Cowell e Holdings Inc.
高偉電子控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1415

ANNUAL REPORT
2021

Contents

Corporate Information

COMPANY NAME

Cowell e Holdings Inc.

PLACE OF LISTING OF SHARES

The Stock Exchange of Hong Kong Limited

STOCK CODE

1415

STOCK NAME

Cowell

BOARD OF DIRECTORS

Executive Directors

Mr. Meng Yan *(Chairman)*
(appointed on 15 January, 2021)
Mr. Wu Ying-Cheng
(appointed on 15 January, 2021)
Mr. Kwak Jung Young *(Chairman)*
(resigned on 5 February, 2021)
Mr. Cho Young Hoon
(resigned on 5 February, 2021)

Non-Executive Directors

Mr. Chen Han-Yang *(appointed on 1 March, 2021)*
Mr. Yang Li *(appointed on 1 March, 2021)*

Independent Non-executive Directors

Ms. Su Yen-Hsueh *(appointed on 15 January, 2021)*
Mr. Tsai Chen-Lung *(appointed on 15 January, 2021)*
Ms. Liu Xia *(appointed on 26 July, 2021)*
Mr. Luo Zhenbang *(appointed on 15 January, 2021 and resigned on 26 July, 2021)*
Mr. Kim Chan Su *(resigned on 5 February, 2021)*
Dr. Song Si Young *(resigned on 5 February, 2021)*
Mr. Jung Jong Chae *(resigned on 5 February, 2021)*

COMPANY SECRETARY

Ms. Lam Wing Yan

AUTHORIZED REPRESENTATIVES

Mr. Chen Han-Yang *(appointed on 1 March, 2021)*
Ms. Lam Wing Yan
Mr. Cho Young Hoon *(resigned on 1 March, 2021)*

AUDIT COMMITTEE

Ms. Liu Xia *(Chairman) (appointed on 26 July 2021)*
Ms. Su Yen-Hsueh *(appointed on 15 January, 2021)*
Mr. Tsai Chen-Lung *(appointed on 15 January, 2021)*
Mr. Luo Zhenbang *(Chairman) (appointed on 15 January, 2021 and resigned on 26 July, 2021)*
Mr. Kim Chan Su *(Chairman)*
(resigned on 5 February, 2021)
Dr. Song Si Young *(resigned on 5 February, 2021)*
Mr. Jung Jong Chae *(resigned on 5 February, 2021)*

REMUNERATION COMMITTEE

Ms. Su Yen-Hsueh *(Chairman)*
(appointed on 15 January, 2021)
Mr. Tsai Chen-Lung *(appointed on 15 January, 2021)*
Ms. Liu Xia *(appointed on 26 July, 2021)*
Mr. Luo Zhenbang *(appointed on 15 January, 2021 and resigned on 26 July, 2021)*
Dr. Song Si Young *(Chairman)*
(resigned on 5 February, 2021)
Mr. Kim Chan Su *(resigned on 5 February, 2021)*
Mr. Cho Young Hoon *(resigned on 5 February, 2021)*

NOMINATION COMMITTEE

Mr. Tsai Chen-Lung *(Chairman)*
(appointed on 15 January, 2021)
Ms. Su Yen-Hsueh *(appointed on 15 January, 2021)*
Ms. Liu Xia *(appointed on 26 July, 2021)*
Mr. Luo Zhenbang *(appointed on 15 January, 2021 and resigned on 26 July. 2021)*
Mr. Kwak Jung Young *(Chairman)*
(resigned on 5 February, 2021)
Dr. Song Si Young *(resigned on 5 February, 2021)*
Mr. Kim Chan Su *(resigned on 5 February, 2021)*

REGISTERED OFFICE

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HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Dongguan City
Guangdong Province
People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Tsimshatsui
Kowloon
Hong Kong

AUDITOR

KPMG
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

LEGAL ADVISOR

Reed Smith Richards Butler LLP
17/F, One Island East
Taikoo Place, 18 Westlands Road
Quarry Bay, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Maples Fund Services (Cayman) Limited
PO Box 1093
Boundary Hall
Cricket Square
Grand Cayman
KY1-1102
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17/F, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

PRINCIPAL BANKERS

Hongkong and Shanghai Banking Corporation Limited

Australia and New Zealand Banking Group Limited

COMPANY WEBSITE

www.cowelleholdings.com

PUBLIC RELATIONS CONSULTANT

Strategic Public Relations Group Limited
24/F., Admiralty Centre I
18 Harcourt Road
Hong Kong

Chairman's Statement

Dear Shareholders,

I am pleased to present our key milestones and achievements for the financial year ended 31 December, 2021 on behalf of Cowell e Holdings Inc.

Looking back to 2021, due to the slowdown of economic growth and the sluggish development of the real economy caused by the COVID-19 pandemic and ongoing United States-China trade disputes, the crisis faced by the overall global economy has yet to be resolved. Under such difficult market environment, the management team of the Company made every effort to keep on improving. For the year ended 31 December, 2021, our revenue increased to US$799.3 million, which we observed a positive growth, and we recorded a net profit of US$49.8 million in 2021, which represents a 17.4% increase as compared to 2020, once again delivering a pleasing result under the adverse environment in 2021.

We are continuously optimistic of the development of the global delicate optical industry. On traditional racetracks, 3C electronic products such as smartphones, laptops and tablets carry on their upgrades, which facilitate the strong demand for camera modules. On new racetracks such as augmented reality ("AR"), virtual reality ("VR"), intelligent driving, drone, healthcare and education, the innovation, precision and quantity of delicate optical modules have all enhanced rapidly and, together with the popularization of 5G high-speed transmission technologies and the promulgation of various policies on promoting the construction of 5G network, will serve towards the realization of optical industry in every application scenarios, providing crucial conditions for the industrial development. According to the report by the research firm Research and Markets, the market size of camera modules was approximately US$36.6 billion in 2021 and is expected to reach US$63.1 billion by 2027 with a compound annual growth rate of 9.5%, exhibiting a strong growth momentum.

Looking forward to 2022, the COVID-19 pandemic is expected to remain, compounded with the outbreak of regional wars and persistent economic sanctions, the uncertainties in global economic growth will remain as in 2021. In order to overcome such challenges, the Company needs to continuously enhance its core competitiveness. In 2022, the Company will continue to be committed to establishing in-depth cooperation with customers, expanding new customer base, enriching product portfolio, accelerating process automation and improving process capability. It will also work on optimizing internal efficiency, fully developing the comprehensive potential of its development team and improving service and added value for customers. Moreover, the Company will focus on long-term product and business planning, continue to increase resource investment in research and development, carry out market cultivation and development and establish dedicated teams to maximize value for all Shareholders.

As a member of the globalized high-tech industry, the Company follows closely on significant global environmental and sustainable development issues in addition to continuously promoting the development of advanced technology. In 2022, the United Nations published the "Climate Change 2022: Impacts, Adaptation and Vulnerability" report, which elaborated on the severity of climate change, as well as its loss and damages caused to the people around the world and to the ecosystem. The United Nations statement stressed that the next decade is the key to ensuring a sustainable future. The Company will also increase its efforts and take actions such as the introduction of green power to contribute towards the sustainability of the global environment.

The Company will strive to achieve corporate "carbon neutrality" through steps such as inspection, analysis, reduction and offsetting to achieve environmental protection objectives. At the same time, it will head towards the objective of "plastic reduction", developing a commercial model for recycling and reducing plastics consumption, in the hope to become a model for the practice of sustainable development. While creating economic value, it should also take into account the sustainable development of the environment and strive for the vision of global common prosperity and common good.

The Company has been adhering to the people-oriented principle and regarding talent as the most important asset of the Company. In addition, its team is comprised of employees from different fields, countries, cultural backgrounds and mindsets. As such, our team has the corporate cultural characteristics and advantages of an inclusive multinational company. The Company provides a platform for its employees to achieve their ambitions and dreams in the optical field, unleashing their potentials and creating win-win scenarios. The Company and all employees believe that we will overcome obstacles, grow strongly and strive towards excellence despite the difficult environment in 2022.

Last but not least, on behalf of the Board, I would like to express my gratitude to all our staff and the management team for their contribution to the Company. I would also like to thank all our Shareholders and stakeholders for their support to the Group. My sincere appreciation also goes to our Board members for their contribution and invaluable guidance during the year.

Mr. Meng Yan
Chairman

Management Discussion and Analysis

MARKET REVIEW

According to the statistics of the International Monetary Fund (the "IMF"), the global economic growth rate in 2021 was 5.9%. The IMF takes a conservative stance of global economic growth for 2022, mainly due to supply disruption as well as worsened economic condition in developing countries caused by the pandemic. In January 2022, the IMF lowered its global economic growth forecast for 2022 to 4.4%, indicating that due to the weakening growth prospects of the two major economies, the United States and China, the persistent high inflation, including the early adoption of the tightening monetary policies, as well as tight supply chains, affecting the United States economic growth. China is also partly affected by the dynamic clearance policy against the pandemic as well as the "estimated financial pressure" of real estate developers. The IMF points out that inflation is expected to ease in the second half of the year as the supply-demand imbalance weakens and major economies adjust their monetary policies.

In January 2022, according to the National Bureau of Statistics of China, China's total GDP amounted to RMB114.3670 trillion in 2021, with an annual GDP growth rate of 8.1%, mainly attributable to the effect of the lackluster base due to China's gradual recovery from the COVID-19 pandemic in 2021, with a relatively high growth rate. However, Chinese officials also commented at the end of 2021 that the domestic economy still faces triple pressures of shrinking demand, supply shock and weakening expectations. The main reason for the decrease in demand is weak investment and consumption, which is dragged down by infrastructure and real estate, while consumption is affected by the spread of the pandemic domestically, with offline consumption cannot be fully recovered. The IMF also lowered its China's GDP growth rate forecast for 2022 to around 5.1%.

According to the data of the International Data Corporation ("IDC"), the global sales volume of smartphones increased from 1,280 million units in 2020 to 1,350 million units in 2021, representing a year-on-year increase of 5.5%. However, due to the significant adverse impact caused by factors of the supply chain and shortage of spare parts on smartphone markets in the second half of 2021, sales volume of smartphones declined by 4.5% in the second half of 2021 compared with the same period last year. Material shortages are expected to improve in the second half of 2022, the growth momentum of smartphones market will also follow suit. IDC forecasted that the smartphone shipment for 2022 will have a year-on-year increase of 3%.

As for the PRC market, according to the global smartphone market research report for 2021 4Q released by the research firm Canalys, the sales volume of smartphones in mainland China in 2021, representing only a 1% year-on-year growth and a 10% drop as compared to the sales volume in 2019. Nevertheless, benefiting from the launch of new models, iOS mobile phones became the No. 1 seller in the 4Q in the PRC with an outstanding sales performance. The PRC's top three mobile brands accounted for approximately 60% of the market share, with a year-on-year growth of over 20%. Canalys commented that demand in the high-end smartphone market in the PRC will remain robust as high-end consumers are less affected by the economic environment.

The topic of metaverse has been heating up in 2021. According to a market research by the research firm Trendforce, the global virtual reality application content market is predicted to have reached US$2.16 billion in 2021 and will reach US$8.31 billion by 2025 at a compound annual growth rate (CAGR) of over 40%. Regarding AR/VR devices, Trendforce expected shipment for 2022 to reach 12.02 million units with a year-on-year increase of 26.4%. With the expansion in complementary games and content applications, the number of metaverse user will gradually increase and drive market growth.

Moreover, the intelligent driving market is expected to grow rapidly, among which the market scale of Light Detection And Ranging (LiDAR) has been expanding as well. According to a report by the research firm MarketsandMarkets, the market scale of advanced driver-assistance systems (ADAS) will increase from US$27.2 billion in 2021 to US$74.9 billion in 2030 at a CAGR of 12%; meanwhile, the market scale of LiDAR will increase from US$2.1 billion in 2021 to US$3.4 billion in 2026 at a CAGR of approximately 22%. With the development of technology and the improvement of relevant laws and regulations in various countries, intelligent driving application is expected to become a standard equipment in the industry in the future and the market is expected to grow greatly.

Overall, the turmoil in global economy in 2020 carried forward into 2021, and every industry is faced with a high degree of volatility. Nevertheless, it does not affect the technological and application innovation in the optical field, and the development of sub-fields such as AR/VR and intelligent driving continues to intensify, which is in line with the Company's development strategy and will provide new growth impetus to the Company's development in 2022.

BUSINESS REVIEW

The Group is a major supplier of delicate optical modules and components for electronic mobile devices. It engages in the design, development, manufacture and sale of a variety of optical modules and parts that are used in smartphones, multimedia tablets and other mobile devices of internationally-renowned brands.

In the fiscal year of 2021, trade conflict between the United States and China, global outbreak of COVID-19 and intensifying competition within the consumer electronics and optical industry, compounded with frequent extreme climate and regional wars, have brought significant damage to the supply chain and has led to the sluggish market sentiment, and the Group has faced greater operational pressure than of the fiscal year of 2020.

Under the leadership of the management team, the Group continuously enhanced its core competitiveness, increased its investment in the research and development of new products and new technologies and fulfilled the multidimensional demands of the clients. As such, the Group's sales and net profit performance for the fiscal year of 2021 is greater than that for the fiscal year of 2020.

The Group manages its businesses by division, which recognised by geography. As illustrated in the annual report of the Company for the year ended 31 December 2019 and 2020, the revenue contributed by the camera module segment and the optical components segment account for approximately 99.86% and 0.14% of the total revenue of the Group for the financial year ended 31 December 2019 respectively, and approximately 99.96% and 0.04% of the total revenue of the Group for the financial year ended 31 December 2020 respectively. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has aggregated the camera module segment (in relation to the design, development, manufacture and sale of camera modules for mobile devices and home appliances) and optical components segment (in relation to the design, development, manufacture and sale of optical components for optical disk drivers) into a single reportable segment starting from 2021. The Directors consider a standalone optical components segment is no longer significant to the Group and the change in segment reporting can clearly reflects the business development and operating structure of the Group.

For the year ended 31 December, 2021, the Group recorded an increase in revenue from US$750.2 million in 2020 to US$799.3 million in 2021 and recorded an increase in profit from US$42.4 million in 2020 to US$49.8 million in 2021. The Group had total assets of US$552.1 million and total equity of US$308.7 million as of 31 December, 2021 as compared to total assets of US$381.6 million and total equity of US$250.1 million as of 31 December, 2020.

In order to accommodate for future expansion via vertical integration and horizontal integration, including capital expenditure and capital requirements after the expansion in the scale of operations, as well as effective capital management, the Board does not recommend the payment of a dividend for the year ended 31 December 2021.

OUTLOOK AND FUTURE STRATEGIES

Looking forward to the fiscal year of 2022, unfavourable factors such as trade conflict between the United States and China, outbreak of COVID-19, regional wars and various economic sanctions persist for the overall economy, which may lead to continued turmoil in the global economy and pressure on the smart mobile device market. However, for opportunities in the optical industry brought about by new technology and application such as the new racetracks of intelligent driving, augmented reality ("AR") and virtual reality ("VR"), the demand for relevant optical components and optical modules has been improving, while the impact from global economy adversity will be relatively limited.

Regarding intelligent driving applications worldwide, with the development of technology and the improvement of relevant laws and regulations in various countries, the market is expected to grow greatly, among which the market scale of Light Detection And Ranging (LiDAR) has been expanding as well, and it is expected to become a standard equipment in the industry in the future. According to a report of the market research firm MarketsandMarkets, the market scale of advanced driver-assistance systems (ADAS) will increase from US$27.2 billion in 2021 to US$74.9 billion in 2030 at a compound annual growth rate (CAGR) of 12%; meanwhile, the market scale of LiDAR will increase from US$2.1 billion in 2021 to US$3.4 billion in 2026 at a CAGR of approximately 22%. The Group will prepare its layout on this new racetrack in order to grasp the market opportunity, which will serve as an important momentum for the next stage of growth.

Driven by AR/VR, the topic of metaverse has been heating up in the fiscal year of 2021. According to a market research by the market research firm Trendforce, the global virtual reality application content market is predicted to have reached US$2.16 billion in 2021 and will reach US$8.31 billion by 2025 at a CAGR of over 40%. Regarding AR/VR devices, Trendforce expected shipment for 2022 to reach 12.02 million units with a year-on-year increase of 26.4%. With the expansion in complementary games and content applications, the number of metaverse user will gradually increase and drive market growth. The group collaborates with leading firms in the AR/VR core optical devices industry through strategic alliances, in order to leverage the respective advantages and gain the first mover advantage in this new racetrack.

In the fiscal year of 2022, the Group will continue to increase resource investment in research and development, promote technological innovation in production, accelerate the introduction of automated equipment, expand the automation team, in order to further enhance added value for customers and maintain a more stable cooperative relationship to create a win-win outcome. The management team is confident to lead the Company to greater successes.

FINANCIAL REVIEW

The following table sets out the summary of business results for the year ended 31 December, 2021:

	For the year ended December 31, Consolidated		
	2021 (US$ in millions)	2020 (US$ in millions)	Changes %
OPERATING RESULTS			
Revenue	**799.3**	750.2	6.5%
Gross profit	**120.5**	118.5	1.7%
Gross margin	**15.1%**	15.8%	
Operating profit	**58.6**	53.4	9.8%
Operating margin	**7.3%**	7.1%	
Net profit	**49.8**	42.4	17.4%
Net margin	**6.2%**	5.7%	
ASSETS & LIABILITIES			
Total assets	**552.1**	381.7	44.7%
Current assets	**457.2**	281.8	62.2%
Non-current assets	**94.9**	99.9	(5.0%)
Total liabilities	**243.4**	131.5	85.1%
Current liabilities	**227.0**	118.9	90.8%
Non-current liabilities	**16.5**	12.6	30.9%
Total equity	**308.7**	250.1	23.4%
EARNINGS PER SHARE	**$0.060**	$0.051	17.6%

Revenue

The Group reported a total revenue of approximately US$799.3 million in 2021, representing an approximately 6.5% increase compared with that of 2020 which was mainly due to increased orders from customers.

Profit and Margin

For the year ended 31 December, 2021, the Group has reported gross profit, operating profit and net profit of US$120.5 million, US$58.6 million and US$49.8 million, respectively, as compared with US$118.5 million, US$53.4 million and US$42.4 million, respectively, in the fiscal year of 2020. In terms of margins, the Group's gross margin, operating margin and net margin for the year ended 31 December, 2021 were 15.1%, 7.3% and 6.2%, respectively, as compared to 15.8%, 7.1% and 5.7%, respectively, in 2020.

During the year ended 31 December, 2021, the Group did not experience any significant change of pricing policy for its products and there was no material change in the unit cost of raw materials.

Key Financial Ratios

	For the year ended December 31, Consolidated	
	2021	2020
	(US$ in millions)	
KEY FINANCIAL RATIO (%)		
Return on equity	**16.1%**	17.0%
Current ratio (times)	**2.01**	2.37
Quick ratio (times)	**1.40**	1.65
Gearing ratio	**(53.9%)**	(42.7%)
Debt to equity ratio	**(35.0%)**	(29.9%)

Return on Equity

The calculation of return on equity is based on profit for the period divided by capital and reserves and multiplied by 100%.

The Group's return on equity at the end of the fiscal year of 2021 decreased from 17.0% in 2020 to 16.1% in 2021, primarily due to an increase in equity for the year ended 31 December, 2021.

Current Ratio

The calculation of current ratio is based on current assets divided by current liabilities.

The Group's current ratio decreased from 2.37 in 2020 to 2.01 in 2021, which was primarily due to the increase in the Group's cash and inventory, which were partially offset by corresponding increase in the Group's short-term loans and Group's trade payables.

Quick Ratio

The calculation of the quick ratio is based on current assets less inventories divided by current liabilities.

