree in global political economy from the Chinese University of Hong Kong, a master's degree in corporate governance and a doctoral degree in business administration from The Hong Kong Polytechnic University. He was awarded by the Federation of Hong Kong Industries as "Young Industrialist of Hong Kong" in 2005 and "Certificates of Merit in Directorship" by the Hong Kong Institutes of Directors in 2006. He has taken up a variety of roles, including the president of the Hong Kong Young Industrialists Council from 2015 to 2016, the chairman of the Advisory Board for Master of Corporate Governance of The Hong Kong Polytechnic University and a committee member of the Council of The Hang Seng University of Hong Kong.

# Director and Senior Management

**Mr. Chan Tsu Ming Louis (陳祖明)**, aged 61, is an independent non-executive Director of our Company. Mr. Chan joined our Group on 12 June 2015 and was appointed as an independent non-executive Director with effect from 12 June 2015. Mr. Chan is a member of Audit Committee, Remuneration Committee and Nomination Committee of the Company.

Mr. Chan has more than 20 years of experience in finance and banking. Between 1982 and 1983, he served as a credit analyst of Banque Nationale de Paris. Between 1983 and 1986, he worked at The Industrial Bank of Japan, Ltd. as a senior marketing officer. He worked at Bankers Trust Company between 1986 and 1995 with his last position as a vice president (capital markets). Mr. Chan joined Standard Chartered Bank in 1995 as a senior manager. Between 2000 and 2001, he was the head of corporate development of Willas-Array Electronics Management Limited, now a wholly-owned subsidiary of Willas-Array Electronics (Holdings) Limited, a company listed on the Stock Exchange (stock code: 854) and the Singapore Stock Exchange. He worked at Standard Bank Asia Limited in 2005 as a director (equity Asia) until 2009. Between 2009 and 2012, he was a senior director (finance and accounting) of Wuhan Admiral Technology Limited, a wholly-owned subsidiary of TPV Technology Limited (stock code: 903), a company listed on the Stock Exchange which is engaged in the manufacturing, sales and distribution of televisions and computer monitors.

Mr. Chan obtained a master's degree in business administration from the University of Hong Kong in November 1995 and a higher diploma in business studies (banking) from the Hong Kong Polytechnics University in November 1982.

## Senior Management

Our senior management is responsible for the day-to-day management of our business and comprises each of our executive Directors and the executives described below.

**Mr. Gan Weijun (甘衛軍)**, aged 53, is the head of research and development of our Group. Mr. Gan joined our Group in October 2002. He is primarily responsible for leading the overall research and development activities of our Group. Mr. Gan has more than 15 years of experience in the digital imaging industry.

Mr. Gan obtained a bachelor's degree in precision instrument from the Shanghai Jiao Tong University in 1989.

**Dr. Yum Tsz Yin (任子賢)**, aged 41, is the director of marketing and strategic sales of our Group. Dr. Yum joined our Group in April 2016. He is primarily responsible for the sales, program and marketing of our Group. Dr. Yum has approximately 19 years of experience in product, business and brand management in the consumer electronics industry.

Prior to joining our Group, Dr. Yum worked at IDT International Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 0167) between August 2005 and September 2013 and Binatone Electronics International Limited ("Binatone") between October 2013 and March 2016, with his last position in Binatone as the global product management director for Motorola baby, smart home, pet monitors and IOT products.

Dr. Yum obtained a bachelor's degree in electronic engineering and doctor's degree in philosophy from the City University of Hong Kong in 2002 and 2005, respectively.

# Director and Senior Management

**Mr. Tsui Chiu (徐超)**, aged 42, is the head of product planning of our Group. Mr. Tsui joined our Group in April 2011. He is primarily responsible for leading the product planning activities of our Group. Mr. Tsui has more than 10 years of experience in product planning and management in the consumer electronics industry.

Prior to joining our Group, Mr. Tsui worked at the Hong Kong office of Radioshack between January 2005 and November 2007 and the China office of Office Depot between December 2007 and June 2010, both of which are well-known chain stores in the United States.

Mr. Tsui obtained a bachelor's degree in engineering and master's degree in philosophy from the Hong Kong Polytechnic University in 2001 and 2004, respectively.

There is no relationship as set out in paragraph 12 of Appendix 16 to the Listing Rules among the Directors and the senior management.

## Company Secretary

**Mr. Lu Yongbin (盧勇斌)**, is the company secretary of our Company. Mr. Lu is also an executive Director and the chief financial officer of our Company. Please refer to the paragraph above headed "Executive Directors" in this report for further biographical information about Mr. Lu.

# Corporate Governance Report

## Corporate Governance Practices

The Company believes that maintaining high standards of corporate governance is the foundation for effective management and successful business growth. The Company is committed to developing and maintaining robust corporate governance practices to safeguard the interests of shareholders of the Company (the "Shareholders") and to enhance corporate value, accountability and transparency of the Company.

The Company has adopted the principles and code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as the basis of the Company's corporate governance practices. Throughout the year ended 31 December 2020, the Company has complied with all applicable code provisions of the CG Code except for the following:

### *Non-compliance during FY2020*

Pursuant to CG Code provision A.2.1, the role(s) of chairman and chief executive should be separate and should not be performed by the same individual. As the duties of chairman of the Board ("Chairman") and chief executive of the Company are performed by Mr. Tang Wing Fong Terry, the Company has deviated from the CG Code provision A.2.1. The Board considers that having Mr. Tang Wing Fong Terry acting as both our Chairman and our chief executive officer will provide a strong and consistent leadership to the Company and allow for more effective planning and management for our Group. In view of Mr. Tang's extensive experience in the industry, personal profile and critical role in our Group and its historical development, the Board considers that it is beneficial to the business prospects of our Group that Mr. Tang continues to act as both our Chairman and our chief executive officer. As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

## Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct governing its directors' securities transactions. Specific enquiries have been made with all the Directors and they have confirmed that they have complied with the Model Code throughout the year ended 31 December 2020.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines"), for securities transactions by relevant employees (including directors or employees of a subsidiary or holding company of the Company) who are likely to possess inside information of the Company and/or its securities. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company. In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its directors and relevant employees in advance.

# Corporate Governance Report

## The Board of Directors

***Responsibilities, Accountabilities and Contributions of the Board and Management***

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board shall take decisions objectively in the interests of the Company and its shareholders at all times.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective operation. All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

***Delegation of management functions***

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management. The Company has adopted a formal schedule of functions reserved to the Board and delegated to the management.

***Delegation of corporate governance duties***

The Board has delegated the responsibility for performing corporate governance functions set out in the code provision D.3.1 of the CG Code to the audit committee of the Company.

***Board Composition***

Currently, the Board comprises two executive Directors, one non-executive Director and three independent non-executive Directors. The Company has complied with rules 3.10 and 3.10A of the Listing Rules. Throughout the year ended 31 December 2020 and save as disclosed above in the paragraph headed "Corporate Governance Practices" in the Corporate Governance Report, the number of independent non-executive Directors represents more than one-third of the Board. As such, there exists a strong independent element in the Board, which can effectively exercise independent judgment.

The Board comprises the following directors:

## Executive Directors

Mr. Tang Wing Fong Terry *(Chairman and Chief Executive Officer)*
Mr. Lu Yongbin *(Chief Financial Officer and Company Secretary)*

## Non-executive Director

Ms. Tang Kam Sau
Mr. Wu Yongmou (resigned on 27 July 2020)

## Independent non-executive Directors

Mr. Tse Yat Hong
Dr. Cheung Wah Keung
Mr. Chan Tsu Ming Louis

The brief biographic details of the existing Directors are set out under the section headed "Directors and Senior Management" in this annual report. There are no relationship (including financial, business, family or other material/relevant relationship(s)) among members of the Board.

## Chairman and Chief Executive Officer

CG Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company has not segregated the roles of chairman and chief executive officer and Mr. Tang Wing Fong Terry currently holds both positions, as explained in the above paragraph headed "Corporate Governance Practices" in the Corporate Governance Report.

## Non-executive Directors

The non-executive Directors are expected to participate in the activities of the Board, particularly in the establishment of a selection process to ensure a mix of competent directors and officers; adoption of a system of internal checks and balances; scrutiny of the Company's performance in achieving agreed corporate goals and objectives; and ensuring that the exercise of Board authority is within the powers conferred to the Board under the memorandum and articles of association of the Company and applicable laws, rules and regulations.

## Independent Non-executive Directors

The independent non-executive Directors are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance and business. Their skills, expertise and number in the Board ensure that strong independent views and judgment are brought in the Board's deliberations and that such views and judgment carry weight in the Board's decision-making process. Their presence and participation also enable the Board to maintain high standards of compliance in financial and other mandatory reporting requirements, and provide adequate checks and balances to safeguard the interests of Shareholders and the Company.

Each independent non-executive Director has provided the Company with an annual confirmation of his independence. The Company considers all independent non-executive Directors are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

## Appointment, Re-Election and Removal of Directors

All Directors are appointed for an initial term of three years commencing on the respective date of their appointment. Each of their appointment can be terminated by either party giving not less than three months' prior notice in writing to the other.

Mr. Tse Yat Hong, an independent non-executive Director of the Company, is under a letter of appointment with the Company commencing from 5 December 2017 and ending on 4 December 2020, which was further extended for a term of three years to 5 December 2023.

Each of the executive Directors, non-executive Director and other two independent non-executive Directors of the Company is under a letter of appointment with the Company commencing from 2 July 2018 and ending on 1 July 2021, which was further extended for a term of three years to 1 July 2021.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. According to the Company's Articles of Association, all Directors are subject to retirement by rotation at least once every three years and are eligible for re-election at the Company's AGM. Any new director appointed by the Board to fill a casual vacancy shall submit himself/herself for re-election by Shareholders at the first general meeting after his/her appointment and any new director appointed by the Board as an addition to the Board shall submit himself/herself for re-election by Shareholders at the next following AGM.

In accordance with the Company's Articles of Association, Mr. Lu Yongbin and Mr. Chan Tsu Ming Louis shall retire at the forthcoming 2021 AGM. All of the retiring Directors, being eligible, will offer themselves for re-election as Directors at the AGM. The Board and the Nomination Committee recommend their reappointment.

The Company's circular, sent together with this annual report, contains detailed information of the above two Directors proposed to be re-elected as required by the Listing Rules.

## Continuous Professional Development of Directors

All Directors confirmed that they had complied with CG Code provision A.6.5 during FY2020, all Directors had participated in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

The existing Directors are continually updated on changes and developments to the Group's business and in the latest developments in the laws, rules and regulations relating to directors' duties and responsibilities. Directors' training is an ongoing process. All directors are encouraged to attend relevant training courses at the Company's expenses. Directors are requested to provide their training records to the Company for record.

During FY2020, the Directors have participated in continuous professional training as follows:

| | Nature of training covered (Notes) | | |
|---|---|---|---|
| Name of Directors | a | b | c |
| Executive Directors | | | |
| Mr. Tang Wing Fong Terry | ✔ | | ✔ |
| Mr. Lu Yongbin | ✔ | ✔ | ✔ |
| Non-executive Director | | | |
| Ms. Tang Kam Sau | ✔ | ✔ | ✔ |
| Independent non-executive Directors | | | |
| Mr. Tse Yat Hong | ✔ | ✔ | ✔ |
| Dr. Cheung Wah Keung | ✔ | ✔ | ✔ |
| Mr. Chan Tsu Ming Louis | ✔ | | ✔ |

Notes:

a. Receiving in-house regular briefings and updates on the Group's business, operations and corporate governance matters.

b. Attending seminars/forums, which are relevant to their directors' duties and responsibilities, organized by professional firms/institutions.

c. Reading technical bulletins, periodicals and other publications on subjects relevant to the Group and on their directors' responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

## Board Meetings

The Board may meet together for the despatch of business, adjourn and otherwise regulate its meetings and proceedings as it thinks fit and may determine the quorum necessary for the transaction of business. Notice of regular Board meetings will be dispatched to all Directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given. A meeting of the Board or any committee of the Board may be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting.

When a Director and the enterprise(s) involved in a proposal of a Board meeting have material interests/conflict of interest, such Director shall not exercise his/her voting rights on such proposal nor shall he/she exercise any voting rights on behalf of other Directors.

Set out below are details of the attendance record of each Director at the Board and committee meetings of the Company held during FY2020:

| | Attendance/Number of Meetings Held | | | | |
|---|---|---|---|---|---|
| Name of Directors | Board Meeting | Audit Committee Meeting | Nomination Committee Meeting | Remuneration Committee Meeting | Annual General Meeting |
| Executive Directors | | | | | |
| Mr. Tang Wing Fong Terry | 4/4* | N/A | 1/1* | 1/1 | 1/1 |
| Mr. Lu Yongbin | 4/4 | N/A | N/A | N/A | 1/1 |
| Non-executive Director | | | | | |
| Ms. Tang Kam Sau | 4/4 | N/A | N/A | N/A | 1/1 |
| Independent non-executive Directors | | | | | |
| Mr. Tse Yat Hong | 4/4 | 4/4* | 1/1 | 1/1* | 1/1 |
| Dr. Cheung Wah Keung | 4/4 | 4/4 | N/A | N/A | 1/1 |
| Mr. Chan Tsu Ming Louis | 4/4 | 4/4 | 1/1 | 1/1 | 1/1 |

Remark:

* representing chairman of the Board or the relevant committees

At least four regular board meetings are convened each year.

Apart from the above Board meetings, the Chairman also held a meeting with the non-executive Directors (including independent non- executive Directors) without the presence of executive Directors during the year.

## Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for FY2020. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report.

## Directors' and Officers' Liability Insurance

The Company has taken out liability insurance to indemnify its Directors and senior management for their liabilities arising from the performance of their duties. The insurance coverage is reviewed by the Company on an annual basis. No claim has been made against the Directors and senior management of the Company during the year.

## Board Committees

The Board has established three committees, namely, the audit committee ("Audit Committee"), the remuneration committee ("Remuneration Committee"), and the nomination committee ("Nomination Committee"), for overseeing particular aspects of the Company's affairs. All committees have been established with defined written terms of reference, which were posted on the Stock Exchange's websites (www.hkexnews.hk) and the Company's websites (www.sky-light.com.hk). All committees should report to the Board on their decisions or recommendations made.

All committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

### *Audit Committee*

The Company established its Audit Committee on 12 June 2015 with its written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial information and reporting process, risk management and internal control systems and effectiveness of internal audit function, to monitor scope of audit and nominate and appoint external auditors and provide advice and comments to the Board on matters related to corporate governance. The Audit Committee consists of three members, being Mr. Tse Yat Hong, Dr. Cheung Wah Keung and Mr. Chan Tsu Ming Louis, all are independent non-executive Directors. Mr. Tse Yat Hong currently serves as the chairman of our Audit Committee.

# Corporate Governance Report

During the year, the Audit Committee has held four meetings (the attendance records of each Committee member are set out in above paragraph headed "Board Meetings") for discussion on the following issues arising from the audit and financial reporting matters:

— Review and discussion of the audited consolidated financial statements, results announcement and report for the year ended 31 December 2019; unaudited interim condensed financial statements, results announcement and report for the six months ended 30 June 2020; the related accounting principles and practices adopted by the Group and the relevant audit/review findings, the report from the management on the Company's internal control and risk management review and processes;

— Review the appointment of the external auditors;

— Review of the Group's continuing connected transactions;

— Review of and monitoring the Company's corporate governance policies and practices, the training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report;

— Discussion of appointment of external service provider for review of the Group's financial reporting process, risk management and internal control systems; and

— Review of the risk management and internal control systems and internal control function.

The external auditors were invited to attend the Audit Committee meetings held during the year to discuss with the Audit Committee members on issues arising from the audit/review and financial reporting matters. The chairman of the Audit Committee provided the Board with a briefing on the significant issues after each Audit Committee meeting.

The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management on the internal control, risk management and financial reporting matters, including the review of the audited annual results and annual report for the year ended 31 December 2019 and the unaudited interim results and interim report for the six months ended 30 June 2020, and the review of the audited annual results and annual report for FY2020.

The terms of reference of Audit Committee were revised and adopted by the Company on 18 December 2015 pursuant to the amendments to the Corporate Governance Code and Corporate Governance Report as contained in Appendix 14 of the Listing Rules relating to internal control and risk management which would apply to accounting periods beginning on or after 1 January 2016.

### *Nomination Committee*

The Company established Nomination Committee on 12 June 2015 with its written terms of reference by reference to the code provisions of the CG Code set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to review the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board, procedures for nomination and appointment, to assess the independence of independent non-executive Directors; and to make recommendations to the Board on the selection of candidates for any Director and senior management positions. The Nomination Committee comprises three members, being Mr. Tang Wing Fong Terry (chairman of the Board), Mr. Chan Tsu Ming Louis (independent non-executive Director) and Mr. Tse Yat Hong (independent non-executive Director). Mr. Tang Wing Fong Terry currently serves as the chairman of the Nomination Committee.

The Board would follow a set of formal, considered and transparent procedures for the appointment of new directors to the Board. In selecting candidates for directorship of the Company, the Nomination Committee may make reference to certain criteria such as the Company's needs, board diversity, the integrity, experience, skills and professional knowledge of the candidate and the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities. External recruitment professionals might be engaged to carry out selection process when necessary.

According to the board diversity policy adopted by the Company, the Nomination Committee is also responsible for reviewing the policy, developing and reviewing measurable objectives (including but not limited to gender, age, cultural and educational background, or professional experience) for implementing the policy, and monitoring the progress on achieving the measurable objectives set to ensure the continued effectiveness of the Board.

During the year, the Nomination Committee has held one meeting (the attendance records of each Committee member are set out in above section headed "Board Meetings") and performed the following major works:

— Review of the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Group;

— Assessment of the independence of all the Company's independent non-executive Directors; and

— Review of the composition of the senior management.

### *Remuneration Committee*

The Company established Remuneration Committee on 12 June 2015 with its written terms of reference in compliance with the Listing Rules. The primary duties of the Remuneration Committee are to review and make recommendations to the Board on the remuneration of the Directors and senior management, remuneration policy and structure for all Directors and senior management, and establish transparent procedures for developing such remuneration policy and structure. The Remuneration Committee consists of three members, being Mr. Tse Yat Hong (independent non-executive Director), Mr. Tang Wing Fong Terry (chairman of the Board) and Mr. Chan Tsu Ming Louis (independent non-executive Director). Mr. Tse Yat Hong currently serves as the chairman of the Remuneration Committee.

During the year, the Remuneration Committee has held one meeting (the attendance records of each Committee member are set out in above paragraph headed "Board Meetings") to review and made recommendations on the remuneration packages of certain Directors and senior management and other related matters.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management, including those members of senior management who are also executive Directors, by band for FY2020 is set out below:

| Remuneration band (HK$) | Number of individual |
|---|---|
| 500,001–<1,000,000 | 6 |
| 1,000,001–1,500,000 | 1 |

Details of the remuneration of each director of the Company and compensation of key management personnel of the Group for FY2020 are set out in note 8, note 9 and note 35, respectively, to the financial statements contained in this annual report.