The Group's quick ratio decreased from 1.65 in 2020 to 1.40 in 2021, which was mainly due to the increase in the Group's cash, which were partially offset by a corresponding increase in the Group's short-term loans and the Group's trade payables.

Gearing Ratio

The calculation of gearing ratio is based on net debt (defined as bank loans and lease liabilities less cash and cash equivalents, bank deposits and pledged deposits) divided by the sum of net debt and total equity, and multiplied by 100%.

The Group's gearing ratio increased from -42.7% in 2020 to -53.9% in 2021, which was primarily due to an increase in its cash and cash equivalents.

Debt to Equity Ratio

The calculation of debt to equity ratio is based on net debt divided by total equity and multiplied by 100%.

Consistent with its gearing ratio, the Group's debt to equity ratio increased from -29.9% in 2020 to -35.0% in 2021, which was primarily due to an increase in its cash and cash equivalent.

Other Net Loss

The other net loss decreased by approximately 13.7% from approximately US$24.5 million in 2020 to approximately US$21.2 million in 2021. The decrease was mainly attributable to a decrease in exchange loss of approximately US$7.5 million and offset by an increase in loss on asset disposal approximately US$4.1 million.

Selling and Distribution Expenses

The selling and distribution expenses decreased by approximately 35.1% from approximately US$3.1 million in 2020 to approximately US$2.0 million in 2021. This decrease was mainly attributable to decrease of approximately US$1.0 million in the transportation expenses.

Administrative Expenses

Administrative expenses increased by approximately 9.3% from approximately US$40.8 million in 2020 to approximately US$44.6 million in 2021. This increase was mainly attributable to increase in the research and development expenses of approximately US$4.4 million.

Finance Costs

Finance costs increased by approximately 26.1% from approximately US$0.7 million in 2020 to approximately US$0.9 million in 2021, such increase was resulted from increase in interest expenses on bank loans.

Income Tax

The Group's income tax expense decreased by approximately 22.8% from approximately US$10.2 million in 2020 to US$7.9 million in 2021. The decrease was mainly attributable to the one-off deferred tax impact due to the change in tax rate in last year amounting US$2.7 million.

As a result, the Group's effective tax rate decreased by approximately 29.6% from approximately 19.5% in 2020 to approximately 13.7% in 2021.

Final Dividends

No dividend was paid during the year (2020: HK$93.2060 cents per ordinary share). The Directors do not recommend the payment of a final dividend after the end of the reporting period (2020: Nil).

CURRENT ASSETS AND LIABILITIES

As of 31 December, 2021, the Group had net current assets of approximately US$230.2 million, compared with net current assets of approximately US$162.8 million as of 31 December, 2020, representing an increase of approximately US$67.4 million.

Inventories

The Group's inventory balance increased by approximately 61.7%, or approximately US$52.9 million, from approximately US$85.8 million as of 31 December, 2020 to approximately US$138.7 million as of 31 December, 2021, mainly due to increase in the stock of finished products in 2021.

The following table sets forth the Group's average inventory turnover days for the periods indicated:

	As of 31 December,	
	2021	2020
	(US$ in millions)	
Inventory turnover days(1)	**60.4**	45.1

(1) Inventory turnover days were calculated based on the average of the opening and closing inventory balances divided by the cost of sales for the relevant period and multiplied by the number of days in the period.

Trade and Other Receivables

Trade receivables represent outstanding amounts due from the Group's customers for the purchase of its products. Besides trade receivables, the Group's other receivables and prepayments primarily comprise prepayments on the purchase of components and materials, value-added tax refunds due and guarantee deposits for its leases.

The Group's trade and other receivables increased by approximately 10.4%, or approximately US$11.1 million, from approximately US$106.6 million as of 31 December, 2020 to approximately US$117.7 million as of 31 December, 2021.

The table below sets forth an ageing analysis of the Group's trade receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, as of the dates indicated:

	As of 31 December,	
	2021	2020
	(US$ in millions)	
Trade receivables		
Within 1 month	**108.5**	62.5
Over 1 to 2 months	**–**	35.3
Over 2 to 3 months	**–**	3.0
Over 3 months	**–**	0.1
Total	**108.5**	101.7

The following table sets forth the turnover days for the Group's trade receivables for the periods indicated:

	Year ended 31 December,	
	2021	2020
Trade receivables turnover days[(1)]	**48.0**	52.0

(1) Trade receivables turnover days were calculated based on the average of the opening and closing trade receivables divided by turnover for the relevant period multiplied by the number of days in the period.

The Group's average trade receivables turnover days for the year ended 31 December, 2021 were lower as compared with the year ended 31 December, 2020 which was primarily due to the increase of sales.

Trade and Other Payables

Trade payables represent outstanding amounts due on the Group's purchases of components and materials and equipment from external suppliers. Apart from trade payables, the Group's accrued charges and other payables primarily comprise accrued salaries and other remuneration benefits and interest expenses payable.

The Group's trade and other payables increased by approximately 31.0%, or approximately US$33.4 million, from approximately US$107.5 million as of 31 December, 2020 to approximately US$140.9 million as of 31 December, 2021, primarily due to an increase in the purchased components and materials resulting mainly from the increased production in 2021.

The following table sets forth an ageing analysis of the Group's trade payables (which include in trade and other payables) as of the dates indicated:

	As of 31 December,	
	2021	2020
	(US$ in millions)	
Trade payables		
Within 1 month	**112.5**	64.0
Over 1 to 3 months	**16.1**	33.2
Over 3 to 6 months	**0.6**	0.1
Total	**129.2**	97.3

The following table sets out the turnover days for the Group's trade payables for the periods indicated:

	Year ended 31 December,	
	2021	2020
Trade payables turnover days[(1)]	**51.7**	46.9

(1) Trade payables turnover days were calculated based on the average of the opening and closing trade payables divided by turnover for the relevant period multiplied by the number of days in the period.

The Group's average trade payables turnover days for the year ended 31 December, 2021 were higher as compared with the year ended 31 December, 2020. which was primarily due to increase in the Group's sales, which were partially offset by corresponding increase in the Group's trade and other payables.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December, 2021, the Group had total assets of approximately US$552.1 million (31 December, 2020: US$381.6 million); net current assets of approximately US$230.2 million (31 December, 2020: US$162.8 million) and total equity of approximately US$308.7 million (31 December, 2020: US$250.1 million).

The Group has a solid financial position and continued to maintain a strong and steady inflow from operating activities. As at 31 December, 2021, the Group had approximately US$188.2 million of cash and cash equivalents. The Directors believe that the current cash and cash equivalents and expected cash flow from operations, will be sufficient to satisfy the current operational requirements of the Group.

Borrowings

As of the close of business on 31 December, 2021, the Group had aggregate banking facilities of approximately US$256.0 million, of which US$72.9 million were utilized. Other than this, the Group did not have any other outstanding debt securities, charges, mortgages or other similar indebtedness, hire purchase or guarantee or other material contingent liabilities. The Group did not have any loan outstanding, debt securities, charges, mortgages or other similar indebtedness, hire purchase, or guarantees or other material contingent liabilities as at 31 December, 2020.

Pledge of the Group's Assets

As at 31 December, 2021, the Group had no pledged assets (31 December, 2020: Nil).

Capital Expenditures and Commitments

The Group's capital expenditures (equivalent to the cash spent for payment for purchases of property, plant and equipment and intangible assets) for the year ended 31 December, 2021 amounted to US$29.8 million which was funded through cash flow from operation, compared to US$19.8 million for the year ended 31 December, 2020. The Group's capital expenditures in 2021 mainly reflected purchases of additional machinery and equipment to produce more advanced Flip-chip camera modules. The Group intends to fund the Group's planned future capital expenditures through a combination of cash flow from operating activities and possible fund raising exercise.

The Group's capital commitments that were contracted but not provided as of 31 December, 2021 amounted to approximately US$2.3 million, compared with approximately US$0.7 million as of 31 December, 2020. Such capital commitments represent commitments arising out of a contractual relationship where the relevant property, plant and equipment were not provided as of the relevant dates.

Contingent Liabilities

As at 31 December, 2021, the Group had no significant contingent liabilities except for the guarantee provided by Company to secure the banking facilities granted by banks to certain subsidiaries amounting to US$60 million (31 December, 2020: Nil).

Interest Coverage Ratio

The interest coverage ratio decreased from 75.4 in 2020 to 65.6 in 2021, which was primarily due to an increase in interest expenses.

Treasury Policies

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the period under review. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of its assets, liabilities and other commitments can meet funding requirements from time to time.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ON MARKET RISK

The Group's exposure to credit, liquidity, interest rate and currency risks arises in the normal course of its business. The market risks to which the Group is exposed to, as well as its practices to manage such risks, are as follows:

Credit Risk

The Group's credit risk is primarily attributable to its trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks for which the Group considers to have low credit risk. In respect of trade and other receivables, individual credit evaluations are performed on all customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and may take into account information specific to the customer and the economic environment in which the customer operates. Trade and other receivables are generally due within 30 to 90 days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from its customers. In respect of deposits with banks, the Group only places its deposits with the major financial institutions which the management believes such institutions have a high credit rating.

The Group's exposure to credit risk is influenced primarily by the individual characteristics of each customer, and to a lesser extent, by the default risk of the industry and country in which its customers operate. As of 31 December, 2021, 99.9% (2020: 93.1%) of the Group's trade receivables were due from its largest customer, and 100% (2020: 100.0%) of its trade receivables were due from its five largest customers in aggregate.

Liquidity Risk

The Group's policy is to regularly monitor liquidity risk so as to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term. The Group's bank loans amount to US$72.9 million (2020: Nil) as at 31 December, 2021.

Please refer to note 23(b) to the financial statements for further information.

Interest Rate Risk

The Group's interest rate risk arises primarily from its interest-bearing borrowings subject to variable rates and those subject to fixed rates, which expose the Group to fair value interest rate risks. As of 31 December, 2021, the Group's variable rate borrowings amounted to US$60.0 million (2020: Nil).

Currency Risk

The Group's exposure to currency risk arises primarily through sales and purchases giving rise to receivables, payables and cash balances that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Hong Kong dollars (pegged to the U.S. dollar), Renminbi and Korean Won.

The functional currency of the Company and its subsidiaries operating in Hong Kong, the PRC and Korea are U.S. dollars, Hong Kong dollars, Renminbi and Korean Won, respectively. While both the Group's sales of products and purchases of components, materials and equipment are denominated mainly in U.S. dollars, a portion of its purchases, as well as its labor and other operating costs, are denominated in other currencies, including Renminbi and Korean Won. For the year ended 31 December, 2021, the Group did not use any forward exchange contracts or other derivative instruments to hedge against fluctuations in currency exchange rates applicable to us.

As at 31 December, 2021, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the company's profit after taxation and retained profits by approximately US$501,000 (2020: $Nil). Other components of consolidated equity would not be affected in response to a general increase/decrease in interest rates.

Please refer to note 23(c) to the consolidated financial statements for further details.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no material acquisitions and disposals of subsidiaries and associated companies of the Company performed by the Group for the year ended 31 December, 2021.

HUMAN RESOURCES

The Group employed a total of approximately 2,885 full-time employees as of 31 December, 2021 (31 December, 2020: 2,735). Total staff costs for the year ended 31 December, 2021, excluding Directors' remuneration, were approximately US$51.0 million (2020: US$44.6 million).

In particular, professional employment agencies located in Dongguan, the PRC, have been involved for purposes of hiring most of the Group's factory workers. The Group also provides living, entertainment, dining and training facilities for its employees. The scope of the training includes human resources policy, health and safety, management skills and machine and equipment manuals as well as other various topics.

The Group has an emolument policy with respect to its long-term incentive schemes. The basis of determining emoluments payable to the Directors is made on a discretionary basis with reference to the Company's operating results, individual performance and comparable market statistics. Furthermore, the Board has delegated the remuneration committee to review and make decisions in respect of the remuneration packages and overall benefits for the directors and senior management of the Company. The emolument policy of the Group is determined by the Board on the basis of their merit, qualifications and competence.

Furthermore, to provide incentive or reward to our employees for their contribution or potential contribution to, and continuing efforts to promote the interests of, the Group with greater flexibility, during the financial year ended 31 December 2021, the Group had terminated the share option scheme of the Company adopted on 4 February 2015 and adopted a new share option scheme on 5 May 2021. Details of the aforesaid new share option scheme is available in the circular of the Company dated 20 April 2021 and the subsection headed "Share Option Scheme" in this report.

Directors and Senior Management

As of the date of this annual report, the Board consists of seven Directors including two executive Directors, two non-executive Directors and three independent non-executive Directors. The following sets forth the profile of the Directors and senior management:

Executive Directors

Mr. Meng Yan ("Mr. Meng") (孟岩), aged 46, is an executive Director and chairman of the Board. Mr. Meng obtained a bachelor's degree in mechanical and electrical engineering from the University of Electronic Science and Technology of China (電子科技大學) in 1998. Mr. Meng has extensive experience in operation, investment and corporate management. He has previously worked in leading companies in the electronic industries, such as International Business Machines Corporation, Sony Ericsson Mobile Communications (now known as Sony Mobile Communications Corporation) and Knowles Corporation. He joined the Luxshare Precision Industry Co., Limited as a vice president in 2016. Mr. Meng was appointed as an executive Director on 15 January, 2021. He was appointed as the chairman of the Board on 1 March, 2021.

Mr. Wu Ying-Cheng ("Mr. Wu") (吳英政), aged 54, is an executive Director, the chief executive officer ("CEO") and the chief financial officer ("CFO") of the Company. Mr. Wu obtained a master's degree in material science from the Department of Mechanical Engineering of the National Chung Hsing University (國立中興大學) in 1993. Mr. Wu has been working in the semiconductor assembly technology and camera module development industries since 1995. He has been a general manager of Lite-On Singapore Pte. Limited for portable image device business unit since 2015 and a general manager of Luxvisions Innovation Limited since 2018. Mr. Wu was appointed as an executive Director on 15 January 2021. He was appointed as a CEO and chief financial officer of the Company on 1 March, 2021.

Non-executive Directors

Mr. Chen Han-Yang ("Mr. Chen") (陳漢洋), aged 51, is a non-executive Director. Mr. Chen obtained a master's degree in banking and finance from the Tamkang University (台灣淡江大學) in 1998. Mr. Chen has been working in the investment, mergers and acquisitions and corporate management in Fortune 500 corporations. He has been the head of investment of Luxshare Precision Industry Co., Limited since 2016 and has been primarily responsible for corporation investment. Mr. Chen has extensive experience in the consumer electronics industry. Mr. Chen was appointed as a non-executive Director on 1 March, 2021.

Mr. Yang Li ("Mr. Yang") (楊立), aged 36, is a non-executive Director. Mr. Yang joined Luxshare Precision Industry Co., Limited in July 2007. He has over 10 years of experiences in supply chain and operation management in consumer electronics industry. He has been chief operating officer of Shenzhen Luxshare Precision Industry Co., Limited, Bozhou Lanto Electronics Co., Limited and Luxshare Precision Industry (Chuzhou) Co., Limited. He has extensive experience in supply chain management. Mr. Yang was appointed as a non-executive Director on 1 March, 2021.

Independent non-executive Directors

Ms. Su Yen-Hsueh ("Ms. Su") (蘇艷雪), aged 52, is an independent non-executive Director, a chairman of the remuneration committee of the Company (the "Remuneration Committee") and a member of each of the audit committee (the "Audit Committee") and the nomination committee (the "Nomination Committee") of the Company. Ms. Su obtained a bachelor's degree in international business from the National Taiwan University (國立台灣大學) in 1991 and a master's degree in industrial administration from the Carnegie Mellon University in 1993. Ms. Su has extensive experience in investments and mergers and acquisitions in the technology sector. She was a top ranked technology analyst for ABN AMRO Bank and UBS before joining AsusTeK Computer Inc. as a chief investment officer in 2004. She spearheaded the AsusTeK Computer Inc. and Pegatron Corporation restructuring in 2009 and retired from her position of senior vice president for investment and business development from Pegatron Corporation in 2013. Ms. Su currently serves on the boards of AU Optronics Corporation, TXC Corporation, and Eslite Spectrum Corporation as an independent director, and on the board of Kinsus Interconnect Technology Corporation as a director. Ms. Su was appointed as an independent non-executive Director on 15 January, 2021.

Mr. Tsai Chen-Lung ("Mr. Tsai") (蔡鎮隆), aged 49, is an independent non-executive Director, a chairman of the Nomination Committee and a member of each of the Remuneration Committee and the Audit Committee. Mr. Tsai obtained a bachelor's degree majoring in information system from the Western United States International University and a master's degree majoring in electronic computer engineering from the Arizona State University. Mr. Tsai is currently the chief strategy officer of Taiwan Luxshare-ICT Company Limited, a director of Stech International Company Limited, a director of Space Speed Technology Limited, the chairman of the board of directors of Speedtech (LS-ICT) Company Limited, the legal representative of Luxshare-ICT Inc., the legal representative of Leader Precision Industry Corporation Limited, a director of Luxshare Precision Accessory (Kunshan) Limited, and the chairman of Toyoshima Corporation (M) Sdn. Bhd. Mr. Tsai was appointed as an independent non-executive Director on 15 January, 2021.

Ms. Liu Xia ("Ms. Liu") (劉霞), aged 56, is an independent non-executive Director, a chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee. Ms. Liu graduated with a bachelor's degree in Industrial and Economics Management from the Dongbei University of Finance and Economics in 1988 and completed an in-service postgraduate course in Finance at the Central University of Finance and Economics in 2004. From July 1988 to February 1993, she was appointed as a staff member and Chief Officer of the Finance Department's Plant Representative Office of Ansteel Group Corporation Limited by the Finance Bureau of Anshan City, Liaoning Province under the Ministry of Finance of the People's Republic of China (the "PRC"), in which role she undertook supervision and review of finance matters and formulation of policies for state-owned enterprises.

From March 1993 to March 1999, she successively worked as Project Manager, Department Manager, Chief Accountant and Deputy General Manager of DeveChina International Appraisals Co., Ltd. During her tenure at DeveChina International Appraisals Co., Ltd., she was engaged in and led major listing-related valuation projects such as the A share listing of Changhong Huayi Compressor Co., Ltd., the A share listing of FAW Car Co., Ltd. and the H share listing of Sinopec Yanshan Petrochemical Company. Since April 1999, she has been working as a Director and Senior Deputy General Manager of China Assets Appraisal Co., Ltd.. During her tenure at China Assets Appraisal Co., Ltd., she was engaged in and led major listing valuation projects, such as the secondary share issuance of Shandong International Power Development Co., Ltd., the A share listing of China Petroleum & Chemical Corporation, the rights issue of GD Power Development Co., Ltd., the debt for equity swap of Panzhihua Steel (Group) Co., Ltd., the rights issue of Harbin Dongan Automotive Power Co., Ltd., the assets reorganization (H shares) of Sinopharm Group Co., Ltd., the secondary share issuance of TianChuang Property Co., Ltd., the reorganisation and overall listing of Bengang Steel Plates Co., Ltd., the disposal of employee shares during the initial public offering of CSR Corporation Limited, the A share listing of China National Chemical Engineering Co., Ltd., the initial offering application at ChiNext of Landocean Energy Services Co., Ltd., the establishment of CECEP Solar Energy Technology Co., Ltd. and the major assets reorganization project of CETC Energy Joint-Stock Co., Ltd. Ms. Liu was appointed as an independent non-executive Director on 26 July, 2021.

Save as disclosed above, the Directors (i) have not held any directorships in other listed public companies, whether in Hong Kong or overseas, during the last three years; and (ii) do not have any other relationships with any Directors, senior management or substantial or controlling shareholders of the Company. Regarding the Directors' interests in shares of the Company within the meaning of Part XV of the SFO, please refer to the paragraph headed "Directors' and Chief Executive Officers' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or its associates corporations" in the Directors' Report section of this report for more details.

SENIOR MANAGEMENT

The senior management team of the Group, in addition to the Directors listed above, is as follows:

Mr. Hwang Young-Hwan ("Mr. Hwang"), aged 47, is the director of the production department of Cowell China. Mr. Hwang received a bachelor's degree in industrial engineering from Inha University in February 2002. He had worked at LG Electronics Inc. as a quality manager from 2002 to 2008. From 2009 to 2017, Mr. Hwang had worked at LG Innotek Company Limited as a quality senior manager. He joined Cowell China in June 2017. Mr. Hwang had over 20 years of working experience in consumer electronics industry.

Mr. Ryu Jin-Kyu ("Mr. Ryu"), aged 51, is a director of the overall Quality Assurance of Cowell China. Prior to joining Cowell China in August 2015, Mr. Ryu had over 20 years of work experience in the quality division of the semiconductor manufacturing industry. Mr. Ryu started his career in the quality division of Hynix Semiconductor Inc., one of the major semiconductor manufacturing companies in the world, and had worked there for 4 years from 1994 to 1997. From 1997 to 2015, Mr. Ryu had served as a senior manager in the quality division of Dongbu Hitek Company Limited which was the first runner of non-memory semiconductor foundry business in Korea. Mr. Ryu received a bachelor's degree in Metallurgical Engineering from Hanyang University in February 1994.

COMPANY SECRETARY

Ms. Lam Wing Yan ("Ms. Lam"), aged 45, is the senior finance manager of Cowell Hong Kong and was appointed as the company secretary of the Company on September 17, 2014. Ms. Lam joined the Group in August 2013 and has been primarily responsible for corporate financial management. She has over 17 years of experience in corporate financial management, accounting and the company secretarial area. Prior to joining the Group, Ms. Lam held various positions, including the senior manager of finance and operations at Iriver Hong Kong Limited, a private company based in Hong Kong which provides, among others, broadcasting equipment and semiconductors, and the holding company of which is listed on the Korea Exchange, for approximately 10 years from March 2001 to June 2011. Ms. Lam obtained a master's degree in business administration from the University of South Australia in March 2012. Ms. Lam is a certified public accountant, a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants.

Directors' Report

The Board is pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December, 2021. The business review is disclosed in the section headed "Management Discussion and Analysis" on page 6 in this annual report.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its subsidiaries are set out in note 12 to the consolidated financial statements. The Group is a major supplier of camera modules for mobile devices. The Group primarily engages in the design, development, manufacture and sale of a variety of camera modules that serve as critical components for smartphones, multimedia tablets and other mobile devices with camera functions. Major customers for the Group's camera modules include some of the leading mobile device manufacturers in the world. The Group also designs, develops, manufactures and sells optical components used in a number of consumer electronics products. Major customers for the Group's optical components include subsidiaries or affiliates of leading global electronics companies.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December, 2021 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 94 to 163.

The Directors do not recommend the payment of a special dividend and final dividend after the end of the reporting period. A special dividend of HK$93.2060 cents per ordinary share and no final dividend was paid during the year 2020.

CLOSURE OF REGISTER OF MEMBERS FOR ENTITLEMENT TO ATTEND AND VOTE AT ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "AGM") will be held on Thursday, 26 May, 2022. The notice of the AGM will be published and dispatched to the Shareholders in due course.

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 23 May, 2022 to Thursday, 26 May, 2022, both dates inclusive, during which period no transfers of hares of the Company will be registered. In order to qualify for attending and voting at the AGM, Shareholders must complete and lodge all transfer documents accompanied by the relevant share certificates with the Share Registrar, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 20 May, 2022.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last five years ended 31 December, 2021 are set out on page 164 of this annual report. That summary does not form part of the audited financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 22(c) to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributability of reserves of the Company

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in share premium account are distributable to the Shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

As at 31 December, 2021, the reserves of the Company available for distribution to the Shareholders amounted to approximately US$65,177,000 (2020: US$66,429,000).

DONATIONS

There was no charitable donations made by the Group during the year ended 31 December, 2021 (2020: Nil).

PRE-EMPTIVE RIGHTS

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

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December, 2021.

SHARE OPTION SCHEME

The Company has adopted the old Share Option Scheme (the "Old Share Option Scheme") by a resolution of its Shareholder on 4 February, 2015. The termination of the Old Share Option Scheme was approved pursuant to an ordinary resolution of Shareholders passed on 5 May, 2021. No further options will be granted under the Old Share Option Scheme.

As at 31 December, 2021, there are no outstanding options under the Old Share Option Scheme.

MOVEMENT OF THE OLD OPTIONS

	Number of Options								
	As at 1 January, 2021	Exercised	Cancelled	As at 31 December, 2021	Exercise price (HK$)	Closing price of the Shares immediately before the date of grant (HK$)	Date of grant	Vesting period	Exercisable period
Lee Dong Goo	1,000,000	–	1,000,000	-	3.76	3.78	30 October, 2015	31 October, 2015 to 31 December, 2017	1 January, 2018 to 29 October, 2025
Cho Young Hoon	500,000	–	500,000	-	3.76	3.78	30 October, 2015	31 October, 2015 to 31 December, 2017	1 January, 2018 to 29 October, 2025
Lee Kyung Koo	2,000,000	–	2,000,000	-	1.814	1.75	26 April, 2019	27 April, 2019 to 18 April, 2020	19 April, 2020 to 18 April, 2028
Continuous contract employee	350,000	150,000	200,000	-	3.76	3.78	30 October, 2015	31 October, 2015 to 31 December, 2017	1 January, 2018 to 29 October, 2025
Total	3,850,000	150,000	3,700,000	-					

The Company's existing share option scheme (the "Share Option Scheme" or the "Scheme") was adopted pursuant to the resolution of our Shareholders passed on 5 May, 2021 for the purpose to provide incentives and/or rewards to eligible persons for their contribution to, and continuing efforts to promote the interests of the Group.

Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide an incentive or a reward to selected Eligible Participants (as defined in paragraph "who may join" below) for their contribution or potential contribution to, and continuing efforts to promote the interests of, the Group or any invested entity and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group or invested entity.

The Board is of the view that the Share Option Scheme may provide the Eligible Participants with the opportunity of participating in the growth of the Group by acquiring shares in the Company which may in turn assist in the attraction and retention of the Eligible Participants. To ensure the achievement of the purpose of the Share Option Scheme, its rules do not specify any minimum holding period and/or performance targets as a condition for the exercise of an option but subject to the determination of the Board. The Board is given the authority under the Share Option Scheme rules to determine and state in the offer letter of grant any minimum holding period and/or performance targets as conditions for exercise of an option. In addition, the Board has the authority under the Share Option Scheme rules to determine the basis of eligibility of any Eligible Participant and the grant of an option on a case by case basis as the Board in its sole discretion considers appropriate. Hence, the Board believes that the rules of the Share Option Scheme will serve to achieve its purpose as well as protect the value of the Company.

Who may join

The Board may, at its absolute discretion, offer to grant an option to subscribe for such number of Shares as the Board may determine to:

(i) any employee (whether full-time or part-time) of the Company, any of the subsidiaries and any invested entity;

(ii) any Director (including executive, non-executive and independent non-executive directors) of the Company, any subsidiary or any invested entity;

(iii) any supplier of goods services to any member of the Group or any invested entity;

(iv) any customer of the Group or any invested entity; or

(v) any business or joint venture partners, contractors, agents or representatives, consultants advisers or service providers that provides other technological support to the Group or any invested entity, (together with (i) to (iv) above, collectively, the "Eligible Participant").

Maximum number of Shares in respect of which options may be granted

The maximum number of the Shares in respect of which may be allotted and issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 83,436,880 Shares, representing 10 per cent. (the "Scheme Mandate Limit") of the issued share capital of the Company as at the date which the Share Option Scheme is approved by the Shareholders, excluding for this purpose options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of the Company, provided that:

(i) the Company may seek approval of the Shareholders in general meeting to renew the Scheme Mandate Limit such that the total number of Shares in respect of which options may be granted by the Directors under the Scheme and any other share option schemes of the Company shall not exceed 10 per cent. (the "Renewal Limit") of the issued share capital of the Company at the date of approval to renew such limit. Options previously granted under the Scheme (including those outstanding, cancelled, lapsed in accordance with the Scheme or exercised Options) shall not be counted for the purpose of calculating the Renewal Limit. The Company shall send a circular to the Shareholders containing the information required under the Listing Rules and the disclaimer required under the Listing Rules for the purpose of seeking the approval of the Shareholders for the Renewal Limit.

(ii) the Company may authorise the Directors to grant Options to specified Eligible Participants beyond the Scheme Mandate Limit or the Renewal Limit if the grant of such Options is specifically approved by the Shareholders in general meeting. In such case, the Company must send a circular to the Shareholders in connection with the general meeting at which their approval will be sought containing a generic description of the specified Eligible Participants who may be granted such Options, the number and terms of the Option to be granted, the purpose of granting Options to the specified Eligible Participants with an explanation as to how the terms of the Options serve such purpose, the information and the disclaimer required under the Listing Rules and such further information as may be required by the Stock Exchange from time to time.

(iii) if the Company or the subsidiary conducts a share consolidation or subdivision after the 10% limit has been approved in general meeting, the maximum number of securities that may be issued upon exercise of all options to be granted under all of the share option schemes of the Company or the subsidiary under the 10% Scheme Mandate Limit as a percentage of the total number of issued shares at the date immediately before and after such consolidation or subdivision shall be the same.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme, the Scheme and any other share option schemes of the Company shall not exceed 30 per cent. of the total number of Shares in issue from time to time. No Options shall be granted under the Scheme or any other share option scheme of the Company or any of its subsidiaries which will result in the limit being exceeded.

The maximum number of Shares in respect of which options may be granted shall be adjusted in such manner as the auditors of the Company shall certify in writing to the Board to be fair and reasonable in the event of any alteration to the capital structure of the Company whether by way of capitalization of profits or reserves, rights issue, consolidation, reclassification, reconstruction, subdivision or reduction of the share capital of the Company but shall not in any event exceed the limits imposed by the Listing Rules.

Maximum entitlement of each Eligible Participant

Unless approved by Shareholders in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any Eligible Participant or grantee if the acceptance of those options would result in the total number of Shares issued and to be issued to that Eligible Participant or grantee on exercise of his options (including both exercised and outstanding options) during any 12 month period exceeding 1% of the total Shares then in issue.

Acceptance of an offer of options

An offer of the grant of an Option shall be made to Eligible Participants in writing (and unless so made shall be invalid) in such form as the Board may from time to time determine and shall remain open for acceptance by the Eligible Participant concerned for a period of twenty-one (21) days inclusive of, from the date upon which it is made provided that no such offer shall be open for acceptance after the earlier of the 10th anniversary of the adoption date (i.e. 5 May, 2021) or the termination of the Share Option Scheme or the Eligible Participant to whom such offer is made has ceased to be an Eligible Participant.

A non-refundable nominal consideration of HK$1.00 is payable by the grantee upon acceptance of an Option. An Option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the Option duly signed by the Eligible Participant together with the said consideration of HK$1.00 is received by the Company.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in such number of Shares as represents a board lot for the time being for the purpose of trading on the Stock Exchange or an integral multiple thereof.

Exercise price

The exercise price shall be a price determined by the Board but in any event shall be at least the highest of:

(i) the closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheets on the date of offer;

(ii) the average of the closing prices of the Shares as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer; and

(iii) the nominal value of the Shares.

Restriction on the time of grant of options

A grant of Options shall not be made after inside information has come to the knowledge of the Company until (and including) the trading day after it has been announced pursuant to the requirements of the Listing Rules and the Inside Information Provisions of Part XIVA of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong). In particular, during the period of one month immediately preceding the earlier of:-

(i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and

(ii) the deadline for the Company to publish an announcement of its results for any year, half-year and quarterly period under the Listing Rules, or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement. No option may be granted during any period of delay in publishing a results announcement. Without prejudice to the foregoing, no option shall be granted during the period specified in the Listing Rules as being a period during which no option may be granted.

Rights are personal to the grantee

An Option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest whatsoever in favour of any third party over or in relation to any Option or enter into any agreement so to do. Any breach of the foregoing by a grantee shall entitle the Company to cancel any Option or part thereof granted to such grantee to the extent not already exercised.

Time of exercise of Option and duration of the Share Option Scheme

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 10 years from that date. The period during which an option may be exercised will be determined by our Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by our Company in general meeting or by our Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption (i.e. 5 May, 2021). There is no minimum period for which an option must be held before it can be exercised.

The total number of Shares available for issue under the Scheme is 83,436,880, representing 10% of the total number of issued Shares of the Company as at the date of this annual report. During the year ended 31 December, 2021, the Company has granted an aggregate of 62,650,000 share options (the "Options") to certain eligible persons (the "Grantees") to subscribe for a total of 62,650,000 Shares under the Share Option Scheme. Details of the Options granted are set out below:

First Grant of Options in 2021

Date of grant	:	25 May, 2021
Exercise price	:	HK$4.144 per Share
Total number of Options granted	:	45,450,000 Options
Validity period of the Options	:	The Options shall be valid for a period from 25 May, 2021 to 24 May, 2031, both dates inclusive, subject to the vesting conditions as stated in the offer letters to the Grantees.
Exercise period of the Options	:	20% of the Options shall be vested on the date falling the first anniversary of the Date of Grant and exercisable from 25 May, 2022 to 24 May, 2031, both dates inclusive. 20% of the Options shall be vested on the date falling the second anniversary of the Date of Grant and exercisable from 25 May, 2023 to 24 May, 2031, both dates inclusive. 20% of the Options shall be vested on the date falling the third anniversary of the Date of Grant and exercisable from 25 May, 2024 to 24 May, 2031, both dates inclusive. 20% of the Options shall be vested on the date falling the fourth anniversary of the Date of Grant and exercisable from 25 May, 2025 to 24 May, 2031, both dates inclusive. 20% of the Options shall be vested on the date falling the fifth anniversary of the Date of Grant and exercisable from 25 May, 2026 to 24 May, 2031, both dates inclusive.
Vesting conditions	:	In each of the aforesaid exercise period, if a Grantee's performance appraisal result for the preceding calendar year before an exercise period is level B or C, the Board is entitled to cancel some Options exercisable in that exercise period of that Grantee; and if a Grantee's performance appraisal result for the preceding calendar year before an exercise period is level D, the Board is entitled to cancel all Options exercisable in that exercise period of that Grantee.

Second Grant of Options in 2021

Date of grant	:	15 October, 2021
Exercise price	:	HK$4.84 per Share
Total number of Options granted	:	17,200,000 Options
Validity period of the Options	:	The Options shall be valid for a period from 15 October, 2021 to 14 October, 2031, both dates inclusive, subject to the vesting conditions as stated in the offer letters to the Grantees.
Exercise period of the Options	:	20% of the Options shall be vested on the date falling the first anniversary of the Date of Grant and exercisable from 15 October, 2022 to 14 October, 2031, both dates inclusive. 20% of the Options shall be vested on the date falling the second anniversary of the Date of Grant and exercisable from 15 October, 2023 to 14 October, 2031, both dates inclusive. 20% of the Options shall be vested on the date falling the third anniversary of the Date of Grant and exercisable from 15 October, 2024 to 14 October, 2031, both dates inclusive. 20% of the Options shall be vested on the date falling the fourth anniversary of the Date of Grant and exercisable from 15 October, 2025 to 14 October, 2031, both dates inclusive. 20% of the Options shall be vested on the date falling the fifth anniversary of the Date of Grant and exercisable from 15 October, 2026 to 14 October, 2031, both dates inclusive.
Vesting conditions	:	In each of the aforesaid exercise period, if a Grantee's performance appraisal result for the preceding calendar year before an exercise period is level B or C, the Board is entitled to cancel some Options exercisable in that exercise period of that Grantee; and if a Grantee's performance appraisal result for the preceding calendar year before an exercise period is level D, the Board is entitled to cancel all Options exercisable in that exercise period of that Grantee.

Movement of the share options

Movement of the share options under the Share Option Scheme during the Reporting Period are listed below:

	Number of Options								
	As at 1 January, 2021	Date of grant 25 May, 2021	Date of grant 15 October, 2021	Lapsed	As at 31 December, 2021	Exercise price (HK$)	Closing price of the Shares before the date of grant (HK$)	Date of grant	Vesting period
Meng Yan	–	5,000,000	–	–	5,000,000	4.144	4.09	25 May, 2021	25 May, 2021 to 24 May, 2031
Wu Ying-Cheng	–	3,300,000	–	–	3,300,000	4.144	4.09	25 May, 2021	25 May, 2021 to 24 May, 2031
Chen Han-Yang	–	2,800,000	–	–	2,800,000	4.144	4.09	25 May, 2021	25 May, 2021 to 24 May, 2031
Yang Li	–	2,800,000	–	–	2,800,000	4.144	4.09	25 May, 2021	25 May, 2021 to 24 May, 2031
Continuous contract employee	–	31,550,000	–	5,000,000	26,550,000	4.144	4.09	25 May, 2021	25 May, 2021 to 24 May, 2031
Continuous contract employee	–	–	17,200,000	–	17,200,000	4.84	4.758	15 October, 2021	15 October, 2021 to 14 October, 2031
Total	–	45,450,000	17,200,000	5,000,000	57,650,000				

During the Reporting Period, no options had been exercised and/or cancelled. As at 31 December, 2021, based on the number of options granted which had not been exercised, cancelled and/or lapsed, the total number of Shares available for issue under the Share Option Scheme was 57,650,000, representing approximately 6.9% of the issued shares of the Company as at the date of this report.

Other details of Options granted by the Company are set out in note 20 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Saved for the Share Option Scheme mentioned above, no equity-linked agreements were entered into by the Company during or at the end of the financial year ended 31 December, 2021.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December, 2021 are set out in note 12 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December, 2021, the percentage of the Group's revenue attributable to the Group's largest customer and the five largest customers in aggregate were approximately 99.3% and 99.9% respectively (2020: 96.9% and 99.7% respectively).

During the year ended 31 December, 2021, the percentage of the Group's purchases attributable to the Group's largest supplier and the five largest suppliers in aggregate were approximately 56.3% and approximately 78.8% (2020: approximately 52.8% and approximately 78.9% respectively) respectively.

During the year ended 31 December, 2021, none of the Directors or any of their associates or any shareholders which to the best knowledge of the Directors, who own more than 5% of the Company's issued share capital, had any interest in any of the Group's five largest customers or suppliers.

RETIREMENT BENEFIT SCHEMES

The Group participated in various retirement benefit schemes in accordance with relevant rules and regulations in the PRC, Hong Kong and Korea. Particulars of the retirement benefit schemes are set out in note 19 to the consolidated financial statements.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on the remuneration of senior management of the Group. Details of the remuneration of each Director for the year ended 31 December, 2021 are set out in note 6 to the consolidated financial statements of this annual report.