The Company has adopted the model that the Remuneration Committee make recommendations to the Board on the remuneration package of individual executive Directors and senior management under the code provision B.1.2(c) of the CG Code. In order to determine the level of remuneration and fees paid to members of the Board, market rates and factors such as each Director's workload, responsibility and job complexity are taken into account. The following factors are considered when determining the remuneration packages of directors and senior management of the Company:

— business requirements;

— individual performance and contribution;

— company performance and profitability;

— retention considerations and the potential of individuals;

— corporate goals and objectives;

— changes in relevant markets, including supply and demand fluctuations and changes in competitive conditions; and

— general economic situation.

During the review process, no individual director is involved in decisions relating to his/her own remuneration.

## Corporate Governance Function

The Board does not have a Corporate Governance Committee. The functions that would be carried out by a Corporate Governance Committee are performed by the Audit Committee and are as follows:

— to develop and review the Company's policies and practices on corporate governance;

— to review and monitor the training and continuous professional development of directors and senior management;

— to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

— to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

— to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The corporate governance policy is formulated with an emphasis on the Board's quality, effective internal control, stringent disclosure practices and transparency and accountability to all shareholders of the Company. The Board strives to comply with the code provisions and reviews its corporate governance policy regularly in order to maintain high standards of business ethics and corporate governance, and to ensure the full compliance of our operations with applicable laws and regulations.

During the year under review, the Audit Committee has reviewed and monitored the Company's corporate governance policies and practices, the training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Employee Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

## External Auditors' Remuneration

The Company engaged Ernst & Young ("EY") as its external auditors for FY2020. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors. The statement of external auditors of the Company about his reporting responsibilities on the Company's consolidated financial statements for the year is set out in the section headed "Independent Auditor's Report" in this annual report.

The fees paid/payable to EY, the Company's auditors, in respect of audit services for FY2020 was HK$2.3 million. The audit fee was approved by the Board. During the year, the total remuneration in respect of the non-audit services, mainly included the Group's internal control system and risk management, provided by the external professional firms of the Company was HK$0.2 million.

As the Company and Ernst & Young could not reach an agreement on the audit fee for the financial year ending 31 December 2021, Ernst & Young will retire as the auditors of the Company from the conclusion of the forthcoming AGM and will not offer itself for re-appointment.

After due and careful discussion and consideration, taking into account of, among other matters, the proposed audit fees, independence and professional standing of RSM Hong Kong, the Board unanimously resolved, with the recommendation of the audit committee, to propose the appointment of RSM Hong Kong as the new auditors of the Company following the retirement of Ernst & Young and such proposed appointment is subject to the approval of the Shareholders at the forthcoming AGM.

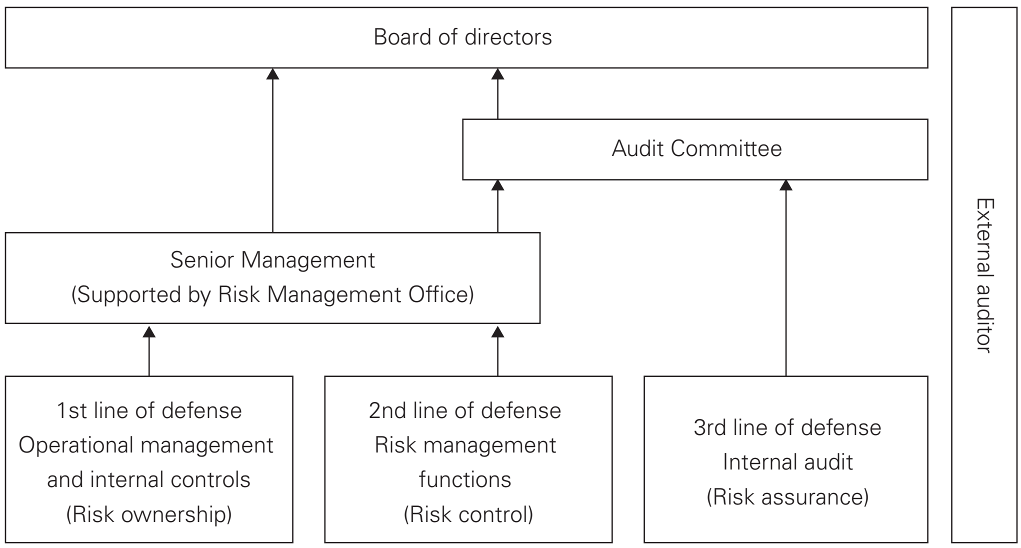
## Risk Management and Internal Control

The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems and reviewing their effectiveness at least annually through the Audit Committee. The Audit Committee assists the Board in fulfilling its oversight and corporate governance roles in the Group's financial, operational, compliance, risk management and internal control, and the resourcing of the finance and internal audit functions.

The Company has established an organizational structure with defined levels of responsibility and reporting procedures. The risk management office of the Group ("Risk Management Office") and internal audit functions of the Group ("Group Internal Audit") assist the Board and/or the Audit Committee in the review of the effectiveness of the Group's risk management and internal control systems on an ongoing basis. The directors through these committees are kept regularly apprised of significant risks that may impact on the Group's performance.

Appropriate policies and control have been designed and established to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed. The systems and internal control can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

The Group's risk management framework is guided by the "Three Lines of Defense" model as shown below:




The Risk Management Office, which co-ordinates enterprise risk management activities and reviews significant aspects of risk management for the Group, reports to the Audit Committee at each regularly scheduled meeting, including amongst other things, significant risks of the Group and the appropriate mitigation and/or transfer of identified risks. The operating units of the Group, as risk owners, identify, evaluate, mitigate and monitor their own risks, and report such risk management activities to Risk Management Office at each regularly scheduled meeting.

Group Internal Audit reports to the Audit Committee at each regularly scheduled meeting throughout the year, the results of their activities during the preceding period pertaining to the adequacy and effectiveness of internal control, including but not limited to, any indications of failings or material weaknesses in those control.

Group Internal Audit adopts a risk-and-control-based audit approach. The annual work plan of Group Internal Audit covers major activities and processes of the Group's operations, businesses and service units. Special reviews are also performed at management's request. The results of these audit activities are communicated to the Audit Committee and key members of executive and senior management of the Group. Audit issues are tracked, followed up for proper implementation, and their progress are reported to the Audit Committee and chief executive officer of the Group periodically.

Group Internal Audit provides independent assurance and report to the Board, the Audit Committee and the chief executive officer of the Group, who is also the chairman of the Board, on the adequacy and effectiveness of internal control for the Group.

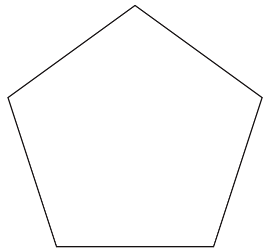
The senior management of the Group, supported by the Risk Management Office and monitored by the Group Internal Audit, is responsible for the design, implementation and monitoring of the risk management and internal control systems, and for providing regular reports to the Board and/or the Audit Committee on the effectiveness of these systems.

# Corporate Governance Report

For many years, the Company has had an integrated approach for internal control which is consistent with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework.

**Control environment:**
The internal organizational environment driven by the management operating philosophy, risk appetite, integrity, and ethical values.

**Monitoring:**
The internal control process is continually monitored. Modifications are made to improve internal control activities as a result of the monitoring process.



**Risk assessment:**
Risks are identified and the likely impact on the organization is assessed.

**Information and Communication:**
Relevant information is communicated in an acceptable format and timely fashion to enable the organization to meet its objectives.

**Control activities:**
Policies and procedures are implemented to ensure organizational objectives and risk-mitigation activities are effectively executed.

Within this framework, management is responsible for setting the appropriate tone from the top, performing risk assessments, and owning the design, implementation and maintenance of internal control. Other teams such as finance, legal, and human resources provide assistance and expertise to management to assist it in undertaking its responsibilities. The Board and Audit Committee oversee the actions of management and monitor the effectiveness of the established controls, assisted by assurance provided by the external and internal auditors. The Group's internal control framework is designed to manage rather than eliminate the risk of failure to achieve business objectives, and as such, provides reasonable (rather than absolute) assurance against material misstatement or loss.

The Company has adopted policies and procedures for assessing and, where prudent, improving the effectiveness of its risk management and internal control systems, including requiring the executive management of the Group to regularly assess and, at least annually, to personally certify that such matters are appropriate and functioning effectively in the belief that this will enhance the corporate governance of the Company and its business practices in the future.

The Company has embedded its risk management systems into the core operating practices of the business. On an ongoing basis, the respective operating units of the Company will review and assess the status of potential risks which may impact on their ability to achieve their business objectives and/or those of the Company. This review process includes assessment as to whether the existing system of internal control continues to remain relevant, adequately addresses potential risks, and/or should be supplemented. The results of these reviews are recorded in the operating units risk registers for monitoring and incorporated into the Group's consolidated risk register for analysis of potential strategic implications and for regular reporting to the senior management and directors of the Company.

The Audit Committee has established and oversees a whistleblower policy and a set of comprehensive procedures whereby employees, customers, suppliers and other concerned parties can report any actual or suspected occurrence of improper conduct involving the Company, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Audit Committee has designated the head of Group Internal Audit to receive on its behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations for action resulting from investigation into complaints.

The Company regulates the handling and dissemination of inside information as set out in the Corporate Responsibility Policy and various subsidiary procedures to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made. During FY2020, the Risk Management Office has worked closely with the operating units, senior management, and the Directors to enhance the risk management systems. Such activities have included, amongst other matters, increasing the number of training sessions and risk workshops; further standardization of risk reporting language, classification, and quantification; more closely aligning the assessment of internal control with their potential risks; and increasing the depth and frequency of interaction with the designated directors on the Company's risk management system's design, operation, and findings. The Risk Management Office has presented update reports to the Board and the Audit Committee on the monitoring of the risk management and assisted the Directors in the review of the effectiveness of the risk management and internal control systems of the Group during the year.

During FY2020, Group Internal Audit conducted selective reviews of the effectiveness of the systems of risk management and internal controls of the Group over financial, operational and compliance controls with emphasis on information technology and security, data privacy and protection, business continuity management and procurement. Additionally, the heads of major business and corporate functions were required to undertake control self-assessments of their key controls. These results were assessed by Group Internal Audit and reported to the Audit Committee, which then reviewed and reported the same to the Board and appropriate actions are taken. The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for FY2020.

During FY2020, the Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Group's financial position or results of operations and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions. The Board considered that the Group's internal control system is adequate and effective and the Company has complied with the code provision on risk management and internal control of the CG code.

In addition to the review of risk management and internal control undertaken within the Group, the external auditors also assessed the adequacy and effectiveness of certain key risk management and internal control as part of their statutory audits. Where appropriate, the external auditors' recommendations are adopted and enhancements to the risk management and internal control will be made.

# Corporate Governance Report

## Company Secretary

The company secretary of the Company is Mr. Lu Yongbin. His biographical details are set out under "Directors and Senior Management" section in this annual report.

During FY2020, Mr. Lu Yongbin has taken not less than 15 hours of relevant professional training.

## Dividend Policy

The Company has adopted a Dividend Policy. It aims to provide shareholders with stable and sustainable returns. In proposing any dividend payout, the Board shall take into account, inter alia, the Group's financial condition, working capital requirements and future expansion plans, actual operations and liquidity position, the Company's retained earnings, distributable reserves and cash flow situation, general economic condition and other factors that the Board considers appropriate.

## Shareholders' Rights

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An AGM of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an AGM, shall be called an extraordinary general meeting. An AGM shall be called by notice of not less than 21 clear days and not less than 20 clear business days. All other general meetings (including an extraordinary general meeting) must be called by notice of not less than 14 clear days and not less than 10 clear business days.

### *Shareholders to Convene an Extraordinary General Meeting*

Pursuant to article 58 of the Company's Articles of Association, extraordinary general meetings shall be convened on the requisition of one or more shareholders of the Company 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. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring 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 2 months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisition(s) himself (themselves) may do so in the same manner and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### *Putting Enquiries by Shareholders to the Board*

Shareholders may send written enquiries to the Company for the attention of the company secretary at the Company's principal place of business in Hong Kong.

### *Procedures for Putting Forward Proposals by Shareholders at Shareholders' Meetings*

Shareholders of the Company are requested to follow article 58 of the Company's Articles of Association for including a resolution at an extraordinary general meeting. The requirements and procedures are set out above in the paragraph headed "Shareholders to convene an extraordinary general meeting".

Pursuant to article 85 of the Company's Articles of Association, no person (other than a retiring Director) shall be eligible for election to the office of Director at any general meeting unless a notice signed by a shareholder (other than the person to be proposed) in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office of the Company or at the Hong Kong branch share registrar and transfer office of the Company no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

The procedures for shareholders of the Company to propose a person for election as a Director is posted on the website of the Company. Shareholders or the Company may refer to the above procedures for putting forward any other proposals at general meetings.

### *Voting by Poll*

Pursuant to Rule 13.39(4) of the Listing Rules and article 66(1) of the Company's Articles of Association, any vote of Shareholders at a general meeting must be taken by poll except where the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, all the resolutions to be set out in the notice of AGM will be voted by poll.

## Investor Relations

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders. Information of the Company is disseminated to the Shareholders in the following manner:

— Delivery of annual and interim results and reports to all Shareholders;

— Publication of announcements on the annual and interim results on the Stock Exchange's and the Company's websites, and issuance of other announcements and circulars in accordance with the continuing disclosure obligations under the Listing Rules; and

— The general meeting of the Company is also an effective communication channel between the Board and Shareholders.

## Constitutional Documents

During FY2020, the Company has not made any changes to its Memorandum and Articles of Association.

# Directors' Report

The Directors are pleased to present to the Shareholders this annual report and the audited financial statements for FY2020.

## Principal Activities

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 1 to the financial statements.

## Results and Dividends

The results of the Group for FY2020 and the state of affairs of the Company and of the Group as at 31 December 2020 are set out in the financial statements on pages 57 to 143. The Board did not recommend any final dividend (2019: Nil) for FY2020.

The Board is not aware of any Shareholders who have waived or agreed to waive any dividend.

## Closure of Register of Members

The register of members of the Company will be closed from Friday, 21 May 2021 to Wednesday, 26 May 2021, both days inclusive, during which period no transfers of shares shall be effected. In order to determine the entitlement to attend and vote at the forthcoming AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 20 May 2021.

## Financial Summary

A summary of the Group's results, assets and liabilities for the last five financial years is set out on page 144 of this report. The summary does not form part of the audited financial statements.

## Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group for FY2020 are set out in note 13 to the financial statements.

## Bank Borrowings

Particulars of the bank borrowings of the Group as at 31 December 2020 are set out in note 23 to the financial statements.

## Share Capital

Details of the movements in share capital of the Company during FY2020 are set out in note 28 to the financial statements.

## 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.

## Reserves

Details of the movement in reserves of the Company and the Group during the year under review are set out in note 31 to the financial statements and the consolidated statement of changes in equity respectively.

## Distributable Reserves

As at 31 December 2020, the Company's reserves available for distribution as calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately HK$25.1 million (2019: approximately HK$89.2 million) including share premium of approximately HK$752.9 million and accumulated losses of approximately HK$727.8 million.

## Charitable Donations

The Group has no charitable donations for FY2020 (2019: Nil).

## Major Suppliers and Customers

For FY2020 purchases from the single largest supplier of the Group and the five largest suppliers of the Group in aggregate accounted for approximately 11.7% (2019: approximately 9.9%) and approximately 27.6% (2019: approximately 28.0%) of the Group's total purchases respectively. For FY2020, sales to the single top customer of the Group and the five top customers of the Group in aggregate accounted for approximately 20.7% (2019: approximately 17.9%) and approximately 63.0% (2019: approximately 61.0%) of the Group's total turnover respectively.

At all-time during FY2020, none of the Directors or any of their close associates or any shareholders of the Company who, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital had an interest in any of the five largest suppliers or customers.

## Business Review and Financial Key Performance

The business review of the Group for FY2020 is set out in the Management Discussion and Analysis of this annual report, which form part of this Directors' Report. An analysis of the Group's performance during FY2020 using financial key performance indicators is provided in the section headed "Financial Highlights" on page 2 of this annual report.

## Environmental Policies and Performance

The Group is highly aware of the importance of environment protection and has not noted any material incompliance with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment. The Group has implemented environmental protection measures and has also encouraged staff to be environmental friendly at work by consuming the electricity and paper according to actual needs, so as to reduce energy consumption and minimize unnecessary waste.

We have completed our Environmental, Social and Governance ("ESG") report which contains our ESG information in 2020 and the requirements under the Environmental, Social and Governance Reporting Guide of the Listing Rules. The ESG report of the Company for 2020 will be published no later than 3 months after the publication of this annual report on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and of the Company (www.sky-light.com.hk).

# Directors' Report

## Directors

The Directors in office as at the date of this report are:

### *Executive Directors*

Mr. Tang Wing Fong Terry *(Chairman and Chief Executive Officer)*
Mr. Lu Yongbin *(Chief Financial Officer and Company Secretary)*

### *Non-executive Directors*

Ms. Tang Kam Sau
Mr. Wu Yongmou (Resigned on 27 July 2020)

### *Independent non-executive Directors*

Mr. Tse Yat Hong
Dr. Cheung Wah Keung
Mr. Chan Tsu Ming Louis

Every Director shall retire from office once every three years and for this purpose, at each AGM one-third (1/3) of the Directors for the time being, or, if their number is not a multiple of three (3), then the number nearest to one-third (1/3) but not less than one-third (1/3) shall retire from office by rotation. The directors to retire in every year will be those who have been longest in office since their last election but as between persons who became directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. Subject to the Company's Articles of Association, a retiring Director shall be eligible for re-election at the AGM at which he/she retires. For avoidance of doubt, each Director shall retire at least once every three (3) years.

In accordance with the Company's Articles of Association, Mr. Lu Yongbin and Mr. Chan Tsu Ming Louis shall retire at the forthcoming 2021 AGM. All of the retiring Directors, being eligible, will offer themselves for re-election as Directors at the AGM.

## Directors' Remuneration and the Five Highest Paid Individuals

Details of directors' remuneration and those of the five highest paid individuals in the Group are set out in note 8 and note 9 to the financial statements.

## Emolument Policy

The Directors and senior management receive compensation in the form of fees, salaries, benefits in kind and discretionary bonuses relating to the performance of the Company. The Company also reimburses them for expenses which are necessarily and reasonably incurred for providing services to the Group or executing their functions in relation to the Group's operations.

The Company reviews and determines the remuneration and compensation package of its Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective duties and responsibilities of its Directors and senior management and the performance of the Company. The Directors and employees of the Group may also receive options which may be granted under the Scheme.