In addition to the remuneration of Directors mentioned above, the remuneration of members of the senior management by band for the year ended 31 December, 2021 is set out below:

Remuneration Bands:	2021 Number of individuals	2020 Number of individuals
HK$1 (US$1)–HK$1,000,000 (US$129,000)	–	–
HK$1,000,001 (US$129,001)–HK$1,500,000 (US$193,000)	2	–
HK$1,500,001 (US$193,001)–HK$2,000,000 (US$258,000)	–	–
HK$2,000,001 (US$258,001)–HK$2,500,000 (US$322,000)	–	3
HK$2,500,001 (US$322,001)–HK$3,000,000 (US$387,000)	–	1

DIRECTORS

The Directors during the financial year ended 31 December, 2021 and up to the date of this annual report are:

Executive Directors

Mr. Meng Yan *(Chairman) (appointed on 15 January, 2021)*
Mr. Wu Ying-Cheng *(appointed on 15 January, 2021)*
Mr. Kwak Jung Young *(Chairman) (appointed on 26 March, 2020 and resigned on 5 February, 2021)*
Mr. Cho Young Hoon *(appointed on 26 March, 2020 and resigned on 5 February, 2021)*

Non-Executive Directors

Mr. Chen Han-Yang *(appointed on 1 March, 2021)*
Mr. Yang Li *(appointed on 1 March, 2021)*

Independent non-executive Directors

Ms. Su Yen-Hsueh *(appointed on 15 January, 2021)*
Mr. Tsai Chen-Lung *(appointed on 15 January, 2021)*
Ms. Liu Xia *(appointed on 26 July, 2021)*
Mr. Luo Zhenbang *(appointed on 15 January, 2021 and resigned on 26 July, 2021)*
Mr. Kim Chan Su *(resigned on 5 February, 2021)*
Dr. Song Si Young *(resigned on 5 February, 2021)*
Mr. Jung Jong Chae *(resigned on 5 February, 2021)*

In the forthcoming AGM, Mr. Meng Yan, Mr. Wu Ying-Cheng, Ms. Su Yen-Hsueh will retire as Directors in accordance with Article 16.18 of the Articles of Association, and Ms. Liu Xia will retire as a Director in accordance with Article 16.2 of the Article of Association. All of them are eligible, and will offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors offering for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December, 2021.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save for the contracts described under the paragraph headed "Connected Transactions" below and note 25 to the consolidated financial statements, no contracts of significance in relation to the Group's business or for the provision of services to which the Company or any of its subsidiaries was a party and in which a Director or a controlling shareholder of the Company (or any entity connected with a director or controlling Shareholder) had a material interest, whether directly or indirectly, subsisted at the end of 2021 or at any time during 2021.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No transaction, arrangement or contract of significance has been entered into among the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December, 2021.

CONNECTED TRANSACTIONS

During the year, the Company purchased camera module parts from Luxshare Precision Limited ("Luxshare") for US$0.05 million in connection with the production by the Group during the financial year ended 31 December, 2021. Ms. Wang Laichun (a sister of the controlling Shareholder, Mr. Wang Laixi) owns the equity interests in Luxshare and hence Luxshare is an associate (as defined under Chapter 14A of the Listing Rules) of Mr. Wang and a connected person of the Group.

The transactions constitute continuing connected transactions which are fully exempted from shareholders' approval, annual review and all disclosure requirements under the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the material related party transactions undertaken by the Group in its normal course of business are set out in note 25 to the consolidated financial statements.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December, 2021, none of the Directors is interested in any business, apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' AND CHIEF EXECUTIVE OFFICERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 December, 2021, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO which were required (a) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept pursuant to Section 352 of the SFO; or (c) as otherwise to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Nature of interest	Number of Shares or underlying Shares	Approximate percentage of shareholding interest
Meng Yan	Beneficial interest *(Note)*	5,000,000	0.60
Wu Ying-Cheng	Beneficial interest *(Note)*	3,300,000	0.40
Chen Han-Yang	Beneficial interest *(Note)*	2,800,000	0.34
Yang Li	Beneficial interest *(Note)*	2,800,000	0.34

Note: These interests represented the interests in underlying shares in respect of the share options granted by the Company to the Directors under the Share Option Scheme.

Save as disclosed above, as of 31 December, 2021, so far as is known to the Directors or chief executive of the Company, none of the Directors or chief executive of the Company had interests or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations which (a) were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN SHARES, UNDERLYING SHARES OF THE COMPANY

As at 31 December, 2021, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the Shares or relevant Shares which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Interest of substantial shareholders

Name of shareholder	Nature of interest	Number of Shares or underlying Shares(1)	Approximate percentage of shareholding interest
Luxvisions Innovation Technology Limited(2)	Beneficial interest	567,258,760 (L)	67.99
		522,932,760 (S)	62.67
Mr. Wang Laixi(2)	Interest in a controlled corporation	567,258,760 (L)	67.99
		522,932,760 (S)	62.67

Notes:

(1) The letter (L) denotes long position in such Shares, and the letter (S) denotes short position in such Shares.

(2) Luxvisions Innovation Technology Limited ("LITL"), a limited liability company incorporation in Hong Kong, is a wholly-owned subsidiary of Guangzhou Luxvisions Innovation Technology Limited ("GLITL") which is a company incorporated in the PRC. GLITL is owned as to 91% by Luxvisions Innovation Limited ("LIL"), a company incorporated in Hong Kong with limited liability, which is own as to 94.81% by Mr. Wang Laixi and as 5.19% by Lite-On Singapore Pte. Limited ("Lite-On"). Lite-On is a company incorporated in Singapore with limited liability and a wholly-owned subsidiary of Lite-On Technology Corporation 光寶科技股份有限公司 (a company incorporated in Taiwan with limited liability and listed on the Taiwan Stock Exchange (stock code 2301)). Mr. Wang Laixi is deemed, or taken to be, interested in the Shares held by LITL for the purposes of the SFO.

(3) LITL has pledged an aggregate of 522,932,760 Shares in favour of a licensed bank in Hong Kong as security for its banking facilities granted by said bank, representing approximately 62.67% of the total issued share capital of the Company as at 31 December, 2021.

Saved as disclosed above, as at 31 December, 2021, the Directors were not aware of any person (other than Directors or chief executive and substantial shareholders of the Company the interests of which were disclosed above) who had an interest or short position in the securities of the Company that were required to be entered in the register of the Company pursuant to section 336 of the SFO as at 31 December, 2021.

STATUS OF USE OF PROCEEDS

The aggregate net proceeds from the Global Offering was approximately US$37.8 million and during the financial year ended 31 December 2021, the Company had utilised US$1.0 million for machine and equipment for high-end COB camera modules. The Company had fully utilised the net proceeds, as indicated in the Prospectus, in the following manner:

1. Approximately 66% of the net proceeds for the enhancement of production capacity for fixed-focus camera modules and the manufacturing facilities for high-end camera modules;

2. Approximately 13% of the net proceeds for the enhancement of existing production lines for high-end COB camera modules;

3. Approximately 12% of the net proceeds for the repayment of a term bank loan; and

4. Approximately 9% of the net proceeds for working capital and other general corporate purposes.

Since the initial public offering, all net proceeds were used in accordance with the original plan.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, during the financial year ended 31 December, 2021 and up to the date of this report, there has been sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

EVENTS AFTER THE FINANCIAL YEAR ENDED 31 DECEMBER, 2021

Save as disclosed above, there were no significant events affecting the Company nor any of its subsidiaries after the financial year ended 31 December, 2021 requiring disclosure in this report.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the "Corporate Governance Report" section on pages 40 to 69 of this annual report.

AUDIT COMMITTEE

The Audit Committee had reviewed together with the management and KPMG, the Company's auditor, the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December, 2021.

AUDITOR

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of KPMG as the Company's auditors is to be proposed at the forthcoming AGM. The Company did not change its auditor in the preceding three years.

ENVIRONMENTAL POLICIES

The Group is committed to contributing to the sustainability of the environment and is committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. We strive to minimize our environmental impact by saving electricity and encouraging recycle of office supplies and other materials.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December, 2021, as far as the Company is aware, there was no material breach of or non-compliance with the relevant laws and regulations by the Group that have a significant impact on the business and operations of the Group.

FINANCIAL KEY PERFORMANCE INDICATORS

For the year ended 31 December, 2021, the Group's total revenue increased by 6.5% to US$799.3 million (2020: US$750.2 million). Profit for this year increased by approximately 17.4% to approximately US$49.8 million (2020: US$42.4 million). Net profit margin was 6.2% (2020: 5.7%) for the year ended 31 December, 2021. Earnings per share were US$0.06 (2020: US$0.051).

Overall revenue increase was mainly due to increase unit price of products.

The Group financial position still remained solid. The Group was able to generate positive operating cashflows for the year ended 31 December, 2021 which amounted to US$75.8 million (2020: US$107.2 million).

Average inventory turnover days of the Group were 60.4 days for 2021, which is greater than the 45.1 days for 2020. Average turnover days of trade receivables decreased to 48.0 days for the year ended 31 December, 2021 as compared to 52.0 days for the year ended 31 December, 2020. Average trade payable turnover days were 52.6 days for the year ended 31 December, 2021 as compared with 46.9 days for the year ended 31 December, 2020.

KEY RELATIONSHIPS

(i) Employees

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group wants to continue to be an attractive employer for committed employees.

The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills. The Group provides on-the-job training and development opportunities to our staff members.

In addition, the Group offers competitive remuneration packages to our employees. The Group has also adopted the Share Option Scheme to recognize and reward the contribution of the employees to the growth and development of the Group.

(ii) Suppliers

We have developed long-standing relationships with a number of our suppliers and take a great care to ensure that they share our commitment to quality and ethics. We carefully select our suppliers and require them to satisfy certain assessment criteria including experience, reputation and quality control effectiveness.

(iii) Customers

We are committed to offer quality services to our customers. We also stay connected with our customers and keep them updated of our latest business developments.

Details of principal risks are set out in corporate governance report and details of future development is set out in management discussion and analysis.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent.

PERMITTED INDEMNITY PROVISION

The Articles of Associations provide that the Directors or other officers of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director or other officer of the Company in defending any proceedings, civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and senior management members as well as directors of the subsidiaries of the Group.

On behalf of the Board
Cowell e Holdings Inc.

Meng Yan
Chairman

Hong Kong, 24 March, 2022

Corporate Governance Report

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 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 Listing Rules as the basis of the Company's corporate governance practices. The CG Code has been applicable to the Company with effect from the Listing Date. Throughout the financial year ended 31 December, 2021 and up to the publication date of this annual report, the Company has complied with all applicable code provisions of the CG Code.

SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the code of conduct regarding Directors' dealings in the securities of the Company.

The Company, after making specific inquiries to all Directors, confirmed that all of them have complied with the required standards in the Model Code during the year ended 31 December, 2021.

THE BOARD OF DIRECTORS

Board Responsibilities

The Board is at the core of the Company's corporate governance structure, and is responsible for the overall strategic leadership and planning of the Company. All important matters of the Company are reserved for the Board's decision and the Board retains the authority of deciding such matters, including formulating and monitoring the Company's long term strategies and policy matters, reviewing financial performance, approving annual budgets, monitoring and reviewing internal control and risk management systems, assuming responsibility for the corporate governance of the Company, and upholding the core values of the Company.

Delegation by the Board

The Board relies on management for the day-to-day operation of the Company's business, and has delegated the authority and responsibility for the daily management, administration and operation of the Group as well as the implementation of the Board's policies and strategies to the senior management of the Group. The Board and senior management fully appreciate their respective responsibilities, and they complement each other in formulating and maintaining higher standards of corporate governance practices of the Company.

Board Composition

The Board is structured with a view to ensuring that it is of high caliber and has a balance of skills and experience appropriate for the needs of the Company's business. The Board currently comprises seven members, consisting of two executive Directors, two non-executive Directors and three independent non-executive Directors as set out below.

Executive Directors

Mr. Meng Yan *(Chairman) (appointed on 15 January, 2021 and chairman appointed on 1 March, 2021)*
Mr. Wu Ying-Cheng *(appointed on 15 January, 2021)*
Mr. Kwak Jung Young *(Chairman) (resigned on 5 February, 2021)*
Mr. Cho Young Hoon *(resigned on 5 February, 2021)*

Non-executive Directors

Mr. Chen Han-Yang *(appointed 1 March, 2021)*
Mr. Yang Li *(appointed 1 March, 2021)*

Independent non-executive Directors

Ms. Su Yen-Hsueh *(appointed on 15 January, 2021)*
Mr. Tsai Chen-Lung *(appointed on 15 January, 2021)*
Ms. Liu Xia *(appointed on 26 July, 2021)*
Mr. Luo Zhenbang *(appointed on 15 January, 2021 and resigned on 26 July, 2021)*
Mr. Kim Chan Su *(resigned on 5 February, 2021)*
Dr. Song Si Young *(resigned on 5 February, 2021)*
Mr. Jung Jong Chae *(resigned on 5 February, 2021)*

Further description of the biographical details and backgrounds of the Board members are set out under the section headed "Directors and Senior Management" in this annual report. A list of the Directors is available on the designated website of the Hong Kong Stock Exchange and the website of the Company.

There is no financial, business, family or other material or relevant relationships among the Directors.

Executive Directors

Each of the executive Directors has entered into a letter of appointment with the Company for an initial term for three years commencing from 15 January, 2021.

Under the Articles of Association, every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Retiring Directors shall be eligible for re-election at the annual general meeting at which he retires.

Non-Executive Directors

Each of the non-executive Directors has entered into a letter of appointment with the Company for an initial term for three years commencing from 1 March, 2021. Under the Articles of Association, every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Retiring Directors shall be eligible for re-election at the annual general meeting at which he retires.

Independent Non-executive Directors

Ms. Su Yen-Hsueh and Mr. Tsai Chen-Lung have entered into a letter of appointment with the Company for an initial term of three years commencing from 15 January, 2021 and Ms. Liu Xia has entered into a letter of appointment with the Company for an initial term of three years commencing from 26 July, 2021. The Company has three Independent non-executive Directors and the Audit Committee comprises of three members and therefore the Company is in compliance with the requirements under Rules 3.10(1) and 3.21 of the Listing Rules.

Independent non-executive Directors play an important role in the Board by bringing independent judgment and advice and through scrutiny of the Company's performance. During the year ended 31 December, 2021, save as disclosed above, the Company was in compliance with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one of them possessing the appropriate professional qualifications or accounting or related financial management expertise. The Company had also complied with Rule 3.10A of the Listing Rules which requires that independent non-executive Directors appointed must represent at least one-third of the Board.

Each of the independent non-executive Directors had confirmed his independence pursuant to Rule 3.13 of the Listing Rules, and the Company considered each of them to be independent with reference to the criteria set out in Rule 3.13 of the Listing Rules.

The Board will continue to review and consider whether there are any circumstances that are likely to affect the independence of the independent non-executive Directors.

CHAIRMAN AND CHIEF EXECUTIVE

Pursuant to Code Provision A.2.1 of the CG Code, the role of chairman and the chief executive should be segregated and should not be performed by the same individual. During the year ended 31 December, 2021, the Company had a separate chairman and chief executive.

The Directors consider that the Company had fully complied with the applicable code provisions as set out in the Code of Corporate Governance Practices as contained in Appendix 14 during the year ended 31 December, 2021.

APPOINTMENT, RETIREMENT AND RE-ELECTION OF DIRECTORS

The Articles of Association provide that any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

At each annual general meeting of the Company, one-third of the current Directors should retire from office by rotation, provided that every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election.

The Nomination Committee is responsible for reviewing the Board's structure, size and composition and making recommendations to the Board on the appointment and re-appointment of Directors and succession planning of Directors.

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

The Directors have been provided with relevant training to ensure that they fully understand their responsibilities, duties and obligations as directors of a listed company.

Pursuant to the Code Provision A.6.5, the Company has received from the below directors, being all Directors during the year ended 31 December, 2021, a record of the training they received for the year.

Directors	Reading materials	Attend seminars/ conference/ workshops
Executive Directors		
Meng Yan *(appointed on 15 January, 2021)*	√	√
Wu Ying-Cheng *(appointed on 15 January, 2021)*	√	√
Kwak Jung Ying *(resigned on 5 February, 2021)*	—	—
Cho Young Hoon *(resigned on 5 February, 2021)*	—	—
Non-Executive Directors		
Chen Han-Yang *(appointed on 1 March, 2021)*	√	√
Yang Li *(appointed on 1 March, 2021)*	√	√
Independent Non-Executive Directors		
Su Yen-Hsueh *(appointed on 15 January, 2021)*	√	√
Tsai Chen-Lung *(appointed on 15 January, 2021)*	√	√
Liu Xia *(appointed on 26 July, 2021)*	√	√
Luo Zhengbang *(appointed on 15 January, 2021 and resigned on 26 July, 2021)*	—	—
Kim Chan Su *(resigned on 5 February, 2021)*	—	—
Song Si Young *(resigned on 5 February, 2021)*	—	—
Jung Jong Chae *(resigned on 5 February, 2021)*	—	—

The Directors will continue to be updated by the Company on any changes or developments affecting their obligations as directors of a listed company.

BOARD MEETINGS

Notice of regular Board meetings is given to each Director at least 14 days before the meeting. The agenda and the relevant board papers were circulated to each Director at least three days before regular Board meetings to enable them to make informed decisions at the meeting.

ATTENDANCE RECORDS OF BOARD AND GENERAL MEETINGS

Code provision A.1.1 of the CG Code requires that at least four regular Board meetings should be held each year at approximately quarterly intervals, with active participation of a majority of directors, either in person or through other electronic means of communication.

The Board intends to hold Board meetings regularly at least four times a year at approximately quarterly intervals. Other Board meetings will be held if necessary.

Details of Directors' attendance records during the financial year ended 31 December, 2021 are set out below:

	Meetings Attended/Held					
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**2021 AGM**	**2021 EGM**
Executive Directors						
Meng Yan *(appointed on 15 January, 2021)*	5/7	N/A	N/A	N/A	1/1	1/1
Wu Ying-Cheng *(appointed on 15 January, 2021)*	7/7	N/A	N/A	N/A	1/1	1/1
Kwak Jung Young *(resigned on 5 February, 2021)*	1/1	N/A	N/A	N/A	N/A	N/A
Cho Young Hoon *(resigned on 5 February, 2021)*	1/1	N/A	N/A	N/A	N/A	N/A
Non-Executive Directors						
Chen Han-Yang *(appointed on 1 March, 2021)*	6/6	N/A	N/A	N/A	1/1	1/1
Yang Li *(appointed on 1 March, 2021)*	5/6	N/A	N/A	N/A	1/1	1/1
Independent Non-Executive Directors						
Su Yen-Hsueh *(appointed on 15 January, 2021)*	7/7	3/3	4/4	3/3	1/1	0/1
Tsai Chen-Lung *(appointed on 15 January, 2021)*	6/7	2/3	4/4	2/3	1/1	0/1
Liu Xia *(appointed on 26 July, 2021)*	1/2	1/1	0/1	N/A	N/A	N/A
Luo Zhenbang *(appointed on 15 January, 2021 and resigned on 26 July, 2021)*	4/5	2/2	2/3	2/3	1/1	0/1
Kim Chan Su *(resigned on 5 February, 2021)*	1/1	N/A	N/A	N/A	N/A	N/A
Song Si Young *(resigned on 5 February, 2021)*	1/1	N/A	N/A	N/A	N/A	N/A
Jung Jong Chae *(resigned on 5 February, 2021)*	1/1	N/A	N/A	N/A	N/A	N/A

The date of each meeting is decided in advance to enable the Directors to attend the meeting. Draft notice and agenda were sent to all Directors at least 3 days prior to the meeting. Management also supplies the Board and its committees with sufficient information and explanations so as to enable them to make an informed assessment of financial and other information out before the Board and its committee for approval. Management is also invited to join Board Meetings where appropriate.

If a Director has a conflict of interest in a matter before the Board, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent board committee will be set up to deal with the matter. The interest Director shall abstain from voting when appropriate.

BOARD COMMITTEES

The Board has established three Board committees to oversee particular aspects of the Company's affairs, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. The Board has delegated to the Board committees responsibilities as set out in their respective terms of reference. The independent non-executive Directors, as members of the various Board committees, bring their range of experiences and expertise and provide objective perspectives to them. The Board has provided the Board committees with sufficient resources to discharge their duties, and the Board committees may seek independent professional advice as and when required at the Company's expense. The Board also assumes the responsibilities for corporate governance duties as set out in Code Provision D.3.1 of the CG Code, including among others, reviewing the Company's policies and practices on corporate governance, and reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements.

Audit Committee

The Audit Committee comprises three members, all of whom are independent non-executive Directors. It is currently chaired by Ms. Liu Xia, and its other members are Ms. Su Yen-Hsueh and Mr. Tsai Chen-Lung.

The primary functions of the Audit Committee include the following:

- making recommendations to the Board on the appointment, reappointment and removal of external auditors, and to approve remuneration and terms of such engagement;
- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- discussing with the external auditors the nature and scope of the audit and reporting obligations before the audit commences;
- developing and implementing policy on engaging external auditors to supply non-audit services;
- monitoring the integrity of the Company's financial statements and annual report and accounts, half-yearly reports and, if prepared for publication, quarterly reports, and to review significant financial reporting opinions contained in them;
- reviewing the Company's financial controls, risk management and internal control systems and discussing the internal control system with management to ensure that management has performed its duty to have an effective internal control system;
- considering major investigation findings on risk management and internal control matters as delegated by the Board or on the Audit Committee's own initiative, as well as management's response to these findings; and
- reviewing the Group's financial and accounting policies and practices.

During the year ended 31 December, 2021, Audit Committee reviewed the annual report and annual results announcement for the financial year ended 31 December, 2020 and the interim report and interim results announcement for the six months ended 30 June, 2021 with recommendation to the Board for approval. The Audit Committee reviewed and approved of the KPMG's confirmation of independence, its report to the Audit Committee and the management representation letter for the year with a recommendation to the Board for the re-appointment of KPMG at the 2021 annual general meeting of the Company. The Audit Committee reviewed and assessed of effectiveness of the risk management, internal control systems and internal audit reports.

The written terms of reference of the Audit Committee are available on the website of the Company and the designated website of the Hong Kong Stock Exchange. The Audit Committee holds at least two meetings each year from 2015 onwards. The Audit Committee held three meetings during the financial year ended 31 December, 2021.

Remuneration Committee

The Remuneration Committee comprises three members, all of whom are independent non-executive Directors. It is currently chaired by Ms. Su Yen-Hsueh, and its other members are Mr. Tsai Chen-Lung and Ms. Liu Xia.

The primary functions of the Remuneration Committee include the following:

- reviewing and making decisions in respect of the remuneration packages and overall benefits for the Directors and senior management of the Company based on the Board's delegation given on 15 April, 2015;
- making recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- making decisions on the remuneration packages of individual executive directors based on the Board's delegation given on 15 April, 2015;
- making recommendations to the Board on the remuneration of non-executive directors; and
- ensuring that no Director or any of his associates is involved in deciding his own remuneration.

The work performed by the Remuneration Committee during the year ended 31 December, 2021 included the review and approval of the emoluments and performance bonus of the Directors, as well as the proposed grant of the share option to executive directors, non-executive directors and employees. The Remuneration Committee was of the opinion that the remuneration packages were fair and commensurate with the market.

The written terms of reference of the Remuneration Committee are available on the website of the Company and the designated website of the Hong Kong Stock Exchange. The Remuneration Committee holds at least one meeting each year from 2015 onwards. The Remuneration Committee held four meetings during the financial year ended 31 December, 2021.

Nomination Committee

The Nomination Committee comprises three members, all of whom are independent non-executive Directors. It is currently chaired by Mr. Tsai Chen-Lung, and its other members are Ms. Su Yen-Hsueh and Ms. Liu Xia.

The primary functions of the Nomination Committee include the following:

- reviewing the structure, size and composition (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships. In identifying suitable individuals, the Nomination Committee shall consider individual on merit and against the objective criteria, with due regard for the benefits of diversity on the Board;
- assessing the independence of independent non-executive Directors;
- reviewing the board diversity policy, as appropriate, and review the measurable objectives that the Board has set for implementing the board diversity policy, and the progress on achieving the objectives;
- making recommendations to the Board on the appointment or reappointment of Directors and succession plan for Directors; and
- developing, reviewing and disclosing the policy for nomination of directors (the "Nomination Policy"), as appropriate, in the Company's corporate governance report annually.

The written terms of reference of the Nomination Committee are available on the website of the Company and the designated website of the Hong Kong Stock Exchange. The Nomination Committee will hold at least one meeting each year from 2015 onwards. The Nomination Committee held three meeting during the financial year ended 31 December, 2021.

During the year ended 31 December, 2021, the Nomination Committee reviewed the structure, size and composition of the Board with reference to the skill, knowledge, experience and diversity of the Board. They reviewed and assessed the independence of all independent non-executive Directors and recommended to the Board for approval for the list of retiring directors for re-election at the annual general meeting of the Company.

Board Diversity Policy

The Nomination Committee has a board diversity policy under which, with the assistance of the Nomination Committee, the Company will implement its Board members selection process by referring to various factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional expertise, independence, skills, knowledge and length of service. Decision shall ultimately be made based on the merits of and contribution to be made by the candidate.

Nomination Policy

The Nomination Committee has adopted a Nomination Policy that sets out the nomination procedures, process and criteria to select and recommend candidates for directorship.

Selection Criteria

In assessing the suitability of a candidate for directorship, the following criteria (the "Criteria") should be considered:

(a) character and integrity;

(b) qualifications including professional qualifications, skills, knowledge, accomplishment and experience that are relevant to the Company's business and corporate strategy;

(c) diversity in all aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service;

(d) commitment in respect of available time and relevant interest; and

(e) potential contributions that the individual can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity.

The Nomination Committee will evaluate and recommend candidate(s) for the position of the independent non-executive Directors by taking into account (a) the factors set out in Rules 3.10(2) and 3.13 of the Listing Rules, subject to any amendments as may be made from time to time and/or any other rules imposed by the Stock Exchange from time to time; and (b) the Criteria.

Nomination Procedures

The Nomination Committee will recommend to the Board for appointment as additional Director or to fill Board's casual vacancy in accordance with the following procedures:

(a) the Nomination Committee may consult any source it deems appropriate in identifying or selecting suitable candidates, such as referrals from existing Directors, recommendations from personnel agents or as proposed by shareholders of the Company with due consideration given to the Criteria;

(b) the Nomination Committee may adopt any process it deems appropriate in evaluating the suitability of the candidates, such as interviews, background checks and third-party reference checks;

(c) the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment;

(d) the Nomination Committee will provide the relevant information of the selected candidate to the Remuneration Committee for consideration of a remuneration package of such candidate;

(e) the Remuneration Committee will make a recommendation to the Board on the proposed remuneration package; and

(f) all appointment of Directors will be confirmed by the signing of the consent to act as Director (or any other similar filings requiring the relevant Director to acknowledge or accept the appointment, as the case may be) and filing of the same with the Companies Registry of Hong Kong and any other relevant government authorities.

The Nomination Committee will evaluate and recommend retiring Director(s) to the Board for re-appointment in accordance with the following procedures:

(a) the Nomination Committee and/or the Board should review the overall contribution and service of the retiring Director(s) to the Company and the level of participation and performance on the Board, including but not limited to the attendance of the meetings of the Board and/or its committees and general meetings;

(b) the Nomination Committee and/or the Board should also review and determine whether the retiring Director(s) continue(s) to satisfy the Criteria; and

(c) the Nomination Committee and/or the Board should then make recommendation to shareholders in respect of the proposed re-election of director at the general meeting.

Monitoring and Review of the Nomination Policy

The Nomination Committee will monitor the implementation of the Nomination Policy and from time to time review the Nomination Policy, as appropriate, to ensure its effectiveness in complementing the Company's corporate strategy and business needs. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

CORPORATE GOVERNANCE FUNCTIONS

The corporate governance functions have been reserved to the Board. The primary governance functions include:

- developing and reviewing the Company's policies and practices on corporate governance;
- reviewing and monitoring training and continuous professional development of Directors and senior management;
- reviewing and monitoring the Company's compliance with the CG Code and other legal and regulatory requirements;
- developing, reviewing and monitoring any code of conduct and compliance manual applicable to Directors and employees of the Company; and
- reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

DIVIDEND POLICY

In accordance with the Dividend Policy, the Company intends to share its profit with Shareholders in the form of semi-annual dividends in an aggregate amount per year of no less than 20% of the Company's annual consolidated net income attributable to its Shareholders, subject to the criteria as set out below. The Dividend Policy allows the Company to declare special dividends from time to time in addition to the semi-annual dividends.

The Company's liability to pay dividends will depend upon, among other things, the Group's current and future operations, liquidity position and capital requirements, as well as dividends received from the Company's subsidiaries and associate companies. The payment of dividend by the Company is also subject to any restrictions under the Cayman Islands laws and the Articles of Association.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December, 2021, presenting a balanced, clear and comprehensible assessment of the Company's performance, position and prospects, and for ensuring that the financial report is prepared in accordance with applicable statutory requirements and accounting standards. To the best knowledge, information and belief of the Directors, 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 management of the Company has provided the Board with such explanation and information necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

Risk Management and Internal Control System

The Board acknowledges that it is its responsibility to maintain an adequate risk management and internal control system to safeguard Shareholders' investment and the Company's assets, and to review the effectiveness of such system on an annual basis, including considering the adequacy of resources, staff qualifications and experience, training programs for staff and budget of the Group's accounting and financial reporting function.

The Audit Committee and the Board has conducted a review of the effectiveness of the risk management and internal control system of the Group once for the financial year ended 31 December, 2021 and consider the risk management and internal control systems to be effective and adequate.

Auditor's Remuneration

For the year ended 31 December, 2021, the total remuneration paid or payable to the Company's auditors for audit services amounted to US$0.3 million and non-audit services of tax compliance service amounted to US$0.004 million.

COMPANY SECRETARY

Ms. Lam Wing Yan is the Company's company secretary, and she is responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures and applicable laws, rules and regulations are complied with.

Ms. Lam Wing Yan confirmed that she undertook not less than 15 hours of appropriate continuous professional training during the financial year ended 31 December, 2021, as required under Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

Convening of extraordinary general meeting and putting forward proposals

Pursuant to Article 12.3 of the Articles of Association, extraordinary general meetings shall be convened on the requisition of two or more Shareholders holding, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing and deposited at the principal office of the Company in Hong Kong and the business to be dealt with shall be specified in such requisition. Such meeting shall be held within the further 21 days after such requisition being proceeded within 21 days of its deposition in the manner as described above. If within 21 days of such deposit, the Board fails to proceed to convene such meeting within a further 21 days, the requisitionist(s) or any of them representing more than one-half of the total voting rights of all of them may do so in the same manner on or before the expiration of 3 months from the date of the deposit of requisition, 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.

Constitutional Documents

Pursuant to a special resolution of the Shareholders passed on 10 March, 2015, the Amended and Restated Memorandum and Articles of Association were adopted with effect from the Listing Date, copies of which are available on both the websites of the Hong Kong Stock Exchange and the Company.

During the financial year ended 31 December, 2021, there had been no change in the Company's constitutional documents.

Communication with Shareholders and investor relations

The Board recognizes that it is accountable to its stakeholders, and values the importance of communications with Shareholders. The Company is dedicated to maintaining an open dialogue with its Shareholders, and it will continually improve its communications with Shareholders to obtain their feedback.

The Company has established a shareholder communication policy to ensure effective communication with its Shareholders. The Company's corporate website also serves as a channel for Shareholders to access information about the Group. The Group's key corporate governance policies and documents, including the terms of reference of the various Board committees, as well as all communications for Shareholders including the Group's financial reports and announcements, are available on the website.

Shareholders are welcome to send their request for general meeting, proposed resolutions or enquiries to the Board to the primary contact person of the Company as follows:

Cowell e Holdings Inc.
Suite 1620
16/F Ocean Centre
5 Canton Road
Tsimshatsui
Kowloon
Hong Kong
Attention: Ms. Lam Wing Yan
Email: carol@cowell.com.hk

RISK MANAGEMENT REPORT

The Company is committed to the risk management and internal control, which are deeply embedded into the integral part of its operations. The management of the Company has been focusing on internal policies and strategies to minimize risks while making every endeavor to achieve its missions and objectives. In order to manage and control the identified risks as well as unexpected risks, the Company has designed and developed risk management framework and tools. Applying sound risk management framework and tools, the Company has made proper assessment of the risks and strived to manage the risks within the boundary of the Boards risk appetite.

1. PRINCIPLE RISKS

The Board has defined principal risks that the Company has to confront with in order to achieve its strategic objectives.

The principle risks, risk mitigating strategies and key performance indicators (the "KPIs") that the Board has identified are illustrated below:

1. STRATEGIC RISKS			
Risk Description	**Current Situation/Risk Mitigating Strategy**	**Key Performance Indicators (KPI) & Status**	**CHANGES IN 2021**
1.1 Single Customer Concentration Risk: The Company currently sells a substantial portion of its camera modules and optical components to a limited number of customers. The Company's dependence on these customers may cause material fluctuations or declines in revenue.	**1. Current Situation** - Key markets for smartphone including China are being saturated; - Low level of technology innovation did not justify the high pricing strategy of the major US customer; and - Chinese smartphone makers' enlarging market share led order reduction from both US major customer and LG. **2. Risk Mitigating Strategy** - **Short Term:** Keep focusing on production yield enhancement and cost management to maintain price competitiveness and profitability of the business - **Medium Term:** Upgrade skills and technology for high-end products and diversify product offering to the existing customers - **Long Term:** Keep exploring new product and business opportunities activating new business development team other than smartphone industry	1. # of days that the production yield is lower than the management's comfort zone - No case to trigger an escalation to Group Risk Management Committee ("GRMC") in 2021 2. Revenue dependency on each customer and share allocation from the customers - Monitoring purpose	• Competition in the supply chain due to increased # of suppliers • Terminating loss making business (stopped supplying Optical parts) • More than expected orders of new products from major US customer in 4Q • Chinese smartphone markers' continuously enlarging market share
1.2 Technology Risk: The Company's continued success depends on its ability to respond to technology upgrade demanded by customers. It requires the Company's ability to maintain talented engineers. The Company's failure to further refine its technology and retain talented engineers may weaken its product competitiveness which may result in lower sales and market share.	**1. Current Situation** - Highly talented engineers are scarce resource and maintaining talent pool is challenging due to relatively high turnover ratio - Competition in the flip chip camera module business has been manageable due to high entry barrier led by advanced technology, significant investment and no assurance of sales volume **2. Risk Mitigating Strategy** - Keep hiring & retaining talented engineers by offering attractive compensation - Enhancing talent pool retention program	1. Retention ratio of the talent pool - No case to trigger an escalation to GRMC in 2021 2. Maintained comfortable level of retention ratio in 2021 (79.1%) 3. A larger talent pool for 2022 has been established to retain more talented engineers	• Maintained high retention ratio of 2021 talent pool • Strived to hire more local talented engineers • Incentivized talented engineers with both monetary and non-monetary compensation • Registered patents to secure our processing technology

2. LEGAL & REGULATORY RISKS

Risk Description	Current Situation/Risk Mitigating Strategy	Key Performance Indicators (KPI) & Status	CHANGES IN 2021
2.1 Legal & Compliance Risk: Non-compliance with Hong Kong Listing Rules and local regulations where we operate (Cayman, China, Hong Kong and Korea) may result in adverse publicity and potentially significant monetary damages	**1. Current Situation** - No material violation or breach of Hong Kong Listing Rules and/or local regulations and laws where we operate (Cayman/China/Hong Kong and Korea) **2. Risk Mitigating Strategy** - Maintained external legal advisors for both Hong Kong and China to ensure a full compliance with Hong Kong listing rules and local regulations - Conducting internal audit and mobilizing group risk management committee to manage any unexpected situation	1. # of critical findings during monthly internal audit 2. # of enquiries, guidance or warnings from the Authority - No case to trigger an escalation to GRMC in 2021	• Maintained a sound risk management & internal control system • Expanded support from external legal & compliance professionals
2.2 Risk from mis-handling customers' confidential information: The Company has signed Non-Disclosure Agreements ("NDA") with all customers and any breach of the NDAs may cause serious financial damages.	**1. Current Situation** - No breach of NDAs has been escalated - No inside information on disclosure case has been reported **2. Risk Mitigating Strategy** - Reinforcing the inside information handling policy - Implementing high level of security system - Strengthening internal audit processes - Providing training on inside information handling policy to all employees	1. # of security rule violations and the amount of financial loss caused by the violation - No case to trigger an escalation to GRMC in 2021	• Conducted regular NDA and inside information related training for all employees in 2021

3. OPERATIONAL RISKS

Risk Description	Current Situation/Risk Mitigating Strategy	Key Performance Indicators (KPI) & Status	CHANGES IN 2021
3.1 Production & Operational Risks: Securing sufficient factory labor in a timely manner is critical for executing production plan. Work stoppages and other labor-related issues may adversely affect our operation.	**1. Current Situation** - Efficiently managed production in line with production plan by sourcing sufficient labor in a timely manner despite the seasonality and high turnover of China labor market in Dongguan - There was no case in 2021 which triggered an escalation to GRMC **2. Risk Mitigating Strategy** - Expanding factory labor recruiting channel - Initiated factory labor retention program - Production line automation	1. # of days with production shortage against production plan 2. No case to trigger an escalation to GRMC in 2021	Sufficient liquidity of labor due to: 1. Lessened workforce required due to upgraded automation in the production line 2. Relatively low factory un rate due to reduced orders from customers led by fierce market competition and overall retreating smartphone industry

4. FINANCIAL RISKS

Risk Description	Current Situation/Risk Mitigating Strategy	Key Performance Indicators (KPI) & Status	CHANGES IN 2021
4.1 Foreign Exchange Risk: Mismatching currencies in sales and procurement contracts may adversely affect the Company's financial results. Furthermore, operating subsidiaries in multiple countries increase FX exposure.	**1. Current Situation** - Maintained USD as a core currency for both sales and procurements - Operating subsidiaries in multiple countries caused FX valuation gain or loss which may mislead the Company's actual financial results **2. Risk Mitigating Strategy** - Maximizing natural hedging position by matching currencies in sales and procurements contracts - Recording actual FX transaction gain or loss as well as FX valuation gain or loss on a regular basis to monitor the situation and providing this report to GRMC and Audit Committee on a regular basis for their management decision	1. Natural hedging position (Total procurement amount settled in USD/Total sales settled in USD) 2. FX transaction gain or loss with a trigger point to make an escalation to GRMC and Audit Committee 3. No case to trigger an escalation to GRMC in 2021	1. Maintained the natural hedging position within the management's comfort zone; and 2. About 2.3% and 9.3% appreciation or depreciation of CNY and KRW, respectively in 2021 had led marginal FX transaction loss while sizable FX valuation. The situation was well within the management's comfort

Risk level gets higher Risk level gets lower Risk level remains unchanged

2. PHILOSOPHY & OBJECTIVES OF THE COMPANY'S RISK MANAGEMENT SYSTEM

Managing risk is an ongoing process in the presence of uncertainties and should involve employees at all levels. Therefore, risk management cannot be practically performed on a standalone basis. All employees are required to be responsible and accountable for managing risk in so far as is reasonably practicable within the area of their responsibility. The principles and practices of sound risk management must be fully integrated into all business units' normal management strategy, planning and operational processes. Reflecting this philosophy, the Company has prepared and implemented its prudent risk management system.

The objectives of the Company's risk management system are to:

- outline its systematic approach to risk management to achieve strategic and operational objectives of the Company;
- improve decision-making, accountability and outcomes through the effective use of risk management system;
- integrate risk management system into daily operations; and
- reduce any potential financial loss, protect the brand and reputation and optimize business performance in a controlled manner when opportunities arise.

3. RISK APPETITE

In pursuit of its strategic objectives, the Board and the management of the Company is willing to undertake risks only if they shall not jeopardize:

- the relationship with major customers;
- health and safety of stakeholders including employees, suppliers, customers, etc.;
- the viability of the Company due to intractable financial loss;
- environment of the community and nation;
- the Company's reputation and brand name; and
- business license due to breach of regulations and laws where the Company operates.