## Relationships with Stakeholders

The Group recognises that employees are its valuable assets. Thus, the Group recognises the accomplishment of its employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market level. Further, the Group provides a healthy and safe workplace for all employees during the year under review.

The Group also understands that it is important to maintain good relationship with business partners and bank enterprises to achieve its long-term goals. During the year under review, there was no material or significant dispute between the Group and its business partners or bank enterprises.

## Directors' Service Contract

Each of the executive Directors has entered into a service contract with our Company for a term of three years commencing from 2 July 2015 and ending on 1 July 2018, which was further extended for a further term of three years to 1 July 2021, unless and until terminated by either party giving not less than three months' written notice to the other.

Each of the non-executive Director and the independent non-executive Director, except for Mr. Tse Yat Hong, has been appointed for an initial term of three years commencing from 2 July 2015 and ending on 1 July 2018, which was further extended for a further term of three years to 1 July 2021, unless and until terminated by either party giving not less than three months' written notice to the other.

Mr. Tse Yat Hong has been appointed for an initial term of three years commencing from the 5 December 2017 and ending on 4 December 2020, which was further extended for a further term of three years to 4 December 2023, unless and until terminated by either party giving not less than three months' written notice to the other.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

## Management Contracts

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or subsisted during the year.

## Permitted Indemnity

According to the articles of association of the Company and subject to the provisions of the Hong Kong Companies Ordinance, every director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities to the fullest extent permitted by the Hong Kong Companies Ordinance which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The relevant provision of the articles of association of the Company was in force during the FY2020 and as at the date of this report. In addition, the Company has maintained appropriate directors and officers liability insurance cover for the directors and officers of the Company and its subsidiaries in respect of potential legal actions against them.

## Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2020, the interests or short positions of the Directors and chief executive of the Company in the shares of the Company ("Shares"), underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

| | | Number of shares or underlying shares [1] | | | | |
|---|---|---|---|---|---|---|
| Name of Director | Capacity | Personal interests | Corporate interests | Other interests | Total interests | Approximate percentage of total issued shares in the Company[6] |
| Tang Wing Fong Terry | Founder of a discretionary trust and beneficial owner | 234,013,957 (L) | | 417,717,600 (L)[2] | 651,731,557 (L) | 68.41% |
| Tang Kam Sau | Interest in a controlled corporation | | 39,192,000 (L)[3] | | 39,192,000 (L) | 4.11% |
| Lu Yongbin | Beneficial owner | 4,607,800 (L)[4] | | | 4,607,800 (L) | 0.48% |
| Cheung Wah Keung | Beneficial owner | 1,500,000 (L)[5] | | | 1,500,000 (L) | 0.16% |
| Chan Tsu Ming Louis | Beneficial owner | 1,500,000 (L)[5] | | | 1,500,000 (L) | 0.16% |
| Tse Yat Hong | Beneficial owner | 1,500,000 (L)[5] | | | 1,500,000 (L) | 0.16% |

Notes:

(1) The letter "L" denotes the Directors' long position in the shares of the Company.

(2) The disclosed interest represents the interest in 417,717,600 Shares held by Fortune Six Investment Limited, which is wholly-owned by CMB Wing Lung (Trustee) Limited as trustee for the Tang's Family Trust (i.e. The Trust 168) through Antopex Limited and Best One International Limited (as nominees for CMB Wing Lung (Trustee) Limited).

(3) Ms. Tang Kam Sau is the sole shareholder of Uphigh Global Limited, which holds 39,192,000 Shares. By virtue of the SFO, she is deemed to be interested in Uphigh Global Limited's interest in the Company by virtue of the SFO.

(4) The disclosed interest represents Mr. Lu Yongbin's (i) personal interest in 3,851,800 Shares and (ii) 756,000 underlying Shares in respect of the share options granted under the share option scheme adopted by the Company on 12 June 2015.

(5) These represent the share options of the Company granted to the respective directors under the Company's share option scheme adopted by the Company on 12 June 2015. For details, please refer to the section headed "Share Option Scheme".

(6) Based on a total of 952,739,455 Shares in issue as at 31 December 2020.

Save as disclosed above, as at 31 December 2020, none of the Directors or chief executive of the Company had any interest or short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## Substantial Shareholders' and Others' Interests and Short Positions in Shares and Underlying Shares

To the best knowledge of the Directors, as at 31 December 2020, the following persons (other than the Directors or chief executive of the Company), were directly or indirectly, interested in 5% or more of the shares or short positions in the shares and the underlying shares of the Company, which are required to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO, or which will be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

| Name of shareholder | Capacity/nature of interest | Number of shares[1] | Approximate percentage of total issued shares in the Company[4] |
|---|---|---|---|
| CMB Wing Lung (Trustee) Limited[2] | Trustee | 417,717,600 (L) | 43.84% |
| Antopex Limited[2] | Nominee for another person | 417,717,600 (L) | 43.84% |
| Best One International Limited[2][3] | Interest of controlled corporation | 417,717,600 (L) | 43.84% |
| Fortune Six Investment Limited[2][3] | Beneficial owner | 417,717,600 (L) | 43.84% |

Notes:

(1) The letter "L" denotes a person's long position in the shares of the Company.

(2) CMB Wing Lung (Trustee) Limited as trustee holds 417,717,600 Shares by virtue of the SFO. The Shares beneficially held by Fortune Six Investment Limited, which is wholly-owned by CMB Wing Lung (Trustee) Limited as trustee for the Tang's Family Trust (i.e. The Trust 168) through Antopex Limited and Best One International Limited (as nominees for CMB Wing Lung (Trustee) Limited). Each of Best One International Limited, Antopex Limited and CMB Wing Lung (Trustee) Limited was deemed to be interested in the 417,717,600 Shares by virtue of Part XV of the SFO.

(3) The interest of Best One International Limited and Fortune Six Investment Ltd. was also disclosed as the interest of Mr. Tang Wing Fong Terry in the above section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures".

(4) Based on a total of 952,739,455 Shares in issue as at 31 December 2020.

Save as disclosed above, as at 31 December 2020, the Directors are not aware of any other corporation or individual (other than the Directors or chief executive of the Company) who had an interest or a short positions in the shares or underlying shares of the Company as recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

# Directors' Report

## Directors' Interests in Contracts of Significance

Save as disclosed in the section headed "Continuing Connected Transactions" in this report and note 35 to the financial statements, no Director or an entity connected with the Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, any of its Controlling Shareholders (as defined in the listing Rules), holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year under review.

## Directors' Interest in Competing Business

During FY2020, none of the Directors has any interest in a business apart from the business which competes or is likely to compete, either directly or indirectly, with the Group's business.

## Deed of Non-Competition

Fortune Six Investment Limited and Mr. Tang Wing Fong Terry (collectively the "Controlling Shareholders") have entered into a deed of non-competition on 12 June 2015 (the "Deed") with our Company. Pursuant to the Deed, each of the Controlling Shareholders shall and shall procure that its associates (other than members of the Group) not be engaged, on its own account or with each other or in conjunction with or on behalf of any person, firm or company, carry on or be engaged in, concerned with or interested in, directly or indirectly, whether as a shareholder, partner, agent or otherwise, in the existing business activities of our Group or in any other business that may compete, directly or indirectly with such business.

The Company has received confirmations from the Controlling Shareholders of their compliance with the terms of the Deed. The Controlling Shareholders declared that they have fully complied with the Deed for the year ended 31 December 2020. The independent non-executive directors have reviewed on the confirmations from the Controlling Shareholders and concluded that the Deed has been complied with and has been effectively enforced.

## Directors' rights to acquire shares or debenture

Save as disclosed herein, at no time during FY2020 was the Group a party to any arrangements to enable the Directors of the Group to acquire by means of acquisition of shares in, or debt securities, and including debentures, of the Group or any other body corporate.

## Purchase, Sale or Redemption of Listed Securities

The Company is empowered by the applicable Companies Law, Cap 22 of the Cayman Islands and the articles of association of the Company to repurchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company for FY2020.

## Issue of Equity Securities

The Company did not allot and issue new shares for FY2020.

## Share Option Scheme

A Share Option Scheme (the "Share Option Scheme") was conditionally adopted on 12 June 2015, which became effective on the Listing Date. The key terms of the scheme are set out below:

(1) The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined below) have had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

    (i) motivating the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and

    (ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

    Eligible Participants refers to:

    (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;

    (ii) any Directors (including non-executive Directors and independent non-executive Directors) of our Company or any of its subsidiaries;

    (iii) any advisers, consultants, suppliers, customers and agents to our Company or any of its subsidiaries; and

    (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to our Group, the assessment criteria of which are:

        (a) contribution to the development and performance of our Group;

        (b) quality of work performed for our Group;

        (c) initiative and commitment in performing his/her duties; and

        (d) length of service or contribution to our Group.

(2) The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date, being 80,000,000 Shares (the "Scheme Limit"), excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time.

(3) The maximum entitlement of each Eligible Participant in any 12-month period up to the date of offer to grant shall not exceed 1% of the shares in issue as at the date of offer to grant.

(4) An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the options duly signed by the grantee, together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof, is received by the Company on or before the relevant acceptance date.

(5) An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date.

(6) Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period ending 12 June 2025.

(7) The exercise price is determined by the directors of the Company at their discretion and will not be lower than the higher of: (a) the closing price of the ordinary shares on the Stock Exchange at the offer date, which must be a trading day; (b) the average closing price of the ordinary shares on the Stock Exchange for the 5 business days immediately preceding the offer date; (c) the nominal value of the Company's share.

As at the date of this report, the total number of Shares available for issue under the Share Option Scheme is 42,984,000 Shares, representing approximately 4.5% of the total number of Shares in issue.

A summary of the movements of the share options under the Share Option Scheme during FY2020 are as follows:

| Date of grant | | 15 September 2016 (Note 1) | 1 December 2016 (Note 2) | 18 May 2017 (Note 3) | 26 April 2018 (Note 4) | 16 May 2019 (Note 5) |
|---|---|---|---|---|---|---|
| (i) | Share Options granted as at the date of grant or 1 January 2020 | 8,325,000 | 4,000,000 | 8,643,000 | 9,123,000 | 12,696,000 |
| | Share Options exercised during the year | 0 | 0 | 0 | 0 | 0 |
| | Share Options cancelled during the year | 0 | 0 | 0 | 0 | 0 |
| | Share Options lapsed during the year | 696,000 | 0 | 1,593,000 | 1,725,000 | 1,767,000 |
| (ii) | Share Options outstanding as at 31 December 2020 | 7,629,000 | 4,000,000 | 7,050,000 | 7,398,000 | 10,929,000 |
| | Approximate percentage of the total number of Shares in issue as at the date of this report | 0.80% | 0.42% | 0.74% | 0.78% | 1.15% |
| (iii) | Exercise price of the Share Options: | HK$1.70 | HK$1.986 | HK$2.206 | HK$0.94 | HK$0.42 |
| (iv) | Closing price immediately before the date of grant | HK$1.56 | HK$2.04 | HK$2.18 | HK$0.93 | HK$0.40 |
| (v) | Exercise period and vesting period | (Note 6) | (Note 7) | (Note 8) | (Note 9) | (Note 10) |

Notes:

(1) On 15 September 2016, 12,942,000 Share Options were granted to certain eligible participants pursuant to the Share Option Scheme based on the terms set out in the Company's announcement dated 15 September 2016. Among the Share Options granted on 15 September 2016, 750,000 Share Options were granted to Mr. Chan Tsu Ming Louis, an independent non-executive Director of the Company and 750,000 Share Options were granted to Dr. Cheung Wah Keung, an independent non-executive Director of the Company.

(2) On 1 December 2016, 9,900,000 Share Options were granted to certain employees of the Group as "Employee Options" and 10,000,000 Share Options were granted to certain parties who contribute or have contributed to the Group, including an agent developing the Group's sales channels and members of a supplier of the Group as "Contributor Options"based on the terms set out in the Company's announcement dated 1 December 2016.

(3) On 18 May 2017, share options to subscribe for a total of 15,000,000 Shares were granted to employees of the Group pursuant to the Share Option Scheme based on the terms set out in the Company's announcement dated 18 May 2017. Among the said Share Options granted, 210,000 Shares were granted to Mr. Lu Yongbin, an executive Director and chief financial officer and the company secretary of the Company.

(4) On 26 April 2018, share options to subscribe for a total of 12,522,000 Shares were granted to employees of the Group pursuant to the Share Option Scheme based on the terms set out in the Company's announcement dated 26 April 2018. Among the said Share Options granted, 252,000 Shares were granted to Mr. Lu Yongbin, an executive Director and chief financial officer and the company secretary of the Company, 750,000 Shares were granted to Mr. Tse Yat Hong, an independent non-executive Director of the Company.

(5) On 16 May 2019, 13,110,000 share options were granted to certain eligible employees pursuant to the Share Option Scheme based on the terms set out in the Company's announcement dated 16 May 2019. Among the said Share Options granted, 294,000 Shares were granted to Mr. Lu Yongbin, an executive Director and chief financial officer and the company secretary of the Company, 750,000 Shares were granted to Mr. Tse Yat Hong, an independent non-executive Director of the Company, 750,000 Shares were granted to Dr. Cheung Wah Keung, an independent non-executive Director of the Company and 750,000 Shares were granted to Mr. Chan Tsu Ming Louis, an independent non-executive Director of the Company.

(6) One-third of these share options became vested on 15 September 2017 and shall be exercisable at any time during the period commencing on 15 September 2017 and ending on 14 September 2022 (both dates inclusive), a further one-third became vested on 15 September 2018 and shall be exercisable at any time during the period commencing on 15 September 2018 and ending on 14 September 2023 (both dates inclusive), and the remaining one-third became vested on 15 September 2019 and shall be exercisable at any time during the period commencing on 15 September 2019 and ending on 14 September 2024 (both dates inclusive).

(7) (a) For the share options granted to the employees who are not senior management, one-third of these share options became vested on 1 December 2017 and shall be exercisable at any time during the period commencing on 1 December 2017 and ending on 30 November 2022 (both dates inclusive), a further one-third became vested on 1 December 2018 and shall be exercisable at any time during the period commencing on 1 December 2018 and ending on 30 November 2023 (both dates inclusive), and the remaining one-third became vested on 1 December 2019 and shall be exercisable at any time during the period commencing on 1 December 2019 and ending on 30 November 2024 (both dates inclusive);

(b) For the share options granted to persons who are senior management, (i) conditional upon the achievement of certain performance targets by the Group, up to one-third of these share options became vested on 31 January 2018 and shall be exercisable at any time during the period commencing on 31 January 2018 and ending on 30 January 2023 (both dates inclusive); (ii) conditional upon the achievement of certain performance targets by the Group, up to one-third of these share options became vested on 31 January 2019 and shall be exercisable at any time during the period commencing on 31 January 2019 and ending on 30 January 2024 (both dates inclusive); and (iii) conditional upon the achievement of certain performance targets by the Group, up to one-third of these share options became vested on 31 January 2020 and shall be exercisable at any time during the period commencing on 31 January 2020 and ending on 30 January 2025 (both dates inclusive);

(c) For the share options granted to members of a supplier of the Group, one-third of these share options became vested on 1 December 2017 and shall be exercisable at any time during the period commencing on 1 December 2017 and ending on 30 November 2022 (both dates inclusive), a further one-third became vested on 1 December 2018 and shall be exercisable at any time during the period commencing on 1 December 2018 and ending on 30 November 2023 (both dates inclusive), and the remaining one-third became vested on 1 December 2019 and shall be exercisable at any time during the period commencing on 1 December 2019 and ending on 30 November 2024 (both dates inclusive); and

(d) For the share options granted to an agent developing the Group's sales channels, (i) conditional upon the achievement of certain performance targets by the Group, up to one-third of these share options became vested on 31 January 2018 and shall be exercisable at any time during the period commencing on 31 January 2018 and ending on 30 January 2023 (both dates inclusive); (ii) conditional upon the achievement of certain performance targets by the Group, up to one-third of these share options became vested on 31 January 2019 and shall be exercisable at any time during the period commencing on 31 January 2019 and ending on 30 January 2024 (both dates inclusive); (iii) conditional upon the achievement of certain performance targets by the Group, up to one-third of these share options became vested on 31 January 2020 and shall be exercisable at any time during the period commencing on 31 January 2020 and ending on 30 January 2025 (both dates inclusive).

(8) One-third of these share options became vested on 18 May 2018 and shall be exercisable at any time during the period commencing on 18 May 2018 and ending on 17 May 2023 (both dates inclusive), a further one-third became vested on 18 May 2019 and shall be exercisable at any time during the period commencing on 18 May 2019 and ending on 17 May 2024 (both dates inclusive), and the remaining one-third became vested on 18 May 2020 and shall be exercisable at any time during the period commencing on the 18 May 2020 and ending on 17 May 2025 (both dates inclusive).

(9) One-third of these share options became vested on 26 April 2019 and shall be exercisable at any time during the period commencing on 26 April 2019 and ending on 25 April 2024 (both dates inclusive), a further one-third became vested on 26 April 2020 and shall be exercisable at any time during the period commencing on 26 April 2020 and ending on 25 April 2025 (both dates inclusive), and the remaining one-third shall become vested on 26 April 2021 and shall be exercisable at any time during the period commencing on 26 April 2021 and ending on 25 April 2026 (both dates inclusive).

(10) One-third of these share options became vested on 16 May 2020 and shall be exercisable at any time during the period commencing on 16 May 2020 and ending on 15 May 2021 (both dates inclusive), a further one-third shall become vested on 16 May 2021 and shall be exercisable at any time during the period commencing on 16 May 2021 and ending on 15 May 2022 (both dates inclusive), and the remaining one-third shall become vested on 16 May 2022 and shall be exercisable at any time during the period commencing on 16 May 2022 and ending on 15 May 2023 (both dates inclusive).

The valuation of options granted under the Share Option Scheme was conducted based on the binomial model with the following assumptions:

| At grant date | | 15 September 2016 & 1 December 2016 | 18 May 2017 | 26 April 2018 | 16 May 2019 |
|---|---|---|---|---|---|
| (i) | Expected volatility (per year) | 45.69%–65.81% | 57.63%–61.27% | 59.03%–62.75% | 59.67%–61.87% |
| (ii) | Expected life of options (year) | 6.0–8.17 | 6.0–8.0 | 6.0–8.0 | 2.0–4.0 |
| (iii) | Average risk-free interest rate (per year) | 1.44%–2.09% | 1.16%–1.22% | 2.11%–2.13% | 1.56%–1.69% |
| (iv) | Expected dividend yield (per year) | 3.93%–5.32% | 5.32% | 5.74% | 5.32% |
| (v) | Estimated rate of leaving service (per year) | 0%–25% | 25% | 27.5% | 27.5% |

The variables and assumptions used in computing the fair values of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The amount will either be transferred to share capital when the related share options are exercised, or be transferred to retained profits when the related share options expire or be forfeited.

The Group recognised share option expense of approximately HK$0.3 million during FY2020 (FY2019: recognised expense of approximately HK$4.9 million) in relation to the share options granted by the Company.

During FY2020, no share options were granted under the Share Option Scheme.

## Related Party Transactions

The details of the related party transactions are set out in note 35 to the financial statements. The Company confirms that in relation to the related party transactions for FY2020, it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

## Continuing Connected Transactions

Certain related party transactions as disclosed in note 35 to the financial statements constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The Company confirms that the following disclosure with respect to the continuing connected transactions has complied with the disclosure requirement in accordance with Chapter 14A of the Listing Rules.

On 27 December 2017, the Group entered into property leasing with 新勇藝科技園(河源)有限公司 ("Xinyongyi") which constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Xinyongyi is a company controlled as to 84% by Mr. Wu Yongmou, a non-executive Director (resigned on 27 July 2020) and therefore Xinyongyi is an associate of a connected person of the Company under the Listing Rules.

# Directors' Report

A property leasing framework agreement dated 27 December 2017 (the "Property Leasing Framework Agreement") was entered into between Xinyongyi as landlord and Sky Light Technology (HY) as tenant in respect of the premises located at (i) 1/F, 2/F and 4/F of the Research and Development Building; (ii) 3/F to 7/F of the Staff Dormitory Building; (iii) Block No. 2 of the Manufacturing Plant; and (iv) Block No. 4 of the Management Dormitory Building, Xinyongyi Science Park, Ke Shi Er Road, Hitech Development Zone, Heyuan, Guangdong, the PRC (the "Xinyongyi Premises") with a gross floor area of approximately 25,000 square meters. subject to adjustment as required by our business needs, for a term of three years commenced on 1 January 2018 and expiring on 31 December 2020. The Xinyongyi Premises consist of the entire premises of our Heyuan production facility and certain other premises used by us as management and staff dormitories. At any time during the term of the Property Leasing Framework Agreement, either Xinyongyi or Sky Light Technology (HY) may terminate the Property Leasing Framework Agreement by paying a penalty equivalent to six months' rent to the other party.

The actual amount in FY2020 in respect of the above leasing was HK$1,292,000 (FY2019: HK$2,857,000), which is within the annual cap of HK$7,490,000 (FY2019: HK$6,240,000).

The Group has followed the internal policies and guidelines when determining the price and terms of above transactions.

The independent non-executive directors of the Company have, for the purpose of Rule 14A.55 of the Listing Rules, reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions have been entered into by the Group (i) in the ordinary and usual course of its business; (ii) on normal commercial terms or better; and (iii) according to the agreements governing such transactions that are fair and reasonable and in the interests of the Company's shareholders as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's auditors were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules and has confirmed that nothing has come to their attention that causes them to believe that the continuing connected transactions set out above (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group, for transactions involving the provision of goods or services by the Group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing such transactions; and (iv) have exceeded their respective caps. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

## Sufficiency of Public Float

Based on the publicly available information and to the best of the Directors' knowledge, information and belief, the Company had maintained sufficient public float of not less than 25% of its total issued shares as required under the Listing Rules from 1 January 2020 up to the date of this report.

## Tax Relief

The Company is not aware of any relief from taxation to which the Shareholders are entitled by reason of their holding of the Shares.

## Auditors

The consolidated financial statements for FY2020 were audited by Ernst & Young whose term of office will expire upon the 2021 AGM.

As the Company and Ernst & Young could not reach an agreement on the audit fee for the financial year ending 31 December 2021, Ernst & Young will retire as the auditors of the Company from the conclusion of the 2021 AGM and will not offer itself for re-appointment. The Board unanimously resolved, with the recommendation of the Audit Committee, to propose the appointment of RSM Hong Kong as the new auditors of the Company following the retirement of Ernst & Young at the 2021 AGM and such proposed appointment is subject to the approval by the shareholders of the Company at the 2021 AGM.

By the order of the Board
**Tang Wing Fong Terry**
*Chairman*

Hong Kong
29 March 2021

# Independent Auditor's Report

Ernst & Young
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**To the members of Sky Light Holdings Limited**
*(Incorporated in the Cayman Islands with limited liability)*

## Opinion

We have audited the consolidated financial statements of Sky Light Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 57 to 143, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of 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 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for opinion

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

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

## Key audit matters *(Continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment assessment of trade receivables*<br>At 31 December 2020, the carrying amount of trade receivables was HK$64,697,000 (net of allowance for doubtful debts of HK$3,799,000) as disclosed in note 18 Trade Receivables to the consolidated financial statements. Assessment of the recoverability of trade receivables involves a high level of management judgement. Management used a provision matrix to calculate expected credit losses ("ECL") for trade receivables based on the combination of individual and collective assessment. The calculation of ECL is based on the Group's historical default rates, forward-looking information, and specific factors that management considered in the estimation of ECL including the type of customers, ageing of the balances, recent historical payment patterns and forecast economic conditions.<br><br>The relevant disclosures in respect of impairment assessment of trade receivables are included in note 2.4 Summary of Significant Accounting Policies, note 3 Significant Accounting Judgement and Estimates, and note 18 Trade Receivables to the consolidated financial statements. | We evaluated the design and implementation of internal controls which govern credit control, debt collection and estimates of ECL.<br><br>We tested the ageing analysis of the trade receivables, on a sample basis, to the source documents, including sales invoices and goods delivery notes.<br><br>For trade receivables with individually assessed credit risk exposure, we discussed with management on the identification and analyzed the recoverability of such receivables.<br><br>For trade receivables with credit risk exposure assessed based on provision matrix, we assessed the ECL provision by: (i) evaluating management's assumptions used in establishing the ECL provision matrix; (ii) examining the information used by management to form such judgements, including testing the accuracy of historical default data and ageing of trade receivables, and evaluating the adjustments made on the historical loss rates based on the forward-looking information; and (iii) examining the actual losses recorded during the current year.<br><br>We inspected the cash receipts from customers after the year end relating to the trade receivable balances as at 31 December 2020, on a sample basis.<br><br>We assessed the adequacy of the Group's disclosure regarding impairment of trade receivables. |

# Independent Auditor's Report

## Key audit matters *(Continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Long-term assets impairment review* | |
| As at 31 December 2020, the Group's long-term assets (including property, plant and equipment, intangible assets and right-of-use assets) amounted to HK$87,993,000. The Group assesses whether there are any indicators of impairment for long-term assets. Long-term assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The impairment test and assessment of long-term assets are largely based on management's expectations and estimates of future operating results of the Group's cash-generating units. This assessment involves significant judgements and estimates made by management.<br><br>The relevant disclosures are included in note 2.4 Summary of Significant Accounting Policies, note 3 Significant Accounting Judgement and Estimates, note 13 Property, Plant and Equipment, note 14 Intangible assets and note 15 Leases to the consolidated financial statements. | We discussed with management and assessed whether any indicator of impairment exists as evidenced by the loss-marking situation for the year ended 31 December 2020.<br><br>For the long-term assets with an impairment indicator, we assessed the Group's impairment review process by: (i) evaluating management's assumptions used in cash flow forecast by comparing against previous budget and reviewing management's long-term strategic plans and historical trend; (ii) assessing methodologies and key assumptions used in external expert's evaluation report on fair value less cost of disposal; (iii) involving our internal expert to assess the valuation model and the weighted average cost of capital used for value in use, and (iv) performing sensitivity analysis on changes in key assumptions.<br><br>We assessed the objectivity, independence and competence of the external valuers engaged by the Group.<br><br>We assessed the adequacy of the Group's disclosure regarding impairment of long-term assets. |

## Key audit matters *(Continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Inventory provision*<br>The Group's principal activities are the manufacture and distribution of home surveillance cameras, digital imaging products and other related products. The Group's inventories are subject to the significant risk of obsolescence accompanied with the rapid technology development of digital products. Significant management judgement was accordingly involved when determining the extent of write-down of inventories to net realizable value. Management is required to estimate the respective future selling prices and selling costs to determine if any provision should be made or should be reversed.<br><br>The relevant disclosures for inventories are included in note 2.4 Summary of Significant Accounting Policies, note 3 Significant Accounting Judgement and Estimates, and Note 16 Inventories to the consolidated financial statements. | We evaluated the process, methods and assumptions used by management to make the provision for inventories against slow-moving, excess and/or obsolete items.<br><br>We assessed the provision by: (i) evaluating management's estimation of the future usage of the Group's inventories, on a sample basis, based on existing sales orders from the Group's customers; (ii) checking the Group's gross profit ratio by category; (iii) testing the aging analysis of inventories, on a sample basis; (iv) examining the result of the net realizable value, on a sample basis; and (v) testing management's calculation of inventory provision.<br><br>We assessed the adequacy of the Group's disclosure regarding inventory provision. |

# Independent Auditor’s Report

## Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor’s report thereon.

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

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

## Responsibilities of the directors for the consolidated financial statements

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

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group’s financial reporting process.

## Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Our report is made 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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

## Auditor's responsibilities for the audit of the consolidated financial statements *(Continued)*

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

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

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

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

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

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

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

We communicate with 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, actions taken to eliminate threats or safeguards applied.

## Auditor's responsibilities for the audit of the consolidated financial statements *(Continued)*

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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is LAW KWOK KEE.

**Ernst & Young**
*Certified Public Accountants*

Hong Kong
29 March 2021

# Consolidated Statement of Profit or Loss

Year ended 31 December 2020

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| REVENUE | 5 | **437,111** | 549,123 |
| Cost of sales | | **(376,040)** | (486,640) |
| Gross profit | | **61,071** | 62,483 |
| Other income and gains | 5 | **17,397** | 9,558 |
| Selling and distribution expenses | | **(32,795)** | (26,817) |
| Administrative expenses | | **(49,407)** | (61,116) |
| Research and development expenses | 6 | **(50,119)** | (57,935) |
| Other expenses | | **(15,038)** | (7,664) |
| Finance costs | 7 | **(2,172)** | (2,985) |
| LOSS BEFORE TAX | 6 | **(71,063)** | (84,476) |
| Income tax expense | 10 | **–** | – |
| LOSS FOR THE YEAR | | **(71,063)** | (84,476) |
| Attributable to: | | | |
| Owners of the parent | | **(64,021)** | (82,310) |
| Non-controlling interests | | **(7,042)** | (2,166) |
| | | **(71,063)** | (84,476) |
| LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 12 | | |
| Basic | | **HK(6.7) cents** | HK(8.8) cents |
| Diluted | | **HK(6.7) cents** | HK(8.8) cents |

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2020

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| LOSS FOR THE YEAR | **(71,063)** | (84,476) |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | |
| Exchange differences on translation of foreign operations | **14,721** | (7,275) |
| Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods: | | |
| Changes in fair value of equity investments designated at fair value through other comprehensive income | **(1,689)** | (7,959) |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX | **13,032** | (15,234) |
| TOTAL COMPREHENSIVE LOSS FOR THE YEAR | **(58,031)** | (99,710) |
| Attributable to: | | |
| Owners of the parent | **(50,569)** | (97,544) |
| Non-controlling interests | **(7,462)** | (2,166) |
| | **(58,031)** | (99,710) |

# Consolidated Statement of Financial Position

31 December 2020

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | **42,644** | 59,531 |
| Right-of-use assets | 15(a) | **36,595** | 47,559 |
| Intangible assets | 14 | **8,754** | 9,910 |
| Equity investments designated at fair value through other comprehensive income | 19 | **24,387** | 26,076 |
| Prepayments and other receivables | 21 | **3,016** | 4,379 |
| Total non-current assets | | **115,396** | 147,455 |
| CURRENT ASSETS | | | |
| Inventories | 16 | **147,924** | 134,410 |
| Trade receivables | 18 | **64,697** | 81,135 |
| Financial assets at fair value through profit or loss | 20 | **–** | 2,646 |
| Due from a related party | 35 | **–** | 398 |
| Prepayments and other receivables | 21 | **28,588** | 25,875 |
| Pledged deposits | 22 | **1,784** | 893 |
| Cash and cash equivalents | 22 | **100,200** | 106,899 |
| Total current assets | | **343,193** | 352,256 |
| CURRENT LIABILITIES | | | |
| Interest-bearing bank borrowings | 23 | **12,003** | 16,678 |
| Trade payables | 24 | **131,220** | 106,531 |
| Other payables and accruals | 25 | **68,126** | 62,819 |
| Tax payable | | **6,275** | 6,275 |
| Due to related parties | 35 | **–** | 46 |
| Total current liabilities | | **217,624** | 192,349 |
| NET CURRENT ASSETS | | **125,569** | 159,907 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **240,965** | 307,362 |

# Consolidated Statement of Financial Position

31 December 2020

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | 26 | **871** | 871 |
| Other long-term payables | 27 | **24,264** | 33,142 |
| Total non-current liabilities | | **25,135** | 34,013 |
| Net assets | | **215,830** | 273,349 |
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 28 | **9,528** | 9,528 |
| Reserves | 31 | **207,779** | 257,836 |
| | | **217,307** | 267,364 |
| Non-controlling interests | | **(1,477)** | 5,985 |
| Total equity | | **215,830** | 273,349 |

**Tang Wing Fong Terry**
*Director*

**Lu Yongbin**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December 2020

| | Note | Attributable to owners of the parent | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Share capital HK$'000 | Shares held for Share Award Scheme HK$'000 | Share premium account HK$'000 | Fair value reserve of financial assets at fair value through other comprehensive income HK$'000 | Capital reserve HK$'000 | Share award reserve HK$'000 | Share option reserve HK$'000 | Reserve fund HK$'000 | Accumulated losses HK$'000 | Exchange fluctuation reserve HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 January 2020 | | 9,528 | – | 752,853 | (4,963) | 148,807 | – | 23,715 | 37,050 | (663,744) | (35,882) | 267,364 | 5,985 | 273,349 |
| Loss for the year | | – | – | – | – | – | – | – | – | (64,021) | – | (64,021) | (7,042) | (71,063) |
| Other comprehensive income/(loss) for the year: | | | | | | | | | | | | | | |
| Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax | | – | – | – | (1,689) | – | – | – | – | – | – | (1,689) | – | (1,689) |
| Exchange differences on translation of foreign operations | | – | – | – | – | – | – | – | – | – | 15,141 | 15,141 | (420) | 14,721 |
| Total comprehensive loss for the year | | – | – | – | (1,689) | – | – | – | – | (64,021) | 15,141 | (50,569) | (7,462) | (58,031) |
| Equity-settled share option arrangements | 29 | – | – | – | – | – | – | 512 | – | – | – | 512 | – | 512 |
| At 31 December 2020 | | 9,528 | – | 752,853* | (6,652)* | 148,807* | – | 24,227* | 37,050* | (727,765)* | (20,741)* | 217,307 | (1,477) | 215,830 |

# Consolidated Statement of Changes in Equity

Year ended 31 December 2020

| | Attributable to owners of the parent | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Shares held for Share Award Scheme HK$'000 | Share premium account HK$'000 | Fair value reserve of financial assets at fair value through other comprehensive income HK$'000 | Capital reserve HK$'000 | Share award reserve HK$'000 | Share option reserve HK$'000 | Reserve fund HK$'000 | Accumulated losses HK$'000 | Exchange fluctuation reserve HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 January 2019 | 8,572 | (9,333) | 700,113 | 2,996 | 148,807 | 7,112 | 24,791 | 37,050 | (581,434) | (28,607) | 310,067 | – | 310,067 |
| Loss for the year | – | – | – | – | – | – | – | – | (82,310) | – | (82,310) | (2,166) | (84,476) |
| Other comprehensive loss for the year: | | | | | | | | | | | | | |
| Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax | – | – | – | (7,959) | – | – | – | – | – | – | (7,959) | – | (7,959) |
| Exchange differences on translation of foreign operations | – | – | – | – | – | – | – | – | – | (7,275) | (7,275) | – | (7,275) |
| Total comprehensive loss for the year | – | – | – | (7,959) | – | – | – | – | (82,310) | (7,275) | (97,544) | (2,166) | (99,710) |
| Issue of shares | 956 | – | 51,627 | – | – | – | – | – | – | – | 52,583 | – | 52,583 |
| Share issue expense | – | – | (470) | – | – | – | – | – | – | – | (470) | – | (470) |
| Capital contribution by a non-controlling shareholder | – | – | – | – | – | – | – | – | – | – | – | 8,151 | 8,151 |
| Reclassification of lapsed share options | – | – | 5,976 | – | – | – | (5,976) | – | – | – | – | – | – |
| Equity-settled share option arrangements | – | – | – | – | – | – | 4,900 | – | – | – | 4,900 | – | 4,900 |
| Reclassification of vested awarded shares | – | 9,333 | (4,393) | – | – | (4,864) | – | – | – | – | 76 | – | 76 |
| Equity-settled share award scheme arrangements | – | – | – | – | – | (2,248) | – | – | – | – | (2,248) | – | (2,248) |
| At 31 December 2019 | 9,528 | – | 752,853 | (4,963) | 148,807 | – | 23,715 | 37,050 | (663,744) | (35,882) | 267,364 | 5,985 | 273,349 |

* These reserve accounts comprise the consolidated reserves of HK$207,779,000 (2019: HK$257,836,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 31 December 2020

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Loss before tax: | | **(71,063)** | (84,476) |
| Adjustments for: | | | |
| Finance costs | 7 | **2,172** | 2,985 |
| Interest income | 5 | **(718)** | (1,341) |
| Covid-19-related rent concessions from lessors | 15 | **(239)** | – |
| Write-down of inventories to net realisable value | 6 | **25,208** | 61,145 |
| Depreciation | 6 | **20,287** | 26,122 |
| Depreciation of right-of-use assets | 6 | **14,721** | 14,707 |
| Amortisation of intangible assets | 6 | **1,740** | 1,094 |
| Gain on disposal of right-of-use assets | 6 | **(47)** | (140) |
| Gain on disposal of financial assets at fair value through profit or loss | 6 | **(144)** | – |
| Fair value gain of financial assets at fair value through profit or loss | 6 | **–** | (11) |
| Impairment of prepayments and other receivables | 6 | **1,207** | – |
| Impairment of trade receivables | 6 | **566** | 2,244 |
| Loss on disposal of items of property, plant and equipment | 6 | **922** | 1,550 |
| Equity-settled share option expense | 29 | **512** | 4,900 |
| Equity-settled Share Award Scheme expense | 30 | **–** | (2,248) |
| | | **(4,876)** | 26,531 |
| (Increase)/decrease in inventories | | **(44,044)** | 13,722 |
| Decrease in trade receivables | | **15,872** | 39,223 |
| Decrease in amounts due from a related party | | **398** | 191 |
| (Increase)/decrease in prepayments and other receivables | | **(3,920)** | 23,373 |
| Increase in pledged deposits | | **(891)** | (893) |
| Increase/(decrease) in trade and bills payables | | **24,689** | (62,515) |
| Decrease in amounts due to related parties | | **(46)** | (38) |
| Increase in other payables and accruals | | **6,504** | 5,330 |
| Cash generated (used in)/from operations | | **(6,314)** | 44,924 |
| Tax paid | | **–** | – |
| Net cash flows (used in)/from operating activities | | **(6,314)** | 44,924 |

# Consolidated Statement of Cash Flows

Year ended 31 December 2020

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| Net cash flows (used in)/from operating activities | | **(6,314)** | 44,924 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment and intangible assets | | **(3,860)** | (13,846) |
| Disposal of financial assets at fair value through profit or loss | | **2,790** | – |
| Interest received | 5 | **718** | 1,341 |
| Proceeds from disposal of long-lived assets | | **3,268** | 7,105 |
| Net cash flows from/(used in) investing activities | | **2,916** | (5,400) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New bank loans | | **29,187** | 65,523 |
| Repayments of bank loans | | **(33,862)** | (78,562) |
| Interest paid | 7 | **(258)** | (822) |
| Principal portion of lease payments | | **(15,555)** | (14,924) |
| Share issue expenses | | **–** | (470) |
| Capital contribution from a non-controlling shareholder | | **–** | 8,151 |
| Cash received from termination of Share Award Scheme | | **–** | 76 |
| Net cash flows used in financing activities | | **(20,488)** | (21,028) |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | **(23,886)** | 18,496 |
| Cash and cash equivalents at beginning of year | | **106,899** | 95,132 |
| Effect of foreign exchange rate changes, net | | **17,187** | (6,729) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **100,200** | 106,899 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 22 | **100,200** | 106,899 |
| Cash and cash equivalents as stated in the statement of financial position | | **100,200** | 106,899 |
| Cash and cash equivalents as stated in the statement of cash flows | | **100,200** | 106,899 |

# 1. Corporate and Group Information

Sky Light Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 18 December 2013. The Company's registered office address is Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 July 2015.