4. RISK TAXONOMY

At the highest level, the risks that the Company may have to confront with in order to achieve its strategic objectives can fall into the following risk categories:

- Strategic Risks: relating to the Group's business model and strategy such as demand shortfall, customer retention, pricing pressure, industry or sector downturn and failure to achieve technology upgrades;
- Operational Risks: risks that can be typically managed from within the business such as cost overrun, operating controls, poor capacity management, supply chain issues, employee issues including fraud, bribery and corruption and raw material prices;
- Financial Risks: the risks relating to inadequate liquidity management and unfavorable changes in the financial market such as interest rates and foreign exchange; and
- Compliance/Regulatory risks: relating to legal, regulatory and stakeholders considerations

5. RISK MANAGEMENT PROCESS

The Company adopts an integrated and structured approach to risk management, which consists of 4 steps to follow.

A. Risk Identification

Day-to-day risk management resides with the individual business units; therefore, departmental manager of each business units is accountable for the identification of the risks and their assessments as well as their bottom-up reporting in order to achieve strategic and operational objectives.

B. Mitigation Control and Assurance Activities

Every risk identified must be carefully evaluated and all the root causes of the identified risks should be assessed in order to find mitigating factors of the risk and ways to monitor and control the risk in an effective manner. The internal audit, as the 3rd line of defense explained in the section 7.A., will need to carry out analysis and independent appraisal of the mitigation control and assurance activities.

C. Accountabilities

Actively managing risks are the key duty of the risk owners/department managers of the Company. Department managers will assist risk owners in measuring, controlling, monitoring and reporting risks and they have both the right and obligation to contribute to risk management.

D. Reporting

All critical risks identified and any new/emerging risks to be identified by any individual department will be registered and reported to Group Risk Management Committee ("GRMC"). The risk management team of the Company (the "Risk Management Team") can facilitate and assist the relevant staff/department to register the risks and consolidate all the risks registered based on the pre-defined risk taxonomy and report it to GRMC on a regular basis.

6. RISK GOVERNANCE STRUCTURE

The effectiveness of risk management is unavoidably linked to management competence, commitment and integrity, all of which forms the basis of sound corporate governance. Corporate governance provides a systematic framework within which each management group can discharge their duties in managing the business.

A. The Board of Directors

The Board is responsible for:

- evaluating and determining the risks it is willing to take in achieving the company's strategic objectives;
- overseeing the Company's risk management and internal control systems on an ongoing basis;
- reviewing the effectiveness of the risk management and internal control systems which need to be conducted at least annually; and
- reporting to shareholders that it has done so in its Corporate Governance Report.

B. Audit Committee

The Audit Committee is responsible for:

- reviewing the Company's financial controls, risk management and internal control systems;
- discussing the risk management and internal control systems with GRMC to ensure that GRMC has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programs and budget of the issuer's accounting and financial reporting function;
- considering major investigation findings on risk management and internal control matters as delegated by the Board; and
- ensuring co-ordination between the internal and external auditors.

C. The GRMC is responsible for:

- assisting the Audit Committee to identify and evaluate risks with which the Company is facing;
- designing, implementing and monitoring the risk management and internal control systems;
- reviewing the identified risks on a regular basis and taking actions to alleviate the level of the identified risks; and
- assessing the effectiveness of the risk management and internal control systems on a quarterly basis and reporting it to the Audit Committee and the Board.

D. Risk Management Team

Risk Management Team is responsible for:

- updating the risk management policy and formalizing it by having it approved by the Audit Committee and the Board;
- updating the inside information handling policy and formalizing it by having it approved by the Audit Committee and the Board;
- implementing the risk management and internal control systems and processes and providing a risk management and internal control system training to all employees on a regular basis;
- ensuring all office employees attend the training at least once a year;
- facilitating the registration of all identified risks and new/emerging risks to be identified by any employee and reporting it to GRMC; and
- preparing and facilitating GRMC meeting on a monthly basis for the seamless flow and maximum outcome of the meeting.

E. Internal Audit

Internal Audit Team of the Company (the "Internal Audit Team") is responsible for:

- carrying out the internal audit function of the Company;
- updating the internal audit policy when it is needed;
- conducting the analysis and independent appraisal of the adequacy and effectiveness of the workflow and work manual of the members of the Company;
- pointing out non-compliance works of the member of the Company being audited and instructing them to make remedy actions within the set timeframe; and
- reporting to GRMC critical findings of the audit and the effectiveness of internal control measures.

F. *Senior Management*

Senior management of the Company is responsible for:

- providing direction and guidance within their areas of accountability so that subordinates best utilize their abilities in the preservation of the Company's resources;
- promoting, sponsoring and coordinating the development of a risk management culture within the organization;
- guiding the inclusion of risk management in all strategic and operational decision making; and
- possessing a clear profile of major risks within their area of control incorporating both opportunities and negative risks.

G. *Line Management*

Line Management of the Company is responsible for the adoption of risk management practices and will be directly responsible for the results of risk management activities, relevant to their area of responsibility. As part of the annual planning cycle all responsible managers will be required to consider and document existing risks and their impact on proposed plans. Any new emerging risks identified due to changes in the business environment must also be documented. Risk records must be maintained up-to-date on an on-going basis to reflect any changes which may occur.

H. *All Employees*

All employees of the Company are responsible for:

- acting at all times in a manner which does not place at risk the health and safety of themselves or any other person in the workplace;
- providing direction and training to persons for whom they have a supervisory responsibility or duty of care relating to health and safety; and
- identifying areas where risk management practices should be adopted and are to advise their supervisors accordingly.

7. RISK MANAGEMENT FRAMEWORK

There are a number of different types of risks, which the Company must take and manage in order to achieve its strategic objectives. The Board and senior management must identify these risks and discuss about the mitigating factors to manage the overall risk level and find ways to monitor the risks ensuring they stay within the Company's risk appetite.

In order to be more systematic to manage these risks, the following risk management framework has been adopted:

A. Three Lines of Defense Model

Risks are inherent in every corner of our businesses, and it is important to have a culture involving all levels of employee and a systematic approach to identify and assess risks such that they can be reduced, eliminated or avoided. In order to create risk conscious culture within the organization and manage risks systematically, three lines of defense model has been adopted. The following illustration and table show the definition of each line of defense and its role:

B. Risk Rating Methodology

In order to measure our risk appetite, all the identified principal risks will need to be rated based on the significance of the risk and the likelihood of occurrence.

[Table 1] Significance of the Risk

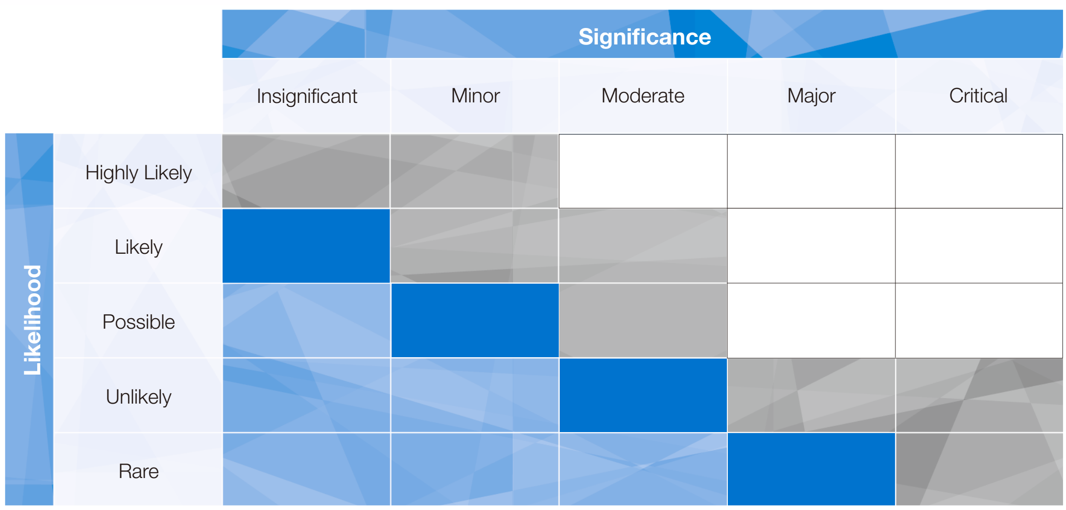
Risk Rating Dimension	Insignificant(1)	Minor(2)	Moderate(3)	Major(4)	Critical(5)
Financial	Financial damage of event less than HKD1 million	Financial damage of event between HKD1 million and HKD5 million	Financial damage of event between HKD5 million and HKD10 million	Financial damage of event between HKD10 million and HKD15 million	Financial damage of event more than HKD15 million
Reputational	Internal corrective action without any negative media focus	No negative media focus and/or concerns raised by one stakeholder	Short-term (less than a week) negative media focus and/ or significant concerns raised by more than one stakeholders	Long-term (more than a week) negative media focus and/ or sustained concerns raised by more than one stakeholders	Stakeholders lose confidence in the organization in the long-term, permanent withdrawal of support by several stakeholders
Operational	Corrective action within a day without disruption of operation	Corrective action within a week without disruption of operation	An incidence with the potential to lead to disruption of operation for a day	An incidence with the potential to lead to disruption of operation for more than a week	An incidence with the potential to lead to disruption of operation for more than a month
Regulatory	Internal corrective action without any operational disruption	Guidance from the authority	Warnings from the authority	Monetary penalty	Civil/criminal liabilities

[Table 2] Likelihood of Occurrence

Rating	Description
Highly Likely	Highly likely to occur in all circumstances (weekly)
Likely	Likely to occur in most circumstances (monthly)
Possible	Possible to occur at some stage (quarterly)
Unlikely	Unlikely to occur in most circumstances (1–3 years)
Rare	May only occur in exceptional circumstances (3–10 years)

Every identified risk will be mapped out based on the result of risk ratings using the above risk parameters. The significance of the risk will be evaluated in four different areas such as financial risk, reputational risk, operational risk and regulatory risk and the rating of the most relevant risk area will be selected, which will represent the significance of the risk. And after measuring the likelihood of occurrence, the risk can be positioned in the following risk map.

[Picture 1] Risk Map



Any risk located outside of the white area can be defined as the risk within our risk appetite. And any risk located in the white area will be continuously monitored and the Company will make every effort to bring it out of the area which is acceptable based on the Company's risk appetite.

8. RISK MANAGEMENT TRAINING

The Risk Management Team is responsible for the development and provision of risk management awareness training as well as specific training programs throughout the Company. This training is to address the needs of all employees including senior management.

9. RISK MANAGEMENT PERIODIC REVIEW

The Risk Management Team will support the management through periodic independent review of risk management practices and procedures to provide assurance on their efficiency and relevance to the GRMC and the Audit Committee.

INTERNAL AUDIT

Internal audit is an integral part of internal control along with risk management system. The mission of the Internal Audit Team is to provide independent and objective reviews and assessments of the business activities, operations, financial systems and internal accounting controls of the Company. The Internal Audit Team accomplishes its mission through the conduct of operational, financial and performance audits, selected as the result of a risk identification and assessment process. The resulting schedule of audits is reviewed and approved by the Audit Committee and the GRMC of the Company.

1. OBJECTIVE

The Internal Audit Team conducts independent reviews and appraisals of the work procedures and operations. These reviews provide management with an independent appraisal of the various operations and systems of control. The reviews also help to ensure that the Company's resources are used efficiently and effectively while helping the Company achieve its mission, as directed by the Board. It is the intention of the Internal Audit Team to perform this service with professional care and with minimal disruption to daily operations.

2. RESPONSIBILITY AND AUTHORITY

The internal audit function was established at the direction of the Board and derives its authority directly from the Audit Committee. The Internal Audit Team reports to the GRMC on a monthly basis and to the Audit Committee on a quarterly basis. Internal audit staff is authorized to conduct a comprehensive internal audit program within the Company and is responsible for keeping the Audit Committee and GRMC informed of unusual transactions or other matters of significance.

3. INDEPENDENCE

In order to maintain independence and objectivity, the internal audit function has no direct responsibility or any authority over the activities or operations that are subject to review, nor should the Internal Audit Team develop or install procedures, prepare records or engage in activities that would normally be subject to review. However, the Internal Audit Team may be consulted when new systems or procedures are designed to ensure they adequately address internal controls.

4. OBJECTIVITY

Internal audit is a service function organized and operated primarily for the purpose of conducting audits, in accordance with the predefined work procedures. The evidential matter gathered from these audits forms the basis for furnishing opinions and other relevant information to chairman of the Board, Audit Committee, GRMC and senior management of the Company.

Opinions and other information furnished may attest to the adequacy of internal control, the degree of compliance with established policies and procedures and/or their effectiveness and efficiency in achieving organizational objectives. The Internal Audit Team may also recommend cost effective courses of action for the management to consider in improving efficiencies that have been identified during an audit.

5. AUDIT PROCESS

Although every audit project is unique, the audit process is similar for most engagements and usually consists of nine stages. Through these stages the Internal Audit Team will determine ways to minimize risks and increase efficiencies within the area.

A. Plan:

The Internal Audit Team will develop an audit plan based on a review of all pertinent information.

B. Notify:

The Internal Audit Team will schedule a meeting with the unit manager and the senior managers of the process to be audited. Identify the scope and objectives of the audit, how long it is expected to last and what the responsibilities for all parties are in the audit process. Any factors that may impact the audit should be raised at this time. Factors include vacations, fiscal year end reporting requirements, etc.

C. Test:

Testing will include interviews with the staff, review of procedures and risk manuals, assessing the adequacy of internal controls.

D. Communicate:

Keep the department that is undergoing the audit updated on the status of the audit on a regular basis especially if there are any findings. There may be instances where the findings can be addressed immediately.

E. Draft:

The report draft will include the audit scope and objectives, summary and opinion, findings and audit recommendations.

F. Management Response:

Management will receive the audit draft to confirm the facts and respond to the audit recommendations. Their response should assign the responsibility and have a specific target date of completion for the corrective actions. The time window for the management response will be 21 calendar days.

G. Review:

The final version of the audit will be reviewed and all issues resolved by the Internal Audit Team.

H. Distribute:

The report is then released to the Audit Committee and GRMC as part of the agenda at the periodic meetings as requested.

I. Verify:

The Internal Audit Team will normally conduct a follow up on the management responses to the audit Findings and Recommendations within a reasonable time frame. This subsequent review will be discussed with the involved management and the comments published. The comments may also be released to the Audit Committee and GRMC as part of the agenda at the periodic meetings.

6. PRIORITIZATION OF THE AUDIT

The below are three factors adopted for the prioritization of processes for auditing:

A. **Financial Factor:** The significance of a process will be evaluated based on the amount of monetary impact of the process.

B. **Operational Factor:** The criticality of the process, when it has ERRORS or IRREGULARITIES, will be determined by time to be required for the corrective action.

C. **Regulatory Factor:** The rating of this category will be determined by the level of action from the authority.

And the risk parameters of each category are illustrated in the following [Table]:

Risk Rating Dimension	Insignificant (Ratings 1)	Moderate (Ratings 2)	Critical (Ratings 3)
Financial	Financial damage of event less than HK$500,000	Financial damage of event between HK$500,000 and HK$1,000,000	Financial damage of event more than HK$1,000,000
Operational	Corrective action within a week without disruption of operation	An incidence with the potential to lead to disruption of operation for more than a week	An incidence with the potential to lead to disruption of operation for more than a month
Regulatory	Internal corrective action without any warning from the authority	Warnings from the authority and/or monetary penalties	Monetary penalties and/or Civil/criminal liabilities

The prioritization of the process for auditing will be determined by the rating of the most relevant factors indicated above.

INTERNAL CONTROL FOR THE HANDLING INSIDE INFORMATION

The Board and the management of the Company are well aware of the following statutory duties relating to the handling of inside information:

- The Company must have procedures for the secure handling of inside information;
- A list of persons who are given access to inside information must be kept and the list must be continuously updated;
- Persons who are given access to inside information shall be made aware of the duties and responsibilities that this entails, as well as the criminal liability involved; and
- The Company must be able to provide documentary evidence to the Securities and Futures Commission in Hong Kong that persons who are given access to inside information are aware of their duties.

1. APPLICABILITY

These inside information handling procedures apply to all employees and elected officers (directors, elected auditor and corporate secretary) of the Company and its subsidiaries and to joint ventures in which the Group is a partner. The persons in charge of business areas in the Company shall ensure that employees and elected officers of the Company's subsidiaries receive necessary information about and training in use of these instructions. Responsibility at the Company lies with the heads of the various departments. The individual department heads shall assist in providing practical training.

2. THE DUTIES AND RESPONSIBILITIES OF A PERSON WITH RECEIPT OF INSIDE INFORMATION

Each employee and elected officer who receives inside information regarding the Group's financial instruments shall act in accordance with the prohibitions and duties that are described in further detail below.

A. Prohibition of misuse of inside information

No person must subscribe for, purchase, sell or exchange financial instruments issued by the Company if he or she has inside information regarding the Group's financial instruments. This prohibition applies to every natural and legal person, indirect and direct trading, and trading both for own account and for a third party's account, irrespective of form of settlement. The prohibition also applies to incitement to trade, i.e. persons who have inside information regarding the Group's financial instruments are not permitted to give other persons advice or in any way influence other persons to carry out, or refrain from carrying out, such transactions. This applies correspondingly to the entry into, purchase, sale or exchange of options or forward/futures contracts or similar rights (including financial derivatives) related to such financial instruments or to incitement to carry out such transactions.

The prohibition applies only to trades that can be characterized as misuse of inside information. Whether or not the trade constitutes misuse must be assessed in each individual case.

B. *Duty of confidentiality*

Inside information is confidential information, and shall not be given to or in other ways made available to unauthorized persons. The information may only be communicated or made available to another person if the recipient has a relevant, well-founded need for the information, assessed on the basis of the Company's interests. A strict "need to know" principle applies, i.e. as few people as possible shall have access to the information, as late as is practically possible.

Any person who communicates inside information or makes such information available to another person has an independent responsibility for ensuring that the person who is given access to the information is simultaneously made aware of the duties and responsibilities entailed by the receipt of such information, including the duty of confidentiality, the duty of proper handling of the information, the duty not to misuse it, and the criminal liability that attaches to the misuse or unwarranted distribution of such information. The above applies regardless of whether the recipient is an employee, an elected officer or an external advisor or a business connection.

C. *Duty of information in connection with the communication of inside information*

If inside information is communicated or made available to another person, the person responsible for maintaining the insider list and/or the Investor Relations Department shall be notified immediately, and if possible, before the information is communicated. Compliance with this duty of information is essential if the Company is to be able to fulfil its statutory duty to maintain an insider list, and to ensure that the persons who are given access to inside information are aware of the responsibility that this entails.

The person responsible for maintaining the insider list shall immediately put the person in question on the list of persons who have access to inside information. The insider list maintainer shall at the latest at the same time make sure that the recipient has been made aware of the duties and responsibilities that such access entails, and the criminal liability that attaches to misuse or unlawful use of such information.

D. *Duty to ensure proper handling of inside information and to secure information*

Any person who has inside information has a duty, in handling such information, to exercise due care in order to ensure that inside information does not come into the possession of unauthorized persons or is misused.

Environmental, Social and Governance Report

1. INTRODUCTION

1.A. PREPARATION

The section was prepared with reference to the Environmental, Social and Governance ("ESG") Reporting Guide (the "ESG Guide") set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and other relevant rules and regulations such as Labor Law of the People's Republic of China (the "PRC"), China Occupational Health and Safety Regulations, China Environmental Protection Act., etc.

Cowell e Holdings Inc. (herein after the "Company" and together with its subsidiaries, the "Group"), is committed to the highest standards of environmental and social responsibility and ethical behavior, which has been embedded into the Group's main operational principles. The Group's commitment in ESG areas has been well recognized by all stakeholders including the main US customer.