The Company is an investment holding company. During the year, the Company's subsidiaries were principally engaged in the following activities:

- Manufacture and distribution of home surveillance cameras
- Manufacture and distribution of digital imaging products
- Manufacture and distribution of other electronic products

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Fortune Six Investment Ltd., which is incorporated in the British Virgin Islands.

### *Information about subsidiaries*

Particulars of the Company's principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Sky Light Electronic Limited ("SLE") | Hong Kong 22 August 2006 | HK$22,000,000 | 100% | – | Investment holding |
| Sky Light Electronic (Shenzhen) Limited ("Sky Light Shenzhen") # * 天彩電子(深圳)有限公司 | People's Republic of China (the "PRC")/ Mainland China 23 January 2008 | HK$52,469,338 | – | 100% | Manufacture and sale of camera products and related accessories |
| Sky Light Imaging Limited ("Sky Light Imaging") | Hong Kong 22 August 2006 | HK$5,000,000 | – | 100% | Distribution of camera products and related accessories |
| Sky Light Technology (Heyuan) Limited ("Sky Light Technology (HY)") *** 河源市新天彩科技有限公司 | PRC/Mainland China 2 March 2010 | RMB20,000,000 | – | 100% | Manufacture and sale of camera products and related accessories |
| Sky Light Electronic Joint Stock Company ("SLJSC")*** | Vietnam 14 February 2019 | USD3,406,000 | – | 69.15% | Manufacture and sale of camera products and related accessories |

# Notes to Financial Statements

31 December 2020

## 1. Corporate and Group Information *(Continued)*

### ***Information about subsidiaries*** *(Continued)*

\# The English names of the Company's subsidiaries registered in the PRC represent the translated names of these companies as no English names have been registered.

* Sky Light Shenzhen is registered as a wholly-foreign-owned enterprise under PRC law.

** Sky Light Technology (HY) is registered as a limited liability company under PRC law.

*** Sky Light Electronic Joint Stock Company is registered as a non-wholly-owned subsidiary under Vietnam law.

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

## 2.1 Basis of Presentation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and equity investments designated at fair value through other comprehensive income. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

### ***Basis of consolidation***

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

## 2.1 Basis of Presentation *(Continued)*

***Basis of consolidation*** *(Continued)*

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.2 Changes in Accounting Policies and Disclosures

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to HKFRS 3 | *Definition of a Business* |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | *Interest Rate Benchmark Reform* |
| Amendment to HKFRS 16 | *Covid-19-Related Rent Concessions* (early adopted) |
| Amendments to HKAS 1 and HKAS 8 | *Definition of Material* |

## 2.2 Changes in Accounting Policies and Disclosures *(Continued)*

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

## 2.2 Changes in Accounting Policies and Disclosures *(Continued)*

(d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group's plant have been reduced by the lessors upon reducing the scale of production as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of HK$239,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

(e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

## 2.3 Issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| Amendments to HKFRS 3 | *Reference to the Conceptual Framework*[2] |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | *Interest Rate Benchmark Reform — Phase 2*[1] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| HKFRS 17 | *Insurance Contracts*[3] |
| Amendments to HKFRS 17 | *Insurance Contracts*[3,6] |
| Amendments to HKAS 1 | *Classification of Liabilities as Current or Non-current*[3,5] |
| Amendments to HKAS 16 | *Property, Plant and Equipment: Proceeds before Intended Use*[2] |
| Amendments to HKAS 37 | *Onerous Contracts — Cost of Fulfilling a Contract*[2] |
| *Annual Improvements to HKFRSs 2018–2020* | Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[2] |

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

2 Effective for annual periods beginning on or after 1 January 2022

3 Effective for annual periods beginning on or after 1 January 2023

4 No mandatory effective date yet determined but available for adoption

5 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

6 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

## 2.3 Issued but not yet effective Hong Kong Financial Reporting Standards

*(Continued)*

Amendments to HKFRS 9, HKAS 39 and HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank borrowings denominated in US dollars based on the London Interbank Offered Rate ("LIBOR") as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

## 2.3 Issued but not yet effective Hong Kong Financial Reporting Standards

*(Continued)*

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

## 2.3 Issued but not yet effective Hong Kong Financial Reporting Standards

*(Continued)*

*Annual Improvements to HKFRSs 2018–2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

## 2.4 Summary of Significant Accounting Policies

### *Investments in associates*

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

## 2.4 Summary of Significant Accounting Policies *(Continued)*

### ***Business combinations and goodwill***

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

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

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

## 2.4 Summary of Significant Accounting Policies *(Continued)*

### ***Business combinations and goodwill*** *(Continued)*

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

### ***Fair value measurement***

The Group measures its derivative financial instruments and equity investments designated at fair value at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

# 2.4 Summary of Significant Accounting Policies *(Continued)*

### *Impairment of non-financial assets*

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of the reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### *Related parties*

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

(a) the party is a person or a close member of that person's family and that person

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

## 2.4 Summary of Significant Accounting Policies *(Continued)*

### ***Related parties*** *(Continued)*

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

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

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

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

(vii) a person identified in (a)(i) 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); and

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

### ***Property, plant and equipment and depreciation***

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

## 2.4 Summary of Significant Accounting Policies *(Continued)*

### ***Property, plant and equipment and depreciation*** *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Buildings | 3%–5% |
| Leasehold improvements | 20% |
| Machinery | 10%–33% |
| Motor vehicles | 10%–25% |
| Office and other equipment | 20%–33% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents plant and machinery under construction, which is stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### ***Intangible assets (other than goodwill)***

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

#### **Software and trademarks**

Software and purchased trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 3 to 10 years.

## 2.4 Summary of Significant Accounting Policies *(Continued)*

### ***Intangible assets (other than goodwill)*** *(Continued)*

**Research and development costs**

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

### ***Leases***

The Group assesses at contract inception whether a contract is, or contains, 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.

**Group as a lessee**

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

At inception or on reassessment of a contract that contains a lease component and non-lease components, the Group adopts the practical expedient not to separate non-lease components and to account for the lease component and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

*(a)* *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

| | |
|---|---|
| Leasehold land | 35 years |
| Buildings | 3–5 years |

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

## 2.4 Summary of Significant Accounting Policies *(Continued)*

***Leases*** *(Continued)*

**Group as a lessee** *(Continued)*

*(b) Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. 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, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in other payables and accruals and other long term payables.

*(c) Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases 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 leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

**Group as a lessor**

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

## 2.4 Summary of Significant Accounting Policies *(Continued)*

### ***Leases*** *(Continued)*

**Group as a lessor** *(Continued)*

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases. At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease. The finance income on the net investment in the lease is recognised in the statement of profit or loss so as to provide a constant periodic rate of return over the lease terms.

### ***Investments and other financial assets***

**Initial recognition and measurement**

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

## 2.4 Summary of Significant Accounting Policies *(Continued)*

### ***Investments and other financial assets*** *(Continued)*

**Subsequent measurement**

The subsequent measurement of financial assets depends on their classification as follows:

**Financial assets at amortised cost (debt instruments)**

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

**Financial assets designated at fair value through other comprehensive income (equity investments)**

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

### ***Derecognition of financial assets***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

## 2.4 Summary of Significant Accounting Policies *(Continued)*

### ***Derecognition of financial assets*** *(Continued)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the assets. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### ***Impairment of financial assets***

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

#### General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

## 2.4 Summary of Significant Accounting Policies *(Continued)*

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

**General approach** *(Continued)*

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

**Simplified approach**

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

### ***Financial liabilities***

**Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss and loans and borrowings, or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, financial liabilities included in other payables and accruals, interest-bearing bank borrowings, amounts due to related parties and other long-term payables.

## 2.4 Summary of Significant Accounting Policies *(Continued)*

### ***Financial liabilities*** *(Continued)*

**Subsequent measurement**

The subsequent measurement of financial liabilities depends on their classification as follows:

**Financial liabilities at amortised cost (loans and borrowings)**

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

### *Derecognition of financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

### *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### *Cash and cash equivalents*

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

## 2.4 Summary of Significant Accounting Policies *(Continued)*

### *Provisions*

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

The Group provides for warranties in relation to the sale of certain industrial products and the provision of construction services for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

### *Income tax*

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## 2.4 Summary of Significant Accounting Policies *(Continued)*

### ***Income tax*** *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### ***Government grants***

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

## 2.4 Summary of Significant Accounting Policies *(Continued)*

### *Revenue recognition*

**Revenue from contracts with customers**

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

*(a)* *Sale of industrial products*

Revenue from the sale of industrial products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

**Revenue from other sources**

Rental income is recognised on a time proportion basis over the lease terms.

**Other income**

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

### *Contract liabilities*

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods to the customer).

## 2.4 Summary of Significant Accounting Policies *(Continued)*

### *Share-based payments*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the binomial model, further details of which are given in notes 29 and 30 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expenses, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

## 2.4 Summary of Significant Accounting Policies *(Continued)*

### *Other employee benefits*

**Pension schemes**

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

### *Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### *Dividends*

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

## 2.4 Summary of Significant Accounting Policies *(Continued)*

### *Foreign currencies*

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the Hong Kong dollar at the exchange rates prevailing at the end of each reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

## 3. Significant Accounting Judgement and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### *Judgements*

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

**Income taxes**

Significant judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Company carefully evaluates tax implications of transactions and tax provisions are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

**Significant judgement in determining the lease term of contracts with renewal options**

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate the lease.

### *Estimation uncertainty*

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

**Useful lives and residual values of property, plant and equipment**

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end based on changes in circumstances. The carrying amounts of property, plant and equipment at 31 December 2020 and 2019 were HK$42,644,000 and HK$59,531,000, respectively. Further details are given in note 13.

## 3. Significant Accounting Judgement and Estimates *(Continued)*

### ***Estimation uncertainty*** *(Continued)*

**Leases — Estimating the incremental borrowing rate**

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

**Provision for expected credit losses on trade receivables**

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 18 to the financial statements. The changes in ECLs resulting from the changes in the historical observed default rates and forecast economic conditions as at 31 December 2020 have no significant impact on profit or loss.

**Impairment of non-financial assets (other than goodwill)**

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

## 3. Significant Accounting Judgement and Estimates *(Continued)*

### ***Estimation uncertainty*** *(Continued)*

**Provision for inventory write-down**

The Group performs regular reviews of the carrying amounts of inventories with reference to the ageing analysis of inventories, projections of expected future saleability of goods and management experience and judgement. Based on this review, write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

**Withholding taxes arising from the distributions of dividends**

The Group's determination as to whether to accrue for withholding taxes from the distribution of dividends from a subsidiary in the PRC according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends. Withholding taxes are provided for the profits of the subsidiary in the PRC which the Group considers that it is probable to be distributed in the foreseeable future.

**Deferred tax assets**

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2020 was Nil (2019: Nil). The amount of unrecognised tax losses at 31 December 2020 was HK$430,271,000 (2019: HK$333,501,000). Further details are contained in note 26 to the financial statements.

A deferred tax liability is recognised for withholding tax levied on dividends declared to foreign investors from the foreign investment enterprise established in Mainland China. Significant management judgement is required to determine the amount of deferred tax liabilities that can be recognised, based upon the likely dividends declared.

**Fair value of unlisted equity investments**

The unlisted equity investments have been valued based on a discounted cash flow valuation model. The valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2020 was HK$24,387,000 (2019: HK$26,076,000). Further details are included in note 19 to the financial statements.

## 4. Operating Segment Information

The Group focuses primarily on the manufacture and distribution of home surveillance cameras, digital imaging products and other electronic products during the year.

HKFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. The information reported to the Directors, who are the chief operating decision makers for the purposes of resource allocation and assessment of performance, does not contain profit or loss information of each product line and the Directors reviewed the financial results of the Group as a whole. Therefore, the operations of the Group constitute one single reportable segment. Accordingly, no operating segment is presented.

### *Geographical information*

**(a) Revenue from external customers**

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| United States of America | **265,059** | 300,781 |
| Mainland China | **46,009** | 65,891 |
| European Union | **93,242** | 140,670 |
| Hong Kong | **3,028** | 7,814 |
| Other countries/regions | **29,773** | 33,967 |
| | **437,111** | 549,123 |

The revenue information above is based on the locations of the customers.

**(b) Non-current assets**

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Mainland China | **66,284** | 93,983 |
| Hong Kong | **5,087** | 6,392 |
| Other countries/regions | **19,638** | 21,004 |
| | **91,009** | 121,379 |

The non-current asset information above is based on the locations of the assets and excludes financial instruments.

## 4. Operating Segment Information *(Continued)*

***Information about major customers***

Revenue derived from sales to individual customers, which accounted for 10% or more of the total revenue, is set out below:

| | 2020<br>HK$'000 |
|---|---|
| Customer A | **90,513** |
| Customer B | **68,492** |
| Customer C | **47,008** |

## 5. Revenue, Other Income and Gains

An analysis of revenue is as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| **Revenue from contracts with customers** | | |
| **Types of goods or services** | | |
| Sale of industrial products | **432,427** | 549,123 |
| Provision of manufacturing services | **4,684** | – |
| Total revenue from contracts with customers | **437,111** | 549,123 |
| **Timing of revenue recognition** | | |
| Goods transferred at a point in time | **437,111** | 549,123 |

## 5. Revenue, Other Income and Gains *(Continued)*

The performance obligation is satisfied upon delivery of the industrial products and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| **Other income and gains** | | |
| Penalty charge to a customer | **8,208** | – |
| Bank interest income | **718** | 1,341 |
| Government grants: | | |
| Related to income* | **7,548** | 6,371 |
| Gain on derecognition of financial assets measured at fair value through profit or loss | **144** | – |
| Exchange gains | **–** | 230 |
| Others | **779** | 1,616 |
| | **17,397** | 9,558 |

* The amount mainly represents rewards or subsidies for research activities received from the local government. There are no unfulfilled conditions or contingencies relating to these grants.

## 6. Loss Before Tax

The Group's loss before tax is arrived at after charging/(crediting):

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| Cost of inventories sold | | **345,915** | 425,495 |
| Cost of services provided | | **4,917** | – |
| Depreciation of property, plant and equipment | 13 | **20,287** | 26,122 |
| Depreciation of right-of-use assets | 15(a) | **14,721** | 14,707 |
| Amortisation of intangible assets* | 14 | **1,740** | 1,094 |
| Research and development expenses | | **50,119** | 57,935 |
| Lease payments not included in the measurement of lease liabilities | 15(c) | **28** | 91 |
| Auditors' remuneration | | **2,339** | 2,448 |
| Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)): | | | |
| Wages and salaries | | **92,185** | 106,586 |
| Pension scheme contributions | | **4,191** | 9,833 |
| Equity-settled share option expense | | **339** | 4,698 |
| Equity-settled Share Award Scheme expense | | **–** | (2,326) |
| | | **96,715** | 118,791 |
| Foreign exchange differences, net | | **10,698** | (230) |
| Write-down of inventories to net realisable value | 16 | **25,208** | 61,145 |
| Loss on disposal of items of property, plant and equipment | | **922** | 1,550 |
| Impairment of trade receivables** | 18 | **566** | 2,244 |
| Impairment of prepayments and other receivables** | | **1,207** | – |
| Gain on disposal of right-of-use assets | | **(47)** | (140) |
| Gain on disposal of financial assets at fair value through profit or loss | | **(144)** | – |
| Bank interest income | 5 | **(718)** | (1,341) |
| Fair value gain, net: | | | |
| Financial assets at fair value through profit or loss | | **–** | (11) |

* The amortisation of software is included in "Research and development expenses" and the amortisation of other intangible assets is included in "Selling and distribution expenses" in the consolidated statement of profit or loss.

** The impairment of trade receivables and the impairment of prepayments and other receivables are included in "Other expenses" in the consolidated statement of profit or loss.

## 7. Finance Costs

An analysis of finance costs is as follows:

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Interest on: | | |
| Bank loans | **258** | 822 |
| Lease liabilities | **1,914** | 2,163 |
| | **2,172** | 2,985 |

## 8. Directors' and Chief Executive's Remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Fees | **788** | 883 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **1,222** | 1,331 |
| Performance related bonuses | **27** | – |
| Equity-settled share option expense | **173** | 280 |
| Pension scheme contributions | **59** | 96 |
| | **1,481** | 1,707 |
| | **2,269** | 2,590 |

During the prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 29 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

## 8. Directors' and Chief Executive's Remuneration *(Continued)*

### *(a) Independent non-executive directors*

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Fees HK$'000 | Equity-settled share option expense HK$'000 | Fees HK$'000 | Equity-settled share option expense HK$'000 |
| Mr. Chan Tsu Ming Louis | **240** | **31** | 240 | 67 |
| Dr. Cheung Wah Keung | **240** | **31** | 240 | 67 |
| Mr. Tse Yat Hong | **240** | **76** | 240 | 124 |
| | **720** | **138** | 720 | 258 |

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

### *(b) Executive directors and non-executive directors*

| | Fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Performance related bonuses HK$'000 | Equity-settled share option expense HK$'000 | Pension scheme contributions HK$'000 | Total remuneration HK$'000 |
|---|---|---|---|---|---|---|
| 2020 | | | | | | |
| Executive directors: | | | | | | |
| Mr. Tang Wing Fong Terry | **68** | **748** | **–** | **–** | **17** | **833** |
| Mr. Lu Yongbin | **–** | **474** | **27** | **35** | **42** | **578** |
| | **68** | **1,222** | **27** | **35** | **59** | **1,411** |
| Non-executive directors: | | | | | | |
| Mr. Wu Yongmou* | **–** | **–** | **–** | **–** | **–** | **–** |
| Ms. Tang Kam Sau | **–** | **–** | **–** | **–** | **–** | **–** |
| | **68** | **1,222** | **27** | **35** | **59** | **1,411** |

* Mr. Wu Yongmou was appointed as a non-executive director of the Company from 25 March 2015 and resigned on 27 July 2020.

## 8. Directors' and Chief Executive's Remuneration *(Continued)*

### (b) Executive directors and non-executive directors *(Continued)*

| | Fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Equity-settled share option expense HK$'000 | Pension scheme contributions HK$'000 | Total remuneration HK$'000 |
|---|---|---|---|---|---|
| 2019 | | | | | |
| Executive directors: | | | | | |
| Mr. Tang Wing Fong Terry | 68 | 816 | – | 18 | 902 |
| Mr. Lu Yongbin | – | 515 | 149 | 78 | 742 |
| | 68 | 1,331 | 149 | 96 | 1,644 |
| Non-executive directors: | | | | | |
| Mr. Wu Yongmou | – | – | – | – | – |
| Professor Huang Erwin Steve | 95 | – | (127) | – | (32) |
| Ms. Tang Kam Sau | – | – | – | – | – |
| | 95 | – | (127) | – | (32) |
| | 163 | 1,331 | 22 | 96 | 1,612 |

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

## 9. Five Highest Paid Employees

The five highest paid employees during the year included no director (2019: Nil), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the five (2019: five) highest paid employees who are neither a director nor chief executive of the Company during the year are as follows:

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **4,622** | 4,595 |
| Performance related bonuses | **–** | 91 |
| Equity-settled share option and Share Award Scheme expenses | **165** | 875 |
| Pension scheme contributions | **119** | 114 |
| | **4,906** | 5,675 |

## 9. Five Highest Paid Employees *(Continued)*

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

| | Number of employees | |
|---|---|---|
| | 2020 | 2019 |
| Nil to HK$1,000,000 | **4** | 1 |
| HK$1,000,001 to HK$1,500,000 | **1** | 4 |
| | **5** | 5 |

During the prior year, share options were granted to five and shares under a Share Award Scheme were granted to four non-director and non-chief executive highest paid employee in respect of their services to the Group, further details of which are included in the disclosures in note 29 and note 30 to the financial statements. The fair value of such options and the Share Award Scheme, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant, and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

## 10. Income Tax

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 (2019: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2019: 8.25%) and the remaining assessable profits are taxed at 16.5% (2019: 16.5%).

Pursuant to the PRC Income Tax Law and the respective regulations, the subsidiaries which operate in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on the taxable income. Preferential tax treatments were available for one (2019: one) of the Group's principal operating subsidiaries, Sky Light Shenzhen, since it was recognised as a High and New Technology Enterprise and entitled to a preferential tax rate of 15% during the year.

The Group's subsidiaries in the United States are subject to the federal tax at a rate of 21% (2019: 21%), and also subject to the statutory applicable state corporate income tax at a rate of 7% (2019: 8.84%).

## 10. Income Tax *(Continued)*

The Group's subsidiary in Britain is subject to corporate income tax at a rate of 19%.

The Group's subsidiary in Vietnam is subject to corporate income tax at a rate of 20%.

The Group has no tax charge for the year (2019: Nil).

A reconciliation of the tax expense applicable to loss before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

| 2020 | Mainland China | | Hong Kong | | America | | Britain | | Vietnam | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HK$'000 | % | HK$'000 | % | HK$'000 | % | HK$'000 | % | HK$'000 | % | HK$'000 | % |
| Loss before tax | (66,081) | | 30,845 | | (11,916) | | (1,869) | | (22,042) | | (71,063) | |
| Tax at the statutory tax rates | (16,520) | 25.0 | 5,089 | 16.5 | (3,336) | 28.0 | (355) | 19.0 | (4,408) | 20.0 | (19,530) | 27.5 |
| Entities entitled to lower statutory income tax rates | 5,138 | (7.8) | – | – | – | – | – | – | – | – | 5,138 | (7.2) |
| Super-deduction of research and development costs | (3,488) | 5.3 | – | – | – | – | – | – | – | – | (3,488) | 4.9 |
| Expenses not deductible for tax | 483 | (0.7) | 85 | 0.3 | 843 | (7.1) | 80 | (4.3) | – | – | 1,491 | (2.1) |
| Tax losses not recognised | 14,387 | (21.8) | 146 | 0.5 | 2,493 | (20.9) | 275 | (14.7) | 4,408 | (20.0) | 21,709 | (30.5) |
| Income not subject to tax | – | – | (810) | (2.6) | – | – | – | – | – | – | (810) | 1.1 |
| Tax losses utilised from previous periods | – | – | (4,510) | (14.7) | – | – | – | – | – | – | (4,510) | 6.3 |
| Tax charge at the Group's effective tax rate | – | – | – | – | – | – | – | – | – | – | – | – |

## 10. Income Tax *(Continued)*

| 2019 | Mainland China | | Hong Kong | | America | | Vietnam | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | HK$'000 | % | HK$'000 | % | HK$'000 | % | HK$'000 | % | HK$'000 | % |
| Loss before tax | (42,456) | | (14,697) | | (21,083) | | (6,240) | | (84,476) | |
| Tax at the statutory tax rates | (10,614) | 25.0 | (2,425) | 16.5 | (6,283) | 29.8 | (1,248) | 20.0 | (20,570) | 24.4 |
| Entities entitled to lower statutory income tax rates | 1,611 | (3.8) | – | – | – | – | – | – | 1,611 | (1.9) |
| Super-deduction of research and development costs | (2,876) | 6.8 | – | – | – | – | – | – | (2,876) | 3.4 |
| Expenses not deductible for tax | 2,861 | (6.7) | 752 | (5.1) | 1,810 | (8.6) | – | – | 5,423 | (6.4) |
| Tax losses not recognised | 9,018 | (21.3) | 1,746 | (11.9) | 4,473 | (21.2) | 1,248 | (20.0) | 16,485 | (19.5) |
| Income not subject to tax | – | – | (73) | 0.5 | – | – | – | – | (73) | 0.1 |
| Tax charge at the Group's effective tax rate | – | – | – | – | – | – | – | – | – | – |

## 11. Dividends

The board of directors of the Company did not recommend any final dividends for 2020 (2019: Nil).

## 12. Loss Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 952,739,000 (2019: 938,965,000) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2020 and 2019 in respect of a dilution as the impact of the share option schemes had an anti-dilutive effect on the basic loss per share amounts presented.

The calculations of basic loss per share are based on:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| **Loss** | | |
| Loss attributable to ordinary equity holders of the parent, used in the basic loss per share calculation: | **(64,021)** | (82,310) |

| | Number of shares | |
|---|---|---|
| | 2020 | 2019 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation | **952,739,000** | 938,965,000 |
| Basic | | |
| — For loss for the year | **HK(6.7) cents** | HK(8.8) cents |
| Diluted | | |
| — For loss for the year | **HK(6.7) cents** | HK(8.8) cents |

## 13. Property, Plant and Equipment

| | Buildings HK$'000 | Leasehold improvements HK$'000 | Machinery HK$'000 | Motor vehicles HK$'000 | Office and other equipment HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **31 December 2020** | | | | | | |
| At 1 January 2020: | | | | | | |
| Cost | 6,783 | 24,470 | 165,812 | 3,958 | 20,620 | 221,643 |
| Accumulated depreciation | (1,641) | (11,084) | (128,984) | (2,788) | (17,615) | (162,112) |
| Net carrying amount | 5,142 | 13,386 | 36,828 | 1,170 | 3,005 | 59,531 |
| At 1 January 2020, net of accumulated depreciation | 5,142 | 13,386 | 36,828 | 1,170 | 3,005 | 59,531 |
| Additions | – | – | 4,761 | – | 317 | 5,078 |
| Disposals | – | – | (4,048) | (32) | (66) | (4,146) |
| Depreciation provided during the year (note 6) | (293) | (3,706) | (15,020) | (420) | (848) | (20,287) |
| Exchange realignment | 206 | 552 | 1,575 | 12 | 123 | 2,468 |
| At 31 December 2020, net of accumulated depreciation | 5,055 | 10,232 | 24,096 | 730 | 2,531 | 42,644 |
| At 31 December 2020: | | | | | | |
| Cost | 7,076 | 25,867 | 156,873 | 3,048 | 20,975 | 213,839 |
| Accumulated depreciation | (2,021) | (15,635) | (132,777) | (2,318) | (18,444) | (171,195) |
| Net carrying amount | 5,055 | 10,232 | 24,096 | 730 | 2,531 | 42,644 |

## 13. Property, Plant and Equipment *(Continued)*

| | Buildings HK$'000 | Leasehold improvements HK$'000 | Machinery HK$'000 | Motor vehicles HK$'000 | Office and other equipment HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **31 December 2019** | | | | | | |
| At 31 December 2018 and at 1 January 2019: | | | | | | |
| Cost | 6,885 | 12,983 | 181,991 | 3,587 | 33,130 | 238,576 |
| Accumulated depreciation | (1,370) | (7,871) | (119,359) | (2,703) | (30,532) | (161,835) |
| Net carrying amount | 5,515 | 5,112 | 62,632 | 884 | 2,598 | 76,741 |
| At 1 January 2019, net of accumulated depreciation | 5,515 | 5,112 | 62,632 | 884 | 2,598 | 76,741 |
| Additions | – | 11,752 | 3,758 | 661 | 2,648 | 18,819 |
| Disposals | – | – | (8,292) | (1) | (362) | (8,655) |
| Depreciation provided during the year (note 6) | (296) | (3,238) | (20,364) | (359) | (1,865) | (26,122) |
| Exchange realignment | (77) | (240) | (906) | (15) | (14) | (1,252) |
| At 31 December 2019, net of accumulated depreciation | 5,142 | 13,386 | 36,828 | 1,170 | 3,005 | 59,531 |
| At 31 December 2019: | | | | | | |
| Cost | 6,783 | 24,470 | 165,812 | 3,958 | 20,620 | 221,643 |
| Accumulated depreciation | (1,641) | (11,084) | (128,984) | (2,788) | (17,615) | (162,112) |
| Net carrying amount | 5,142 | 13,386 | 36,828 | 1,170 | 3,005 | 59,531 |

None of the Group's banking facilities were secured by the Group's buildings as at 31 December 2020 (31 December 2019: Nil).

Certificates of ownership in respect of certain buildings of the Group located in Mainland China with a net carrying value of HK$3,378,000 as at 31 December 2020 (31 December 2019: HK$3,402,000) have not yet been issued by the relevant Mainland China authorities. The Group is in the process of obtaining these certificates.

## 14. Intangible Assets

| | Trademarks HK$'000 | Software HK$'000 | Total HK$'000 |
|---|---|---|---|
| **31 December 2020** | | | |
| Cost at 1 January 2020, net of accumulated amortisation | **238** | **9,672** | **9,910** |
| Additions | **29** | **116** | **145** |
| Disposals | **(44)** | **–** | **(44)** |
| Amortisation provided during the year (note 6) | **(9)** | **(1,731)** | **(1,740)** |
| Exchange realignment | **–** | **483** | **483** |
| At 31 December 2020 | **214** | **8,540** | **8,754** |
| At 31 December 2020: | | | |
| Cost | **24,568** | **17,399** | **41,967** |
| Accumulated amortisation | **(3,283)** | **(8,859)** | **(12,142)** |
| Impairment | **(21,071)** | **–** | **(21,071)** |
| Net carrying amount | **214** | **8,540** | **8,754** |
| **31 December 2019** | | | |
| Cost at 1 January 2019, net of accumulated amortisation | 207 | 10,588 | 10,795 |
| Additions | 53 | 554 | 607 |
| Amortisation provided during the year (note 6) | (21) | (1,073) | (1,094) |
| Exchange realignment | (1) | (397) | (398) |
| At 31 December 2019 | 238 | 9,672 | 9,910 |
| At 31 December 2019 and at 1 January 2020: | | | |
| Cost | 24,582 | 14,612 | 39,194 |
| Accumulated amortisation | (3,273) | (4,940) | (8,213) |
| Impairment | (21,071) | – | (21,071) |
| Net carrying amount | 238 | 9,672 | 9,910 |

# 15. Leases

### *The Group as a lessee*

The Group has lease contracts for various items of land, buildings and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 35 years, and no ongoing payments will be made under the terms of these land leases. Buildings generally have lease terms between 3 and 5 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value.

**(a) Right-of-use assets**

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

| | Leasehold land HK$'000 | Buildings HK$'000 | Total HK$'000 |
|---|---|---|---|
| As at 1 January 2019 | 2,705 | 65,151 | 67,856 |
| Additions | – | 282 | 282 |
| Depreciation charge | (95) | (14,612) | (14,707) |
| Disposals | – | (5,002) | (5,002) |
| Exchange realignment | – | (870) | (870) |
| As at 31 December 2019 and1 January 2020 | **2,610** | **44,949** | **47,559** |
| Additions | **–** | **3,042** | **3,042** |
| Depreciation charge | **(95)** | **(14,626)** | **(14,721)** |
| Disposals | **–** | **(836)** | **(836)** |
| Exchange realignment | **–** | **1,551** | **1,551** |
| As at 31 December 2020 | **2,515** | **34,080** | **36,595** |

## 15. Leases *(Continued)*

### *The Group as a lessee (Continued)*

**(b) Lease liabilities**

The carrying amount of lease liabilities (included under other payables and accruals and other long-term payables) and the movements during the year are as follows:

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Carrying amount at 1 January | **46,638** | 65,151 |
| New leases | **3,042** | 282 |
| Accretion of interest recognised during the year | **1,914** | 2,163 |
| Covid-19-related rent concessions from lessors | **(239)** | – |
| Disposals | **(883)** | (5,142) |
| Payments | **(15,555)** | (14,924) |
| Exchange realignment | **1,646** | (892) |
| Carrying amount at 31 December | **36,563** | 46,638 |
| Analysed into: | | |
| Current portion (note 25) | **12,300** | 13,496 |
| Non-current portion (note 27) | **24,263** | 33,142 |

The maturity analysis of lease liabilities is disclosed in note 38 to the financial statements.

As disclosed in note 2.2 to the financial statements, the Group has early adopted the amendment to HKFRS 16 and applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain plant and equipment during the year.

**(c)** The amounts recognised in profit or loss in relation to leases are as follows:

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Interest on lease liabilities | **1,914** | 2,163 |
| Depreciation charge of right-of-use assets | **14,721** | 14,707 |
| Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2020 (included in administrative expenses) | **19** | 48 |
| Expense relating to leases of low-value assets (included in administrative expenses) | **9** | 43 |
| Covid-19-related rent concessions from lessors | **(239)** | – |
| Total amount recognised in profit or loss | **16,424** | 16,961 |

**(d)** The total cash outflow for leases is disclosed in note 34(b) to the financial statements.

## 16. Inventories

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Raw materials | **122,706** | 120,820 |
| Work in progress | **78,805** | 55,725 |
| Finished goods | **154,924** | 162,787 |
| | **356,435** | 339,332 |
| Inventory provision | **(208,511)** | (204,922) |
| | **147,924** | 134,410 |

The movements of inventory provision are as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Balance at beginning of the year | **204,922** | 164,613 |
| Provision for the year | **25,208** | 61,145 |
| Written off as sold out | **(26,941)** | (18,411) |
| Exchange realignment | **5,322** | (2,425) |
| Balance at end of the year | **208,511** | 204,922 |

## 17. Investments in Associates

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Share of net assets | **1,798** | 1,798 |
| Goodwill on acquisition | **–** | – |
| | **1,798** | 1,798 |
| Provision for impairment | **(1,798)** | (1,798) |
| | **–** | – |

The Group's shareholdings in the associates comprise equity shares held by the Company or held through a wholly-owned subsidiary of the Company.

## 18. Trade Receivables

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Trade receivables | **68,496** | 84,364 |
| Impairment | **(3,799)** | (3,229) |
| | **64,697** | 81,135 |

The Group requires most of its customers to make payments in advance, however, the Group grants certain credit periods to those customers with good payment history. The credit period for specific customers is considered on a case-by-case basis and is set out in the sales contracts, as appropriate.

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing and the carrying amounts of the trade receivables approximate to their fair values.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Within 1 month | **38,188** | 76,982 |
| 1 to 2 months | **19,001** | 3,723 |
| 2 to 3 months | **4,047** | 300 |
| Over 3 months | **3,461** | 130 |
| | **64,697** | 81,135 |

## 18. Trade Receivables *(Continued)*

The movements in the loss allowance for impairment of trade receivables are as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| At beginning of year | **3,229** | 6,620 |
| Impairment losses (note 6) | **566** | 2,244 |
| Amount written off as uncollectible | **–** | (5,619) |
| Exchange adjustments | **4** | (16) |
| At end of year | **3,799** | 3,229 |

The increase (2019: decrease) in the loss allowance was due to the following significant changes in the gross carrying amount:

(i) Increase in the loss allowance of HK$7,000 as a result of a net decrease of trade receivables which were assessed individually;

(ii) Decrease in the loss allowance of HK$1,685,000 as a result of a decrease of new recognition over trade receivables assessed individually in the current year and an increase of the reversal of the allowance recognised in the previous year; and

(iii) Increase in the loss allowance of HK$5,619,000 as a result of the write-off of certain trade receivables in 2019.