As to cover extensive ESG practices, the Group decided to include the entire manufacturing sites located in both Huanan ("HN Factory") and Heng Keng ("HK Factory") regardless their contribution to the Group's overall business.

In order to pursue and assess its compliance with the ESG principles internally, the Company has formed Environmental, Social & Governance Working Group ("ESG Working Group") under Group Risk Management Committee ("GRMC") of the Company which directly reports to the audit committee (the "Audit Committee" of the Company). The member of ESG Working Group includes individuals who are directly responsible for each ESG areas. The main duties of ESG Working Group are as follows:

A. To set up and maintain policies for environmental and social responsibility;
B. To comply with the relevant laws and regulations that have a significant impact on the Company;
C. To identify potential issues relating to environmental and social responsibility;
D. To prioritize the identified issues to be managed;
E. To develop ways to monitor the identified issues and keep tracking Key Performance Indicators ("KPI") of the issues;
F. To make recommendations on the ESG strategies to GRMC;
G. To implement the ESG strategies adopted by GRMC; and
H. To make monthly ESG report to GRMC

The regular ESG Working Group meeting is held on a monthly basis and the identified issues are discussed and proper action plans are set up to follow up. In addition, in accordance with the latest requirements under the ESG Guide, ESG Working Group provides guidance and training on all aspects of policies and strategies in respect of the Company's environmental, social and governance management as well as their relevance to the Company's operations.

1.B. MATERIALITY AND RELEVANCE

In order to identify most relevant General Disclosures and key performance indicators ("KPI"), all the areas of concern specified in the ESG Guide were discussed in the ESG Working Group meetings and cross-checked with GRMC. The outcome of the discussion was laid out and further examined from the perspective of major US customer's ESG guideline and priorities as well as feedback from the external stakeholders. The detailed methods of engagement are as follows:

[TABLE 1] METHOD OF ENGAGEMENT

Stakeholders Engaged	Method of Engagement
ESG Working Group	• Areas of expertise • Meetings • Ratings • Cross checking with GRMC
Group Risk Management Committee	• Areas of experience • Meetings • Ratings • Ongoing engagement
Customers	• Areas of focus • Global ESG guideline and standards • Priorities of concerns
External Stakeholders	• Areas of interest • Investor meetings and conference calls • Overseas roadshows • Investor forums and conferences

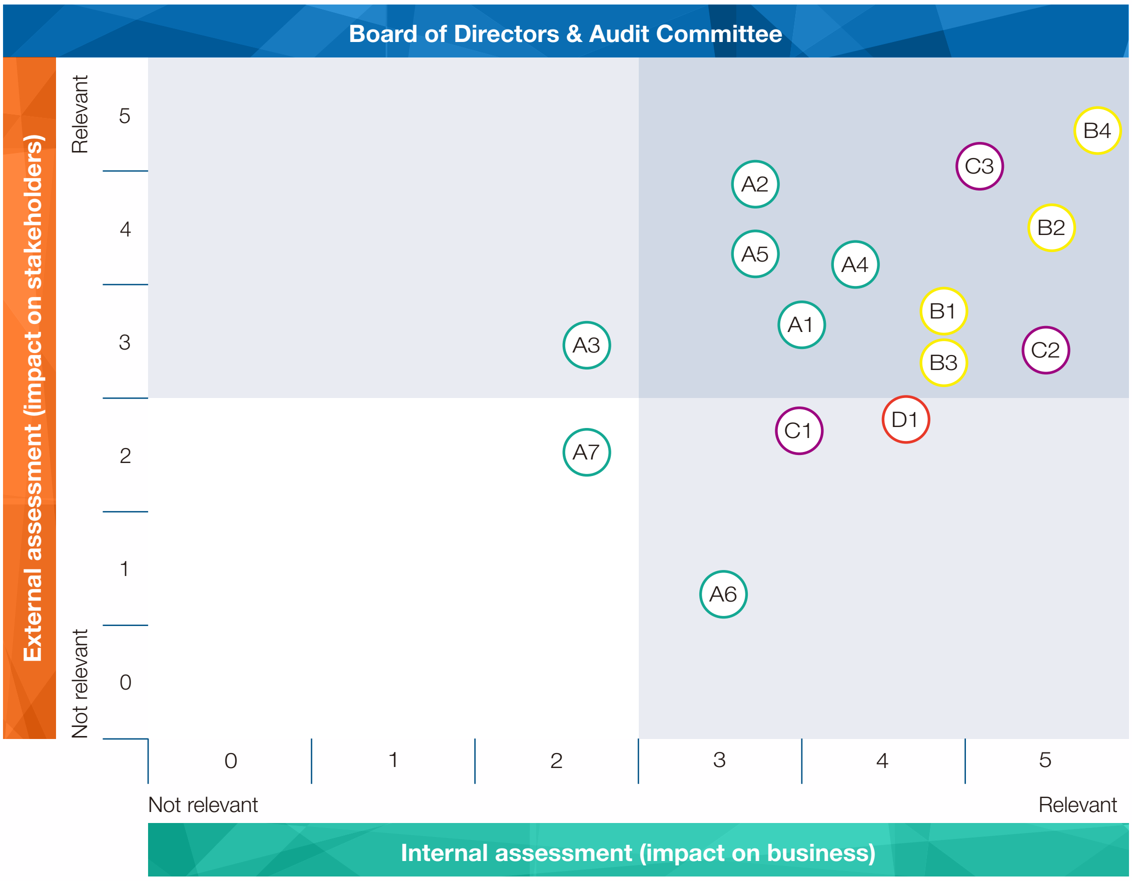
Based on the outcome of the ESG Working Group meetings, feedback from GRMC and external stakeholders as well as major customers' ESG guideline and priorities, the areas to be discussed were rated. The results of rating on each discussion point represents the Company's core organizational values, policies and strategies. During the rating process, both internal and external stakeholders' opinions were evaluated in consideration of potential financial implications, reputational risk and sustainability of the business.

The discussion points recommended by the ESG Guideline were summarized in the following table using four different categories:

[TABLE 2] ESG Discussion Points

A. Environment	B. Workplace	C. Operating Practice	D. Community
A1: Greenhouse Gas A2: Hazardous Waste A3: Non-hazardous Waste A4: Energy A5: Water A6: Packaging Material A7: Natural Resources	B1: Employment B2: Health & Safety B3: Development & Training B4: Labour Standards	C1: Supply Chain Management C2: Product Responsibility C3: Anti-corruption	D1: Community Investment

Each discussion point was rated in a scale from 0 to 5 (where 0 is the lowest relevance and 5 is highest) and mapped out in the following matrix:



Based on the above matrix, 14 out of 15 topics were identified as strong relevance and materiality to Cowell China. Natural Resources' low rating was mainly due to the Company's insignificant usage of natural resources.

2. ENVIRONMENTAL

Cowell China undertakes environmental protection seriously since it believes that protecting environment effort critically relates to the sustainability of its operation. Cowell China has initiated and implemented a number of measures to reduce carbon emission and solid wastes, improve energy efficiency and conserve water resources. Thanks to its effort in complying with the environment laws and regulations in force in China and its well defined internal policies and procedures, Cowell China has been successfully re-accredited the certification of ISO 14001: 2004 Environmental Management System. During the certification process, Cowell China has sufficiently demonstrated the followings:

- Compliance of mandatory requirements of the environmental standards; and
- Effectiveness of Cowell China's environmental management system

In the fiscal year of 2021, Cowell China was not aware of any material non-compliance with the relevant environmental laws and regulations that would have a significant impact on the Company.

2.A. EMISSIONS

Cowell China has effectively managed emissions of relevant greenhouse gases, waste water and hazardous and non-hazardous wastes. Main types of emissions discharged by Cowell China are as follows:

- Greenhouse gases
- Waste water
- Hazardous waste: Waste lubricant from power generators (HW08), Epoxy (HW13), Fluorescent lamp (HW29), Solvent (HW42) and cleaning cloth (HW49)
- Non-hazardous waste: Food waste, household garbage, plastic packaging materials and boxes

The above hazardous wastes are categorized based on Corrosivity (C), Toxicity (T), Ignitability (I) and Infectivity (In) in reference to national catalogue of Hazardous Wastes formulated in accordance with the Environment Protection Law of the People's Republic of China ("PRC") and the Law of the PRC for the Prevention and Control of Pollution by solid wastes.

Greenhouse Gases

The main sources of the emitted gases can fall into two different categories: direct emission and indirect emission. The direct emission of Cowell China arises from three different sources: 1) owned and controlled vehicles being operated for its employees' daily commute; 2) consumption of liquefied natural gas ("LNG") for the humidity control facilities in the clean rooms of the production sites and cooking facilities in the canteens; and 3) consumption of diesel for the power generators which are contingent facilities for any failure of electrical power supply. The greenhouse gas emission from the power generators is minimal since the facilities are only utilized when there is any electrical power blackout. Normally these facilities are running only 10 minutes per week to check its readiness. Also the greenhouse gas emission from LNG boiler for humidity control and cooking is insignificant since LNG is relatively environmentally friendly.

The indirect emission results from consumption of electricity for the production facilities as well as air-conditioning and heating facilities. Total greenhouse gas emission is measured regularly by converting total consumption of electricity, LNG, diesel and car fuel into greenhouse gas using conversion factors from 2015 China Regional Power Grid Baseline Emission Factor for electricity and GB-T2589–2008 General Rules for other energy consumption. Based on this methodology, Cowell China's total greenhouse gas estimated in the fiscal year of 2020 and 2021 are shown below:

[TABLE 3] GREENHOUSE GAS EMISSION

ITEM	UNIT	CONSUMPTION		CONVERSION FACTOR	GREENHOUSE GAS (tCO_2)	
		2021	2020		2021	2020
Electricity	kwh	59,233,200	61,392,330	0.0008959	53,067	55,001
LNG	m^3	382,500	310,297	0.0022000	842	683
Car Fuel	Liter	25,299	93,429	0.0022630	57	211
Diesel	Liter	15,625	80,171	0.0026195	41	2,100
TOTAL EMISSION					**54,007**	**57,996**

* Conversion Factor for Electricity in reference to 2015 China Regional Power Grid Baseline Emission Factor (2015中國區域電網基準線排放因子)

** Conversion Factor for LNG/Car Fuel/Diesel in reference to GB-T2589–2008 general rules for calculating energy consumption (GB-T2589–2008綜合能耗計算通則)

Air Emission

In order to comply with the law of the prevention and control of atmospheric pollution in China, air emission inspection has been conducted by the local authority annually. During the inspection, NO, SO and dust level of the emission from LNG boilers and power generators have been measured and recorded. As shown in the below tables, all inspected items have remained below the tolerance level of the authority.

[TABLE 4] AIR EMISSION INSPECTION FOR LNG BOILER

ENTITY	ITEM	UNIT	TOLERANCE	RESULT 2021	RESULT 2020	STATUS
HN FACTORY	No_x	mg/m^3	200	**76**	35	PASS
	SO_2	mg/m^3	50	**0**	12	PASS
	DUST	mg/m^3	30	**1.9**	0	PASS
HK FACTORY (No LNG Boiler)	No_x	mg/m^3	200	**0**	0	N.A.**
	SO_2	mg/m^3	50	**0**	0	N.A.**
	DUST	mg/m^3	30	**0**	0	N.A.**

* Amount less than the lowest limit of the inspection equipment

** Not Applicable

[TABLE 5] AIR EMISSION INSPECTION FOR POWER GENERATOR

ENTITY	ITEM	UNIT	TOLERANCE	RESULT 2021	RESULT 2020	STATUS
HN FACTORY	No_x	mg/m^3	120	**24**	26	PASS
	SO_2	mg/m^3	500	**10**	7	PASS
	DUST	mg/m^3	120	**<20**	<20	PASS
HK FACTORY	No_x	mg/m^3	120	**0**	28	PASS
	SO_2	mg/m^3	500	**0**	11	PASS
	DUST	mg/m^3	120	**0**	<20	PASS

Waste Water

In respect of waste water treatment, Cowell China has strictly complied with the related national laws and regulations of The Ministry of Environmental Protection of the PRC (MEP). The discharged water from HN Factory and HK Factory have been annually inspected by the local authority. And due to different classifications of waste water from HN and HK factories, two different MEP standards have been applied for the assessment. For both factories, non-compliance case has never been reported previously.

The following table shows the results of inspections conducted in 2020 and 2021:

[TABLE 6] INSPECTION OF DISCHARGED WATER

ENTITY	ITEM	UNIT	MEP STANDARD(1)	INSPECTION RESULT 2021	INSPECTION RESULT 2020	STATUS
HN FACTORY	PH(3)		6.00 – 9.00	7.31	6.93	PASS
	COD(4)	mg/L	30.00	27	18.00	PASS
	BOD(5)	mg/L	6.00	5.4	5.60	PASS
	T-N(6)	mg/L	1.50	0.112	0.22	PASS
	PETROLEUM	mg/L	0.50	0.4	0.20	PASS

ENTITY	ITEM	UNIT	MEP STANDARD(2)	INSPECTION RESULT 2021	INSPECTION RESULT 2020	STATUS
HK FACTORY	PH(3)		6.00–9.00	0	6.63	PASS
	FLOTAGE	mg/L	60.00	0	10.00	PASS
	CHROMATICITY		40.00	0	(7)	PASS
	PHOSPHATE	mg/L	0.50	0	0.45	PASS
	COD(4)	mg/L	90.00	0	59.00	PASS
	BOD(5)	mg/L	20.00	0	16.80	PASS
	T-N(6)	mg/L	10.00	0	0.64	PASS
	PETROLEUM	mg/L	5.00	0	0.24	PASS

(1) Environmental Quality Standards for Surface Water GB38382002 Class 3 (地表水環境質量標準GB38382002 3類)
(2) Water Pollutant Emission Limit Standard DB44/26 Class 2001 (水污染物排放限制 DB44/26 2001第二時段1級標準水)
(3) PH: Potential of Hydrogen
(4) COD: Chemical Oxygen Demand
(5) BOD: Biochemical Oxygen Demand
(6) T-N: Total Nitrogen
(7) Amount less than the lowest limit of the inspection equipment

And the below table shows the amount of discharged water in the fiscal year of 2020 and 2021, which are all within the limits approved by the local authority:

[TABLE 7] DISCHARGED WATER

ENTITY	2021	2020
HN FACTORY	**1491 m³**	1,398 m³
HK FACTORY	**0 m³**	4,071 m³

Hazardous & Non-Hazardous Waste

Cowell China's hazardous and non-hazardous wastes are listed in the below table, which also shows total emitted amount of each item in the fiscal year of 2020 and 2021:

[TABLE 8] HAZARDOUS & NON-HAZARDOUS WASTES

ITEM	UNIT	HN FACTORY		HK FACTORY		SOURCE OF WASTES
		2021	2020	2021	2020	
HAZARDOUS WASTES						
Lubricant	kg	**366**	1,130	*****	*	Power generating
Chemical	kg	**1,020**	2,750	**0**	0	Cleaning (alcohol, acetone & solvent)
Fluorescent Lamps	kg	**0**	0	**0**	0	Lighting
Epoxy	kg	**770**	1,196	*****	*	Production processing
Cleaning Cloth	kg	**5,434**	7,157	*****	*	Cleaning (with chemicals)
NON-HAZARDOUS WASTES						
Paper, Boxes, etc.	tonne	**40**	38	**0**	10	Packaging
Household & Food	tonne	**580**	508	**0**	160	Canteens and Dormitory

* HN Factory handles lubricant, epoxy and cleaning cloth wastes from HK Factory collectively

In addition, the following table illustrates how each of the emitted hazardous and non-hazardous wastes are handled:

[TABLE 9] HAZARDOUS AND NON-HAZARDOUS WASTE TREATMENT

NO	TYPE	COWELL CHINA		WASTE TREATMENT COMPANIES		
		USAGE	TREATMENT	COLLECTION	TREATMENT	END PROCESS
1	NON-HAZARDOUS WASTE	HOUSEHOLD GARBAGE & PACKAGING WASTE (BOX & PLASTIC PACKAGING MATERIALS)	STORING IN GENERAL WASTE STORAGE AREA EVERYDAY	URBAN HOUSEHOLD GARBAGE PROCESSING CENTER EVERYDAY	FILTERING & SORTING (RECYCLE & NON-RECYCLE WASTE)	* RECYCLABLE WASTE- RECYCLE * NON-RECYCLABLE WASTE – INCINERATION AND LANDFILL
2	FOOD WASTE	FOOD WASTE FROM CANTEEN	STORING IN THE DESIGNATED AREA EVERYDAY	EVERYDAY BY PIG FARM	FILTERING & SORTING	FEED FOR PIG FARMING
3	HAZARDOUS WASTE	ALCOHOL, ACETONE & SOLVENT (HW42) FOR CLEANING	COLLECTING WASTE CHEMICALS IN 200 LITER CONTAINER EVERYDAY & STORE IN THE DESIGNATED HAZARDOUS WASTE AREA	EVERY 2 MONTHS BY PROFESSIONAL HAZARDOUS WASTE TREATMENT COMPANY	TREATMENT FOR RECYCLING	RESALE
4	HAZARDOUS WASTE	WASTE LUBRICANT FROM POWER GENERATORS (HW08)	COLLECTING WASTE LUBRICANT IN 20 LITER CONTAINER & STORE IN THE DESIGNATED HAZARDOUS WASTE AREA	EVERY 6 MONTHS BY PROFESSIONAL OIL WASTE TREATMENT COMPANY	TREATMENT FOR RECYCLING	RESALE
5	HAZARDOUS WASTE	WASTE EPOXY (HW13) FROM PRODUCTION	STORING IN THE DESIGNATED HAZARDOUS WASTE STORAGE AREA	EVERY 3 MONTHS BY PROFESSIONAL OIL WASTE TREATMENT COMPANY	FILTERING	INCINERATION
6	HAZARDOUS WASTE	WASTE CLOTH AFTER CLEANING USING CHEMICALS	STORING IN THE DESIGNATED HAZARDOUS WASTE STORAGE AREA	EVERY 3 MONTHS BY PROFESSIONAL OIL WASTE TREATMENT COMPANY	FILTERING	INCINERATION

The majority of wastes including both hazardous and non-hazardous wastes are being filtered, sorted and processed for recycling as much as possible and the final residual wastes are incinerated by the authorized waste treatment companies. These treatments are fully in compliance with Solid Waste Pollution Prevention Act 75 Article 5 (固體廢物污染環境防治法75條5行) and non-compliance case has never been reported previously.

Packaging material consumption

The main packaging materials consumed by Cowell China during the fiscal year of 2021 include trays and carton boxes. These are in line with main customers' standard packaging requirements. The total weight of trays and carton boxes used for the shipments of camera modules in the fiscal year of 2021 were approximately 376.1 tonnes and 115.1 tonnes, respectively, as compared to approximately 372.0 tonnes and 118.5 tonnes, respectively, in 2020. Each carton box takes up to 60 trays. The decreased usage of the packaging materials was led by the decreased shipments.

2.B. ENERGY AND WATER USAGE

Electricity is the main source of energy required for Cowell China's manufacturing processes, heating and cooling. And water is mainly used for the followings:

1) Ultrasonic cleaning processes for components;
2) Cooling compressors;
3) Greening;
4) Sprinkling for dust control; and
5) Other usage (general cleaning, drinking and washing etc.)