An impairment analysis is performed at each reporting date using a provision matrix or individually assessed to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns by customer type. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

## 18. Trade Receivables *(Continued)*

Set out below is the information about the credit risk exposure on the Group's trade receivables:

**As at 31 December 2020**

| Category | Carrying amount | | Bad debt provision | | Net book |
|---|---|---|---|---|---|
| | Amount | Proportion (%) | Amount | Proportion (%) | value |
| Trade receivables for which bad debt provision has been assessed individually | **2,635** | **3.85%** | **2,635** | **100%** | **–** |
| Trade receivables for which bad debt provision has been assessed by using a provision matrix | **65,861** | **96.15%** | **1,164** | **1.77%** | **64,697** |
| Total | **68,496** | **100%** | **3,799** | **5.55%** | **64,697** |

As at 31 December 2019

| Category | Carrying amount | | Bad debt provision | | Net book |
|---|---|---|---|---|---|
| | Amount | Proportion (%) | Amount | Proportion (%) | value |
| Trade receivables for which bad debt provision has been assessed individually | 2,642 | 3.13% | 2,642 | 100% | – |
| Trade receivables for which bad debt provision has been assessed by using a provision matrix | 81,722 | 96.87% | 587 | 0.72% | 81,135 |
| Total | 84,364 | 100% | 3,229 | 3.83% | 81,135 |

## 18. Trade Receivables *(Continued)*

Trade receivables for which bad debt provision has been assessed by using a provision matrix are as follows:

**As at 31 December 2020**

| | | Past due | | | | |
|---|---|---|---|---|---|---|
| | Current | Less than 3 months | 3 to 6 months | 6 months to 1 year | Over 1 year | Total |
| Expected credit loss rate | **0.50%** | **2.54%** | **9.51%** | **28.92%** | **100.00%** | **–** |
| Gross carrying amount (HK$'000) | **54,764** | **7,816** | **1,492** | **1,744** | **45** | **65,861** |
| Expected credit losses (HK$'000) | **274** | **199** | **142** | **504** | **45** | **1,164** |

As at 31 December 2019

| | | Past due | | | | |
|---|---|---|---|---|---|---|
| | Current | Less than 3 months | 3 to 6 months | 6 months to 1 year | Over 1 year | Total |
| Expected credit loss rate | 0.38% | 1.20% | 4.20% | 22.77% | 100% | – |
| Gross carrying amount (HK$'000) | 77,276 | 3,769 | 313 | 167 | 197 | 81,722 |
| Expected credit losses (HK$'000) | 294 | 45 | 13 | 38 | 197 | 587 |

## 19. Equity Investments Designated at Fair Value through Other Comprehensive Income

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| **Non-current assets** | | |
| Unlisted equity investments, at fair value | **24,387** | 26,076 |

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

## 20. Financial Asset at Fair Value through Profit or Loss

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Other unlisted investment, at fair value | – | 2,646 |

The above unlisted investment at 31 December 2019 was a wealth management product issued by a bank in Hong Kong. It was mandatorily classified as a financial asset at fair value through profit or loss as its contractual cash flows are not solely payments of principal and interest.

At 31 December 2019, certain of the Group's banking facilities were secured by the wealth management product with a carrying value of HK$2,646,000.

## 21. Prepayments and Other Receivables

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| **Non-current assets** | | |
| Non-current prepayments | **3,016** | 4,379 |
| **Current assets** | | |
| Prepayments | **3,420** | 5,453 |
| Deposits and other receivables* | **25,168** | 20,422 |
| | **28,588** | 25,875 |
| Impairment allowance | **–** | – |
| | **28,588** | 25,875 |

As at 31 December 2020, the financial assets included in the above balances relate to receivables for which there was no past due amounts, the Group estimated the expected credit loss rate to be minimal.

* Certain of the Group's banking facilities were secured by an insurance amounting to HK$5,022,000 included in deposits and other receivables.

## 22. Cash and Cash Equivalents and Pledged Deposits

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Cash and bank balances | **101,984** | 107,792 |
| Less: Pledged deposits | **1,784** | 893 |
| Cash and cash equivalents | **100,200** | 106,899 |
| Cash and bank balances denominated in | | |
| — Renminbi ("RMB") | **19,871** | 53,947 |
| — United States dollars ("US$") | **72,159** | 50,390 |
| — HK$ | **6,132** | 2,094 |
| — Other currencies | **2,038** | 468 |
| Cash and cash equivalents | **100,200** | 106,899 |

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB"), United States Dollar ("US$") and other currencies amounted to HK$19,871,000 (RMB16,725,000), HK$72,159,000 (US$9,308,000) and HK$2,038,000 respectively (2019: HK$53,947,000, HK$50,390,000 and HK$468,000, respectively). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one and three months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

## 23. Interest-Bearing Bank Borrowings

| Current | 2020 Effective interest rate (%) | 2020 Maturity | 2020 HK$'000 | 2019 Effective interest rate (%) | 2019 Maturity | 2019 HK$'000 |
|---|---|---|---|---|---|---|
| Bank loans — unsecured | **1.0** | **2022** | **714** | – | – | – |
| Bank loans — secured | **1.4~1.5** | **2021** | **11,289** | 3.1~4.0 | 2020 | 16,678 |
| | | | **12,003** | | | 16,678 |

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Analysed into: | | |
| Within one year | **11,289** | 16,678 |
| Within two year | **714** | – |
| | **12,003** | 16,678 |

The Group's bank facilities amounted to HK$23,000,000 (2019: HK$23,000,000), of which HK$11,289,000 (2019: HK$16,678,000) had been utilised as at the end of the year.

The Group's banking facility amounting to HK$23,000,000 is secured by an insurance from the bank, details of which are disclosed in note 21.

All borrowings are denominated in United States dollars.

## 24. Trade Payables

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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Within 1 month | **48,403** | 87,367 |
| 1 to 2 months | **34,184** | 7,296 |
| 2 to 3 months | **14,867** | 4,598 |
| Over 3 months | **33,766** | 7,270 |
| | **131,220** | 106,531 |

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 150 days.

## 25. Other Payables and Accruals

| | Notes | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| Contract liabilities | (a) | **33,915** | 29,647 |
| Other payables | (b) | **9,601** | 9,132 |
| Salary and welfare payables | (c) | **12,180** | 10,419 |
| Accruals | (b) | **130** | 125 |
| Lease liabilities (note 15) | | **12,300** | 13,496 |
| | | **68,126** | 62,819 |

Notes:

(a) Details of contract liabilities are as follows:

| | 31 December 2020<br>HK$'000 | 31 December 2019<br>HK$'000 | 1 January 2019<br>HK$'000 |
|---|---|---|---|
| **Short-term advances received from customers** | | | |
| Sale of goods | **33,915** | 29,647 | 18,536 |

Contract liabilities include short-term advances received to deliver industrial products. The increase in contract liabilities in 2020 and 2019 was mainly due to the increase in short-term advances received from customers in relation to the sales of industrial products at the end of the year.

(b) Other payables and accruals are non-interest-bearing and are due to mature within one year.

(c) Salary and welfare payables are non-interest-bearing and are payable on demand.

## 26. Deferred Tax

The movements in deferred tax liabilities during the year are as follows:

### *Deferred tax liabilities*

| | Withholding taxes HK$'000 |
|---|---|
| At 31 December 2019 and 2020 | **871** |

The Group has tax losses arising in Hong Kong of HK$137,372,000 (2019: HK$137,031,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in Mainland China of HK$198,584,000 (2019: HK$133,727,000) that will expire in one to ten years for offsetting against future taxable profits. The Group has tax losses arising in the United States of America of HK$67,563,000 (2019: HK$56,554,000) that will expire in one to twenty years for offsetting against future taxable profits. The Group has tax losses arising in Vietnam of HK$26,752,000 (2019: HK$6,189,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax assets have not been recognised in respect of the following items:

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Tax losses | **430,271** | 333,501 |
| Deductible temporary differences | **349,082** | 343,271 |
| | **779,353** | 676,772 |

## 26. Deferred Tax *(Continued)*

The above tax losses and deductible temporary differences are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% for the year. The Group is therefore liable for withholding taxes on dividends distributed by the subsidiary established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 27. Other Long-Term Payables

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Lease liabilities (note 15) | **24,263** | 33,142 |

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Analysed into: | | |
| In the second year | **9,864** | 11,299 |
| In the third to fifth years, inclusive | **14,399** | 21,383 |
| Beyond five years | **–** | 460 |
| | **24,263** | 33,142 |

## 28. Share Capital

### *Shares*

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Issued and fully paid: | | |
| 952,739,455 (2019: 952,739,455) ordinary shares | **9,528** | 9,528 |

A summary of movements in the Company's share capital is as follows:

| | Number of shares in issue | Share capital<br>HK$'000 |
|---|---|---|
| At 1 January 2019 | 857,134,000 | 8,572 |
| Issue of new shares under a loan capitalisation agreement (a) | 95,605,455 | 956 |
| | 952,739,455 | 9,528 |
| At 31 December 2019 and 31 December 2020 | 952,739,455 | 9,528 |

Note:

(a) On 15 January 2019, the Group and its director, Tang Wing Fong Terry, entered into the loan capitalisation agreement whereby the Company agreed to allot and issue 95,605,455 new shares at the issue price of HK$0.55 per share for the capitalisation of the loans, before share issue expense of HK$470,000, in the total principal amount of HK$52,583,000 provided by Tang Wing Fong Terry. For details, please refer to the announcement of the Group dated 15 January 2019.

## 29. Share Option Schemes

The Company has adopted two share option schemes (the "Schemes"), including the "Pre-IPO Share Option Scheme" and "Share Option Scheme" for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Schemes include employees, advisers, consultants, agents, contractors, clients, suppliers and any other person(s) whom the board of directors of the Company, in its sole discretion, consider have contributed or may contribute to the Group.

### *Pre-IPO Share Option Scheme*

The Pre-IPO Share Option Scheme became effective on 29 May 2015. The following share options were outstanding under the Pre-IPO Share Option Scheme of the Company during the year:

| | Numbers of share options | | | | | | |
|---|---|---|---|---|---|---|---|
| Date of grant | At 1 January 2020 | Granted during the year | Exercised during the year | Lapsed during the year | At 31 December 2020 | Exercise period (both dates inclusive) | Exercise price per share |
| 29/05/2015 | **–** | **–** | **–** | **–** | **–** | **02/07/2016-02/07/2019** | **HK$0.83** |

| | Numbers of share options | | | | | | |
|---|---|---|---|---|---|---|---|
| Date of grant | At 1 January 2019 | Granted during the year | Exercised during the year | Lapsed during the year | At 31 December 2019 | Exercise period (both dates inclusive) | Exercise price per share |
| 29/05/2015 | 3,198,000 | – | – | (3,198,000) | – | 02/07/2016-02/07/2019 | HK$0.83 |

Notes:

a. One-third of these share options should become vested on the 1st anniversary date of 2 July 2015; a further one-third should become vested on the 2nd anniversary date of 2 July 2015; and the remaining one-third should become vested on the 3rd anniversary date of 2 July 2015.

b. The fair value of the share options granted in 2015 was HK$24,973,000 (HK$1.18783 each), of which no share option expense was recognised during the year ended 31 December 2020 (2019: Nil).

c. The following assumptions were used to derive the fair value, using the binomial model:

Options granted on 29 May 2015

| | | At grant date |
|---|---|---|
| (i) | Expected volatility | 39.79%–47.04% per year |
| (ii) | Expected life of options | 2.1–4.1 years |
| (iii) | Average risk-free interest rate | 0.44%–0.87% per year |
| (iv) | Expected dividend yield | 3.3% per year |
| (v) | Estimated rate of leaving service | 0% per year |

As at 31 December 2020, the Company had no share options outstanding under the Pre-IPO Share Option Scheme.

## 29. Share Option Schemes *(Continued)*

### *Share Option Scheme*

The following share options were outstanding under the Share Option Scheme of the Company during the year:

| | Date of grant | Number of share options At 1 January 2020 | Granted during the year | Exercised during the year | Lapsed during the year | At 31 December 2020 | Exercise period (both dates inclusive) | Exercise price per share |
|---|---|---|---|---|---|---|---|---|
| (i) | 27/07/2015 | **–** | **–** | **–** | **–** | **–** | **27/07/2016-26/07/2020** | **HK$3.46** |
| (ii) | 15/09/2016 | **8,325,000** | **–** | **–** | **(696,000)** | **7,629,000** | **15/09/2017-14/09/2024** | **HK$1.70** |
| (iii) | 01/12/2016 | **4,000,000** | **–** | **–** | **–** | **4,000,000** | **01/12/2017-30/01/2025** | **HK$1.986** |
| (iv) | 18/05/2017 | **8,643,000** | **–** | **–** | **(1,593,000)** | **7,050,000** | **18/05/2018-17/05/2025** | **HK$2.206** |
| (v) | 26/04/2018 | **9,123,000** | **–** | **–** | **(1,725,000)** | **7,398,000** | **26/04/2019-26/04/2026** | **HK$0.94** |
| (vi) | 16/05/2019 | **12,696,000** | **–** | **–** | **(1,767,000)** | **10,929,000** | **15/05/2020-15/05/2023** | **HK$0.42** |
| | | **42,787,000** | **–** | **–** | **(5,781,000)** | **37,006,000** | | |

| | Date of grant | Number of share options At 1 January 2019 | Granted during the year | Exercised during the year | Lapsed during the year | At 31 December 2019 | Exercise period (both dates inclusive) | Exercise price per share |
|---|---|---|---|---|---|---|---|---|
| (i) | 27/07/2015 | 2,000,000 | – | – | (2,000,000) | – | 27/07/2016-26/07/2020 | HK$3.46 |
| (ii) | 15/09/2016 | 9,411,000 | – | – | (1,086,000) | 8,325,000 | 15/09/2017-14/09/2024 | HK$1.70 |
| (iii) | 01/12/2016 | 4,600,000 | – | – | (600,000) | 4,000,000 | 01/12/2017-30/01/2025 | HK$1.986 |
| (iv) | 18/05/2017 | 10,281,000 | – | – | (1,638,000) | 8,643,000 | 18/05/2018-17/05/2025 | HK$2.206 |
| (v) | 26/04/2018 | 12,522,000 | – | – | (3,399,000) | 9,123,000 | 26/04/2019-26/04/2026 | HK$0.94 |
| (vi) | 16/05/2019 | – | 13,110,000 | – | (414,000) | 12,696,000 | 15/05/2020-15/05/2023 | HK$0.42 |
| | | 38,814,000 | 13,110,000 | – | (9,137,000) | 42,787,000 | | |

## 29. Share Option Schemes *(Continued)*

### ***Share Option Scheme*** *(Continued)*

Notes:

(i) Half of these share options were exercisable on the 1st anniversary date of 27 July 2015, and the remaining were exercisable on the 2nd anniversary date of 27 July 2015.

The fair value of the share options granted in 2015 was HK$1,814,000 (HK$0.907 each), of which no share option expense was recognised during the year ended 31 December 2020 (2019: Nil).

(ii) One-third of these share options should become vested on the 1st anniversary date of 15 September 2016; a further one-third shall become vested on the 2nd anniversary date of 15 September 2016; and the remaining one-third should become vested on the 3rd anniversary date of 15 September 2016.

The fair value of the share options granted in September 2016 was HK$8,111,000 (HK$0.62672 each), of which no share option expense was recognised during the year ended 31 December 2020 (2019: HK$510,000).

(iii) One-third of these share options should become vested on the 1st anniversary date of 1 December 2016; a further one-third should become vested on the 2nd anniversary date of 1 December 2016; and the remaining one-third should become vested on the 3rd anniversary date of 1 December 2016.

The fair value of the share options granted in December 2016 was HK$13,990,000 (HK$0.703 each), of which no share option expense was recognised during the year ended 31 December 2020 (2019: HK$1,524,000).

(iv) One-third of these share options should become vested on the 1st anniversary date of 18 May 2017; a further one-third should become vested on the 2nd anniversary date of 18 May 2017; and the remaining one-third should become vested on the 3rd anniversary date of 18 May 2017.

The fair value of the share options granted on 18 May 2017 was HK$10,416,000 (HK$0.6944 each), of which the Group recognised a share option expense of HK$37,000 (2019: HK$1,342,000) during the year ended 31 December 2020.

(v) One-third of these share options should become vested on the 1st anniversary date of 26 April 2018; a further one-third should become vested on the 2nd anniversary date of 26 April 2018; and the remaining one-third should become vested on the 3rd anniversary date of 26 April 2018.

The fair value of the share options granted on 26 April 2018 was HK$4,245,000 (HK$0.339 each), of which the Group recognised a share option expense of HK$217,000 (2019: HK$1,103,000) during the year ended 31 December 2020.

(vi) One-third of these share options should become vested on the 1st anniversary date of 16 May 2019; a further one-third should become vested on the 2nd anniversary date of 16 May 2019; and the remaining one-third should become vested on the 3rd anniversary date of 16 May 2019.

The fair value of the share options granted on 16 May 2019 was HK$1,333,000 (HK$0.102 each), of which the Group recognised a share option expense of HK$258,000 (2019: HK$421,000) during the year ended 31 December 2020.

## 29. Share Option Schemes *(Continued)*

### ***Share Option Scheme*** *(Continued)*

The following assumptions were used to derive the fair value, using the binomial model:

| At grant date | | 16 May 2019 |
|---|---|---|
| (i) | Expected volatility | 59.67%–61.87% per year |
| (ii) | Expected life of options | 2.0–4.0 |
| (iii) | Average risk-free interest rate | 1.56%–1.69% per year |
| (iv) | Expected dividend yield | 5.32% per year |
| (v) | Estimated rate of leaving service | 27.50% per year |

As at 31 December 2020, the Company had 37,006,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 37,006,000 additional ordinary shares of the Company and additional share capital of HK$370,000 and share premium of HK$63,751,000 (before issue expenses).

## 30. Share Award Scheme

A share award scheme was adopted on 20 September 2016 (the "Share Award Scheme"). The Share Award Scheme is to recognise the contributions made by certain employees and to provide them with incentives in order to maintain the continual operation and development of the Group; and to attract suitable personnel for further development of the Group.

The awarded shares will be acquired by an independent trustee ("the Trustee") from the open market by utilising the Company's resources provided to the Trustee. The maximum number of shares in respect of which shares may be granted under the Share Award Scheme and which may be awarded to a selected employee shall not exceed 10% and 2.5%, respectively, of the issued share capital of the Company as at 20 September 2016.

Subject to any early termination as may be determined by the board of directors pursuant to the terms of the Share Award Scheme, the scheme shall be valid and effective from 20 September 2016 to the date on which the last awarded share has been vested and transferred to the relevant selected employee or has lapsed in accordance with the terms, provided that no award shall be made on or after 10 years of 20 September 2016.

## 30. Share Award Scheme *(Continued)*

The following awarded shares were outstanding under the Share Award Scheme of the Company during the year:

| | Date of grant | Number of awarded shares: At 1 January 2020 | Granted during the year | Vested during the year | Lapsed during the year | At 31 December 2020 | Exercise period (both dates inclusive) | Exercise price per share |
|---|---|---|---|---|---|---|---|---|
| (i) | 29/11/2016 | – | – | – | – | – | **19/12/2017-19/12/2019** | – |
| (ii) | 19/7/2019 | – | – | – | – | – | **29/7/2019** | – |
| | | – | – | – | – | – | | |

| | Date of grant | Number of awarded shares: At 1 January 2019 | Granted during the year | Vested during the year | Lapsed during the year | At 31 December 2019 | Exercise period (both dates inclusive) | Exercise price per share |
|---|---|---|---|---|---|---|---|---|
| (i) | 29/11/2016 | 4,372,000 | – | (2,186,000) | (2,186,000) | – | 19/12/2017-19/12/2019 | – |
| (ii) | 19/7/2019 | – | 2,186,000 | (2,186,000) | – | – | 29/7/2019 | – |
| | | 4,372,000 | 2,186,000 | (4,372,000) | (2,186,000) | – | | |

Notes:

(i) In 2016, based on the Company's instructions, the Trustee purchased a total of 6,558,000 ordinary shares of the Company on the Stock Exchange at prices ranging from HK$1.79 to HK$2.30 per share at a total consideration (including related transaction costs) of approximately HK$14,000,000.

The Company granted 6,558,000 shares to a certain employee on 29 November 2016, which will be vested in tranches of one-third each on every anniversary of the grant date starting from the 1st anniversary date until the 3rd anniversary.

The fair value of the granted shares is calculated based on the closing market price of the shares (HK$1.92) on the date of the grant, and amounted to HK$12,591,000, of which no Share Award Scheme expense was recognised during the year ended 31 December 2020 (2019: reversed expense of HK$2,915,000).

(ii) The Company granted 2,186,000 shares to selected employees on 19 July 2019 which was vested on 29 July 2019. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$0.305) on the date of the grant, and amounted to HK$667,000, of which no Share Award Scheme expense was recognised during the year ended 31 December 2020 (2019: HK$667,000).

As at 12 September 2019, the board of directors resolved to terminate the Share Award Scheme.

At the end of the reporting period, the Company had no share award outstanding under the Scheme.

## 31. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 61 to 62 of the financial statements.

### *Reserve fund*

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

## 32. Pledge of Assets

Details of the Group's assets pledged for the Group's bank loans are included in note 21 to the financial statements.

## 33. Commitments

The Group had the following capital commitments at the end of the reporting period:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| Plant and machinery | **204** | 1,089 |

## 34. Notes to the Consolidated Statement of Cash Flows

### (a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$3,046,000 and HK$3,046,000 (2019: HK$282,000 and HK$282,000), respectively, in respect of lease arrangements for land and buildings.

### (b) Changes in liabilities arising from financing activities

**2020**

| | Bank loans HK$'000 (Note 23) | Lease liabilities HK$'000 (Note 15) | Total HK$'000 |
|---|---|---|---|
| At 1 January 2020 | **16,678** | **46,638** | **63,316** |
| Financing cash flows | **(4,675)** | **(15,555)** | **(20,230)** |
| New leases | **–** | **3,042** | **3,042** |
| Interest expense | **–** | **1,914** | **1,914** |
| Covid-19-related rent concessions from lessors | **–** | **(239)** | **(239)** |
| Disposals | **–** | **(883)** | **(883)** |
| Foreign exchange movement | **–** | **1,646** | **1,646** |
| At 31 December 2020 | **12,003** | **36,563** | **48,566** |

2019

| | Bank loans HK$'000 (Note 23) | Lease liabilities HK$'000 (Note 15) | Total HK$'000 |
|---|---|---|---|
| At 1 January 2019 | 29,717 | 65,151 | 94,868 |
| Financing cash flows | (13,039) | (14,924) | (27,963) |
| New leases | – | 282 | 282 |
| Interest expense | – | 2,163 | 2,163 |
| Disposals | – | (5,142) | (5,142) |
| Foreign exchange movement | – | (892) | (892) |
| At 31 December 2019 | 16,678 | 46,638 | 63,316 |

## 34. Notes to the Consolidated Statement of Cash Flows *(Continued)*

### *(c) Total cash outflow for leases*

The total cash outflow for leases included in the statement of cash flows is as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Within operating activities | **28** | 91 |
| Within financing activities | **15,555** | 14,924 |
| | **15,583** | 15,015 |

## 35. Related Party Transactions and Balances

***(1)*** In addition to the transactions detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

| | Note | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| Rental expenses: | | | |
| XinYongYi Technology Park (Heyuan) Limited ("XinYongYi")* | (i) | **1,292** | 2,857 |

* The related transactions with XinYongYi also constitute continuing connected transactions as defined in Chapter 14A of the Hong Kong Listing Rules.

(i) The rental expenses were paid to XinYongYi, which was controlled by a shareholder of a subsidiary of the Group, for a lease of plant and office premises located in Heyuan and were charged in the form of monthly rentals of HK$215,000 and HK$238,000 for the years ended 31 December 2020 and 2019, respectively. The rental was determined based on mutual agreement between the parties.

## 35. Related Party Transactions and Balances *(Continued)*

### *(2) Compensation of key management personnel of the Group*

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Short term employee benefits | **2,902** | 2,947 |
| Equity-settled share option and Share Award Scheme expenses | **138** | 610 |
| Post-employment benefits | **101** | 114 |
| Total compensation paid to key management personnel | **3,141** | 3,671 |

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

### *(3) Outstanding balances with related parties*

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Due from a related party | | |
| XinYongYi | – | 398 |
| Due to related parties | | |
| Shenzhen Yongyida Electronics Co., Ltd. ("YongYiDa") | – | 39 |
| XinYongYi | – | 7 |
| | – | 46 |

These balances are unsecured and interest-free. The carrying amounts of these balances approximate to their fair values. All the above balances were generated from operating activities and repayable on demand.

## 36. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

**2020**

***Financial assets***

| | Financial assets at amortised cost HK$'000 | Financial assets at fair value through other comprehensive income HK$'000 | Total HK$'000 |
|---|---|---|---|
| Equity investments designated at fair value through other comprehensive income | – | 24,387 | 24,387 |
| Trade receivables | 64,697 | – | 64,697 |
| Financial assets included in prepayments and other receivables | 15,890 | – | 15,890 |
| Cash and cash equivalents | 100,200 | – | 100,200 |
| Pledged deposits | 1,784 | – | 1,784 |
| | 182,571 | 24,387 | 206,958 |

***Financial liabilities***

| | Financial liabilities at amortised cost HK$'000 |
|---|---|
| Lease liability | 36,564 |
| Interest-bearing bank borrowings | 12,003 |
| Trade payables | 131,220 |
| Financial liabilities included in other payables and accruals (excluding lease liabilities) | 9,731 |
| | 189,518 |

## 36. Financial Instruments by Category *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

**2019**

### *Financial assets*

| | Financial assets at amortised cost HK$'000 | Financial assets at fair value through profit or loss HK$'000 | Financial assets at fair value through other comprehensive income HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Equity investments designated at fair value through other comprehensive income | – | – | 26,076 | 26,076 |
| Financial assets at fair value through profit or loss | – | 2,646 | – | 2,646 |
| Trade receivables | 81,135 | – | – | 81,135 |
| Financial assets included in prepayments and other receivables | 13,183 | – | – | 13,183 |
| Cash and cash equivalents | 106,899 | – | – | 106,899 |
| Pledged deposits | 893 | – | – | 893 |
| Due from a related party | 398 | – | – | 398 |
| | 202,508 | 2,646 | 26,076 | 231,230 |

### *Financial liabilities*

| | Financial liabilities at amortised cost HK$'000 |
|---|---|
| Lease liability | 46,638 |
| Interest-bearing bank borrowings | 16,678 |
| Trade and bills payables | 106,531 |
| Financial liabilities included in other payables and accruals (excluding lease liabilities) | 9,132 |
| Due to related parties | 46 |
| | 179,025 |

## 37. Fair Value and Fair Value Hierarchy of Financial Instruments

At 31 December 2020 and 2019, the carrying amounts of the Group's financial assets and financial liabilities approximated to their respective fair values.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, financial assets included in prepayments and other receivables, amounts due from/to related parties, trade payables, financial liabilities included in other payables and accruals, and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Group invested in an unlisted investment classified as a financial asset at fair value through profit or loss, which represented a wealth management product issued by a bank in Hong Kong. The Group estimated the fair value of the unlisted investment based on the market price.

The fair value of the unlisted equity investments designated at fair value through other comprehensive income has been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about expected future cash flows, credit risk, volatility and discount rates. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

For the fair value of the unlisted equity investments at fair value through other comprehensive income, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model.

## 37. Fair Value and Fair Value Hierarchy of Financial Instruments *(Continued)*

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2020 and 2019:

| | Valuation technique | Significant unobservable input | Range | Sensitivity of fair value to the input |
|---|---|---|---|---|
| Unlisted equity investments | Discounted cash flow analysis | Gross margin rate | 40% (2019: 42%) | 5% (2019: 5%) increase/decrease in multiple would result in fair value increase by approximately HK$2,504,000/decrease by approximately HK$2,504,000 (2019: increase by approximately HK$2,173,000/decrease by approximately HK$2,173,000). |
| | | Sales growth rate | 14.8% to 35.0% (2019: 20.0% to 52.3%) | 5% (2019: 5%) increase/decrease in multiple would result in fair value increase by approximately HK$2,626,000/decrease by approximately HK$2,522,000 (2019: increase by approximately HK$3,742,000/decrease by approximately HK$3,505,000). |

## 37. Fair Value and Fair Value Hierarchy of Financial Instruments *(Continued)*

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

**Assets measured at fair value:**

| As at 31 December 2020 | Fair value measurement using | | |
|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Equity investments designated at fair value through other comprehensive income | **–** | **24,387** | **24,387** |

| As at 31 December 2019 | Fair value measurement using | | |
|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Financial assets at fair value through profit or loss | 2,646 | – | 2,646 |
| Equity investments designated at fair value through other comprehensive income | – | 26,076 | 26,076 |
| | 2,646 | 26,076 | 28,722 |

The Group did not have any financial liabilities measured at fair value as at 31 December 2020 and 2019.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2019: Nil).

# 38. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank borrowings, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, other receivables, trade payables, and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

### *Foreign currency risk*

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 83.1% (2019: 89.7%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 53.0% (2019: 50.6%) of costs were denominated in the units' functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$ exchange rate and RMB exchange rate, with all other variables held constant, of the Group's loss before tax and the Group's equity.

| | Increase/ (decrease) in exchange rate % | Increase/ (decrease) in loss before tax HK$'000 | Increase/ (decrease) In equity* HK$'000 |
|---|---|---|---|
| **As at 31 December 2020** | | | |
| If HK$ weakens against US$ | **5** | **2,914** | **2,434** |
| If HK$ strengthens against US$ | **(5)** | **(2,914)** | **(2,434)** |
| If HK$ weakens against RMB | **5** | **(2,981)** | **(2,490)** |
| If HK$ strengthens against RMB | **(5)** | **2,981** | **2,490** |
| **As at 31 December 2019** | | | |
| If HK$ weakens against US$ | 5 | 2,989 | 2,496 |
| If HK$ strengthens against US$ | (5) | (2,989) | (2,496) |
| If HK$ weakens against RMB | 5 | (323) | (269) |
| If HK$ strengthens against RMB | (5) | 323 | 269 |

* Excluding retained profits

## 38. Financial Risk Management Objectives and Policies *(Continued)*

### *Credit risk*

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

***Maximum exposure and year-end staging***

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

**As at 31 December 2020**

| | 12-month ECLs | Lifetime ECLs | | | |
|---|---|---|---|---|---|
| | Stage 1<br>HK$'000 | Stage 2<br>HK$'000 | Stage 3<br>HK$'000 | Simplified approach<br>HK$'000 | Total<br>HK$'000 |
| Trade receivables* | – | – | – | **64,697** | **64,697** |
| Financial assets included in prepayments and other receivables** | **15,890** | – | – | – | **15,890** |
| Cash and cash equivalents | **100,200** | – | – | – | **100,200** |
| Pledged deposits | **1,784** | – | – | – | **1,784** |
| | **117,874** | – | – | **64,697** | **182,571** |

As at 31 December 2019

| | 12-month ECLs | Lifetime ECLs | | | |
|---|---|---|---|---|---|
| | Stage 1<br>HK$'000 | Stage 2<br>HK$'000 | Stage 3<br>HK$'000 | Simplified approach<br>HK$'000 | Total<br>HK$'000 |
| Trade receivables* | – | – | – | 81,135 | 81,135 |
| Financial assets included in prepayments and other receivables** | 13,183 | – | – | – | 13,183 |
| Cash and cash equivalents | 106,899 | – | – | – | 106,899 |
| Pledged deposits | 893 | – | – | – | 893 |
| Due from a related party | 398 | – | – | – | 398 |
| | 121,373 | – | – | 81,135 | 202,508 |

## 38. Financial Risk Management Objectives and Policies *(Continued)*

### ***Credit risk*** *(Continued)*

***Maximum exposure and year-end staging*** *(Continued)*

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 18 to the financial statements.

** The credit quality of the financial assets included in prepayments and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 18 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

### ***Liquidity risk***

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

| | 2020 | | | | |
|---|---|---|---|---|---|
| | On demand HK$'000 | Less than 3 months HK$'000 | 3 to less than 12 months HK$'000 | Over 1 year HK$'000 | Total HK$'000 |
| Lease liabilities | **1,210** | **2,739** | **9,752** | **25,727** | **39,428** |
| Interest-bearing bank borrowings (excluding lease liabilities) | **–** | **8,051** | **3,978** | **–** | **12,029** |
| Trade payables | **–** | **97,454** | **33,766** | **–** | **131,220** |
| Financial liabilities included in other payables and accruals | **9,731** | **–** | **–** | **–** | **9,731** |
| | **10,941** | **108,244** | **47,496** | **25,727** | **192,408** |

## 38. Financial Risk Management Objectives and Policies *(Continued)*

***Liquidity risk*** *(Continued)*

| | 2019 | | | | |
|---|---|---|---|---|---|
| | On demand HK$'000 | Less than 3 months HK$'000 | 3 to less than 12 months HK$'000 | Over 1 year HK$'000 | Total HK$'000 |
| Lease liabilities | 1,350 | 2,591 | 11,572 | 35,693 | 51,206 |
| Interest-bearing bank borrowings (excluding lease liabilities) | – | 7,327 | 9,435 | – | 16,762 |
| Trade payables | – | 99,261 | 7,270 | – | 106,531 |
| Due to related parties | – | – | 46 | – | 46 |
| Financial liabilities included in other payables and accruals | 9,132 | – | – | – | 9,132 |
| | 10,482 | 109,179 | 28,323 | 35,693 | 183,677 |

### *Capital management*

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 31 December 2019.

The Group monitors capital using a gearing ratio. The gearing ratio is defined as interest-bearing bank borrowings divided by total equity. The gearing ratios as at the end of the reporting periods were as follows:

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Interest-bearing bank borrowings (note 23) | **12,003** | 16,678 |
| Total equity | **215,830** | 273,349 |
| Gearing ratio | **5.6%** | 6.1% |

## 39. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Amounts due from subsidiaries | **414,247** | 414,399 |
| Investment in a subsidiary | **22,000** | 22,000 |
| Total non-current assets | **436,247** | 436,399 |
| CURRENT ASSETS | | |
| Prepayments | **58** | – |
| Cash and cash equivalents | **404** | 878 |
| Total current assets | **462** | 878 |
| CURRENT LIABILITIES | | |
| Other payables | **125** | 124 |
| Total current liabilities | **125** | 124 |
| NET CURRENT ASSETS | **337** | 754 |
| Net assets | **436,584** | 437,153 |
| EQUITY | | |
| Issued capital | **9,528** | 9,528 |
| Reserves | **427,056** | 427,625 |
| Total equity | **436,584** | 437,153 |

## 39. Statement of Financial Position of the Company *(Continued)*

Note:

A summary of the Company's reserves is as follows:

| | Share premium account HK$'000 | Share award reserve HK$'000 | Share option reserve HK$'000 | Capital reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2019 | 700,113 | 7,112 | 24,791 | 81,350 | (203,506) | 609,860 |
| Total comprehensive loss for the year | – | – | – | – | (226,787) | (226,787) |
| Issue of shares | 51,627 | – | – | – | – | 51,627 |
| Share issue expenses | (470) | – | – | – | – | (470) |
| Reclassification of vested awarded shares | (4,393) | (4,864) | – | – | – | (9,257) |
| Equity-settled share option arrangements | – | – | 4,900 | – | – | 4,900 |
| Equity-settled Share Award Scheme arrangements | – | (2,248) | – | – | – | (2,248) |
| Reclassification of lapsed share options | 5,976 | – | (5,976) | – | – | – |
| At 31 December 2019 and 1 January 2020 | **752,853** | **–** | **23,715** | **81,350** | **(430,293)** | **427,625** |
| Total comprehensive loss for the year | **–** | **–** | **–** | **–** | **(1,081)** | **(1,081)** |
| Issue of shares | **–** | **–** | **–** | **–** | **–** | **–** |
| Share issue expenses | **–** | **–** | **–** | **–** | **–** | **–** |
| Reclassification of vested awarded shares | **–** | **–** | **–** | **–** | **–** | **–** |
| Equity-settled share option arrangements | **–** | **–** | **–** | **–** | **–** | **–** |
| Equity-settled Share Award Scheme arrangements | **–** | **–** | **512** | **–** | **–** | **512** |
| Reclassification of lapsed share options | **–** | **–** | **–** | **–** | **–** | **–** |
| At 31 December 2020 | **752,853** | **–** | **24,227** | **81,350** | **(431,374)** | **427,056** |

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to share capital when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

## 40. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 29 March 2021.

# Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is as follows.

| | 2020<br>HK$'000 | 2019<br>HK$'000 | 2018<br>HK$'000 | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|---|---|
| Revenue | **437,111** | 549,123 | 989,708 | 735,780 | 1,339,611 |
| Gross profit | **61,071** | 62,483 | 172,957 | 161,320 | 325,407 |
| Gross profit margin | **14.0%** | 11.4% | 17.5% | 21.9% | 24.3% |
| (Loss)/Profit before tax | **(71,063)** | (84,476) | (250,612) | (470,034) | 61,638 |
| (Loss)/profit for the year | **(71,063)** | (84,476) | (253,728) | (485,300) | 53,728 |
| Net profit margin | **(16.3%)** | (15.4%) | (25.6%) | (66.0%) | 4.0% |
| (Loss)/Profit attributable to owners of the Company | **(64,021)** | (82,310) | (253,728) | (485,300) | 53,728 |
| Cash and cash equivalents | **100,200** | 106,899 | 95,132 | 203,129 | 480,436 |
| Bank and other borrowings | **12,003** | 16,678 | 29,717 | 89,265 | 100,984 |
| Total assets | **458,589** | 499,711 | 611,293 | 985,428 | 1,384,661 |
| Total liabilities | **242,759** | 226,362 | 301,226 | 415,164 | 361,348 |
| Equity attributable to owners of the Company | **217,307** | 267,364 | 310,067 | 570,264 | 1,023,313 |
| Non-controlling interests | **(1,477)** | 5,985 | – | – | – |
| Total equity | **215,830** | 273,349 | 310,067 | 570,264 | 1,023,313 |