LNG is required to control humidity in the clean rooms of the production site and used for preparing meals for the employees of Cowell China. During the fiscal year of 2020 and 2021, total consumption of energy and water are provided in the following table:

[TABLE 10] ENERGY & WATER CONSUMPTION

ITEM	UNIT	HN FACTORY		HK FACTORY		TOTAL	
		2021	2020	2021	2020	2021	2020
Electricity	kwh	55,869,200	51,609,610	3,364,000	9,782,720	59,233,200	61,392,330
LNG	m^3	382,500	297,725	0	12,572	382,500	310,297
Water	m^3	370,151	339,826	69,447	177,426	439,598	517,252

Proper usage of energy and water with care relates to not only environmental protection, but also health and safety of employees of Cowell China. For effective and efficient consumption of energy and water, Cowell China has prepared and implemented internal policies listed below:

- LNG user manual and policy
- Water user manual and policy
- Electricity safety user manual and policy
- Uninterrupted Power Supply (“UPS”) policy
- Power generator user manual and policy
- Lighting and illumination policy

Cowell China does not have any issue in sourcing water; however, the management has advocated water saving and efficiency initiatives. As a good practice and internal guideline, more than 50% of HN Factory’s total discharging water has been reused since April 2017.

In addition, Cowell China has constantly explored to find ways to optimize the energy consumption and waste management. To achieve this mission, the Company has formed a task force team (“TFT”) within the organization. TFT has carried out various projects and many of them have already been materialized. The project details and outcome of the projects are in the following table:

[TABLE 11] 2021 ENERGY SAVING INITIATIVES

PROJECT DESCRIPTION	OBJECTIVES	OUTCOME
Optimizing management of factory workers’ dormitories	— Saving water	— 77,654 m^3 water savings

3. SOCIAL RESPONSIBILITY

3.A. EMPLOYMENT

All employees of Cowell China totaling 2,873 as of December 31, 2021 are full time employees and well diversified in terms of geographical region, age group and gender. The detailed breakdown of our employees by region, age group and gender as well as turnover rate is as follows:

[TABLE 12] TURNOVER RATE BY REGION, AGE GROUP & GENDER

	Region	# of Employees at FYE'21	%	# of Employees Resigned in 2021	Turnover Ratio
By Region	Central China	988	34.4.%	505	11.5%
	South China	993	34.6%	509	11.6%
	Southwest	465	16.2%	302	6.9%
	Northwest	121	4.2%	72	1.6%
	Other regions in China	242	8.4%	76	1.7%
	Korea	64	2. 2%	38	0.9%
By Age Group	Below 30	1,431	49.8%	944	21.6%
	30s	1,207	42.0%	476	10.9%
	40s	203	7.1%	72	1.6%
	50 & above	32	1.1%	10	0.2%
By Gender	Female	1,997	69.5%	1028	23.5%
	Male	876	30.5%	474	10.8%
	TOTAL	**2,873**	**100.0%**	**1,502**	**34.3%**

* Turnover Rate = # of employees resigned in 2021/(# of employees at FYE'21+# of employees resigned in 2021)

** The turnover is defined as employees who leave Cowell China voluntarily or due to retirement, dismissal or other reasons

The management of Cowell China believes that our employees are one of the most valuable assets to the Company and essential to the Company's operations. In order to make Cowell China friendly and fair working environment, the Company has adopted the following principles as its core human resources ("HR") policy:

Anti-discrimination in recruitment and promotion

To comply with Chapter 2 of PRC Labor Law, Cowell China prohibits any discrimination against any employees based on age, disability, ethnicity, gender, marital status, national origin, political affiliation, race, religion, sexual orientation, gender identity, labor union membership, or any other status protected by the national law, in hiring and other employment practices. Furthermore, Cowell China does not require pregnancy or medical examinations unless it is required by applicable laws or prudent for workplace safety. It is also clearly stated in the policy that any grievances in good faith will not be retaliated against or punished. Non-compliance of this case has never been reported previously.

Working Hours and Compensation

Cowell China strives to create and maintain a work-life balanced working environment with reasonable working hours and rest periods. In addition, employees of Cowell China can enjoy reasonable annual leave periods and time off for national holidays. Furthermore, employees of Cowell China receive, at least, the legally required minimum wages and a range of allowances and compensation for working during weekend, overtime, night shift as well as year-end bonuses. The detail pay scheme is clearly communicated to all employees in their local languages and accurate wages are paid in a timely manner.

Cowell China's labor policies are set to adhere to legislation within the boundary of the respective labor laws in China. Non-compliance of this case has never been reported previously.

Other Benefits and Welfare

Cowell China promotes employees' collaborative spirit and nurtures their work-life balance by sponsoring a number of cultural and sporting activities on a regular basis.

The followings are such regular activities that are organized by either the management of Cowell China or employees themselves:

1. Bi-weekly badminton workout
2. Weekly basketball competition
3. Monthly mountain tracking
4. Monthly birthday get-together
5. Annual sports day
6. Dragon boat festival

During the Reporting Period, there was no incident of non-compliance with the relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare.

3.B. HEALTH AND SAFETY

Occupational Health, Safety and Hazard Prevention

The management of Cowell China pays much attention to employees' health, safety and well-being since it is inarguably important to the Company's sustainable operation. The Company is making every effort to provide and maintain a safe working environment and integrate appropriate health and safety management practices into its operation. In any case, if any employee of Cowell China observes unsafe or unhealthy working conditions, a proper internal escalation procedure is in place.

As a part of the internal standard procedures, Environmental, Health & Safety Team ("EHST") and Labor Team perform the following actions:

1. Providing employees with appropriate personal protective equipment with manual and teaching them how to properly use the equipment;

2. Training employees to adhere to Cowell China's health and safety policy; and

3. Conducting fire drills on a semi-annual basis (day & night fire drills) at the production, office and residential areas within Cowell China.

Furthermore, Cowell China has formed a group of professional from General Affairs, Labor, Construction, HR and EHST, which conducts and promotes 'Health & Safety Day' for the employees' health and safety awareness on a monthly basis. During 'Health & Safety Day', the team checks its surroundings, assesses emergency evacuation procedures and eliminates potential occupational health and safety hazards.

The method used to measure occupational health and safety is as follows:

- Average Number of Accidents per 1,000 workers per year ("Accident Rate") = Number of accidents/ Total number of workers x 1,000

During the Reporting Period, there was no significant incident of safety and work-related injury. There was no incident of non-compliance with the relevant laws and regulations that have a significant impact on the Group relating to providing a safe working environment and protecting employees from occupational hazards.

In the fiscal year of 2021, an Accident Rate of 0.09 was reported. The occupational health and safety incidents occurred in 2021 were investigated and proper corrective actions were conducted. All these activities have been reported to Group Risk Management Committee.

[TABLE 13] WORK-RELATED FATALITIES

	Unit	2021	2020
Total # of Work-related Fatalities	# of People	0	0
Work-related Fatalities Rate	Per 1,000 Workers	0.00%	0.00%

[TABLE 14] WORK INJURIES

	Unit	2021	2020
Accidents *	# of Accidents	3	4
Accident Rate	Per 1,000 Workers	0.09	0.13
Lost Hours	# of Hours	52	752

* Work related accidents with a minimum 8 lost hours (a full working day)

Emergency Prevention and Readiness

Potential emergency situations are carefully examined and assessed. And for each different emergency case, proper emergency evacuation procedures were implemented to minimize any physical injury as well as environmental and property damage. All new employees must attend an 'Emergency Prevention & Evacuation" training. And for those who work in the dangerous areas, 'Health & Safety' training is conducted on a monthly basis to raise their awareness of emergency procedures and readiness.

3.C. DEVELOPMENT AND TRAINING

Recruiting and maintaining skilled employees and cultivating loyalty to the Company are pivotal to both the success of the Company and the employees' career development. Training will help employees improve their work performance, which will eventually increase their loyalty to the Company. Therefore, Cowell China has developed a series of training specific to the needs and requirements of the work and tailored in line with their roles and responsibilities. Most trainings are done by internal staffs, but if necessary for the effectiveness of the training, outside professionals are often hired to conduct trainings as well.

The following table shows a summary of regular trainings for Cowell China factory employees in the fiscal year of 2021:

[TABLE 15] REGULAR TRAININGS FOR COWELL CHINA FACTORY EMPLOYEES

Training Type	Training Subjects	Target Audience	2021 # of Attendees	2020 # of Attendees	Training Hour	Frequency
New Employee Orientation	1. Company Introduction; 2. Code of Conduct; 3. Health & Safety; 4. Disciplinary Regulations; 5. Corporate Social Responsibility; 6. Safety Gear Manual; 7. Clean Room Rules; 8. Security Regulations; 9. Manufacturing Processes; 10. Terminology; 11. Tool Manual.	Newly hired operators	Male: 6,320 Female: 1,607	Male: 5,028 Female: 1,207	2 days (8 hours per day)	1st and 2nd day of employment
Post-promotion Training	1. Floor Management; 2. Code of Conduct; 3. Corporate Social Responsibility; 4. Health & Safety; 5. Security Regulations; 6. Leadership Skill; 7. Interpersonal Skill; 8. Effective Communication; 9. Leader's Role & Team Spirit.	1. Leader 2. Line Manager 3. Processing Manager	Male: 15 Female: 21	Male: 12 Female: 19	8 hours	Semi-annually
General Annual Training	1. Roles & Responsibilities; 2. Code of Conduct; 3. Corporate Social Responsibility; 4. Working Attitude; 5. Chemical Handling Instruction; 6. Security Regulations; 7. People Management; 8. Interpersonal Skill; 9. Improving Productivity; 10. Leader's Role & Team Spirit.	1. Line Manager 2. Processing Manager	Male: 134 Female: 102	Male: 154 Female: 113	8 hours	Annually (From November to December)

3.D. LABOR STANDARDS

Anti-harassment and Abuse

Cowell China has strived to make friendly workplace without in any form of harassment and abuse including, but not limited to verbal abuse and harassment, psychological harassment, mental and physical coercion, and sexual harassment. To create this working environment, a regular training on an annual basis has been provided to all employees including the newly hired.

Prevention of Involuntary Labor

Persons can have an opportunity to work for Cowell China only when they want to work voluntarily. Any form of slave, forced, bonded, indentured, or prison labor will not be recruited based on the internal policy. In any case, Cowell China will not forcibly withhold employee's original government-issued identification and travel documents. The relevant conditions of employment will be clearly explained to all employees in their own language.

Prevention of Underage Labor

The minimum legal age applicable to Cowell China's employment is 18 years old. Anyone younger than 18 years old are not allowed to work for the Company. In order to prevent from hiring any underage workers, a number of strict measures have been placed.

The following procedures are the synopsis of the policy:

1. All applicants for employment must present valid identification documents;

2. All applicants for employment must be interviewed by three interviewers; and

3. All documents provided and the results of the interviews will be carefully reviewed by both HR manager and team head of the hiring department.

In addition to the above procedures, internal escalation procedure for any unauthorized underage employment has also been set up. Any unauthorized underage workers can be anonymously escalated to the management. Furthermore, regarding this particular aspect, a quarterly review is conducted for the floor workers at the production site.

3.E. SUPPLY CHAIN MANAGEMENT

Cowell China respects the partnership with suppliers and desires to enhance its relationship for the sustainable and mutual growth with integrity. In order to achieve this goal, the Company has integrated environment protection and social responsibility into the supply chain management policy, which extensively covers various areas including production management, quality control, environmental governance and labor practice. The Company keeps exchanging dialogue with suppliers in routine work, physical visits, field review, supplier meetings and conferences, etc.

Suppliers' ESG Requirements

Cowell China encourages suppliers to adopt ESG principles in the areas of labor and human rights, health and safety, business ethics and environmental and social responsibility. The Company carefully selects its suppliers based on the above principles and any violations of these principles may jeopardize overall business relationship with Cowell China. Cowell China's standard purchase agreement includes supplier's social responsibility which extensively covers ESG requirements such as environmental protection, fair treatment for employment, health and safety of workers and business ethics.

Supplier Selection Process

When Cowell China needs to select a new supplier, it strictly follows procedures and on-site visit is one of critical steps in selecting new suppliers. The procurement team examines the qualification of potential suppliers in a stringent manner. Before sending out a request for proposal ("RFP") to potential suppliers, the followings are carefully reviewed:

1. Financial condition of the supplier

2. Shipping track record

3. Product quality assurance

Based on the outcome of the above review, multiple suppliers are shortlisted. Then, finally pricing competitiveness and ESG compliance are evaluated as core criteria for the selection of suppliers.

The following shows geographical diversification of Cowell China's suppliers in 2021:

[TABLE 16] SUPPLIES BY GEOGRAPHY

SUPPLIER LOCATION		2021 # OF SUPPLIERS	2020 # OF SUPPLIERS
	East China	41	0
	South China	257	229
China	Middle China	2	40
	North China	5	11
	West China	1	3
Korea		27	57
Japan		9	7
Hong Kong		5	10
Others		22	19
Total		**369**	**376**

[TABLE 17] LENGTH OF RELATIONSHIP

LENGTH OF RELATIONS	2021 # OF SUPPLIERS	2020 # OF SUPPLIERS
Less than 1 year	89	120
1~2 years	36	33
More than 3 years	244	223
Total	**369**	**376**

In terms of geography, suppliers of Cowell China are widely diversified, but majority of Chinese suppliers are located in South China. Furthermore, about 66% of total suppliers have more than 3 years of business relationship with Cowell China while about 24% of total suppliers have less than 1 years of business relationship with Cowell China.

3.F. PRODUCT RESPONSIBILITY

Cowell China's continued effort in improving quality management system has been recognized by successful renewal of ISO 9001: 2015. This ISO 9001: 2015 was based on the following eight quality management principles which would further help Cowell China improve its performance:

1.	Customer focus:	fulfillment of customer needs
2.	Leadership:	unity of purpose and direction
3.	Involvement of people:	employees' involvement in achieving the organization's objectives
4.	Process approach:	resources and activities managed as processes
5.	System management:	systemized approach for the effectiveness and efficiency
6.	Continual improvement:	adopting system as a part of everyday culture for improvement
7.	Fact based decision-making:	making decisions based on the logical and intuitive analysis of data and factual information
8.	Mutual benefit:	enhancing relationship with customers for mutual benefit and value

In fact, all manufacturing processes are carefully designed and validated by long experienced engineers. Production activities are performed in Class 10 clean room environment to satisfy our clients' stringent requirements for the quality of products. After every step of the production, the outcome produced are carefully examined and tested based on well-defined testing procedures. Even then, in order to strengthen quality assurance program, a proper customer return product procedure has been set up. The main purpose of this procedure is to efficiently handle the returned products from the customer due to not only product quality issues, but also any relevant re-inspection or re-test procedures prior to shipment back to the customer.

Protecting Intellectual Property Rights & Privacy Policies

In accordance with the non-disclosure agreement ("NDA") agreed with the customers, all manufacturing activities within Cowell China have been treated in a highly confidential manner and the whole property of Cowell China is secured as the restricted area where only authorized persons can enter. Any violation of NDA requirement is regularly reviewed by both internal audit team and legal team and the outcome of the regular review is reported to GRMC, on a monthly basis, which determines further escalation to the Audit Committee or the board of directors. In addition, this agenda has been regularly specified in the GRMC report which has been reported to the Audit Committee on a quarterly basis. In the fiscal year of 2021, there has been no violation reported to either GRMC or Audit Committee.

Quality Assurance Process and Recall Procedures

Cowell China's Return Material Authorization ("RMA") system has two basic categories.

One is Incoming Quality Control ("IQC") reject/Field Failure returns/Production fallouts (Quality), which encompasses product returned for technical reasons such as electrical rejections and/or functional failures, cosmetic and mechanical. Retest and sorting fees related to the quality defect is included in this category. The other is Administrative Returns (Non Quality), which encompasses all products returned for non-technical reasons. Examples are shipment error and freight fees, price reduction, customer requested changes and other administrative issues in nature.

For quality related returns, Cowell Quality Assurance ("QA") manager or representative confirms the customer complaint and communicates recommendations to Cowell China's quality engineering manager, director, supply chain, sales team and procurement team as needed. And a corrective and preventive action report is created to follow up in accordance with the procedures. If any quality issue at the customers' end is suspected, customers' quality representative will conduct the validation process prior to further actions.

3.G. ANTI-CORRUPTION

The Prevention of Bribery Ordinance in Hong Kong and relevant laws and regulations on anti-corruption and bribery in China are a part of core principles of Cowell China's Code of Conduct. The core principles of anti-corruption policy are well communicated with all Cowell China employees through a regular training. Cowell China's anti-corruption policy prohibits any and all form of corruption, extortion and embezzlement. In particular, employees of Cowell China shall in no event bribe foreign civil servants in any transactions and shall comply with laws that prohibit promising or giving bribes or any act of expressing intention to give either directly or indirectly to foreign civil servants regarding business affairs for the purpose of achieving unlawful profit in any transactions.

The followings are Cowell China's corruption prevention practices:

1. No monetary gift should be given or received;

2. A pre-approval must be sought when any employee of Cowell China needs to take part in activities including meals with suppliers or any relevant party outside of Cowell China;

3. No employee of Cowell China is allowed to use Cowell China's business opportunities for personal interest or benefit; and

4. All employees of Cowell China must attend "Anti-Corruption" training annually.

Furthermore, a suitable whistleblowing policy has been adopted by the management, which enables employees and other stakeholders to escalate any suspected misconduct or malpractice within Cowell China without any retribution. In the fiscal year of 2021, there was no case relating to anti-corruption reported.

3.H. COMMUNITY INVESTMENT

Cowell China, since its inception in 2002, has grown its business substantially. The management of Cowell China has recognized that such success and growth could not have been achieved without support from people, local community where Cowell China operates and the government. As a token of appreciation and for the sustainable growth, Cowell China has shown its commitment to the community in form of voluntary participation in community services and monetary sponsorship or charitable donations caring for people in need as well as supporting educational and environmental protection activities.

The areas of our focus in this aspect are as follows:

1. Fighting Poverty
2. Helping young people's education
3. Caring the elderly
4. Protecting environment
5. Supporting community development

HKEx ESG Reporting Guide Index			
General Disclosures & KPIs	**Description**	**Page number**	**Remarks**
SUBJECT AREA A. ENVIRONMENTAL			
Aspect A1: Emissions			
General Disclosure		73-79	ISO 14001:2015
KPI A1.1	The types of emissions and respective emission data.	75	[TABLE 4] [TABLE 5]
KPI A1.2	Greenhouse gas emissions in total (in tonnes)	74	[TABLE 3]
KPI A1.3	Total hazardous waste produced (in tonnes)	77	[TABLE 8]
KPI A1.4	Total non-hazardous waste produced (in tonnes)	77	[TABLE 8]
KPI A1.5	Description of measures to mitigate emissions and results achieved.	73-79	
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	78	[TABLE 9]
Aspect A2: Use of Resources			
General disclosure		74-79	
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in ’000s) and intensity	79	[TABLE 10] Energy Consumption
KPI A2.2	Water consumption in total and intensity	76, 77, 79	[TABLE 6] Water Inspection Results [TABLE 7] Discharged Water [TABLE 10] Water Consumption
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	79	[TABLE 11] 2021 Energy Saving Initiatives
KPI A2.4	Description of whether there is any issue in sourcing water that is t for purpose, water efficiency initiatives and results achieved.	79	
KPI A2.5	Total packaging material used for finished products (in tonnes)	78	
Aspect A3: The Environment and Natural Resources			
General disclosure		73, 76, 78, 79	
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.		Natural resources are not material to our operation.

HKEx ESG Reporting Guide Index			
General Disclosures & KPIs	Description	Page number	Remarks
SUBJECT AREA B. SOCIAL			
EMPLOYMENT & LABOUR PRACTICES			
Aspect B1: Employment			
General Disclosure		80-81	There was no material non-compliance regarding employment and labour practices during the fiscal year of 2021
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	80	[TABLE 12]
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	80	[TABLE 12]
Aspect B2: Health and Safety			
General Disclosure		82-84	
KPI B2.1	Number and rate of work-related fatalities.	83	[TABLE 13]
KPI B2.2	Lost days due to work injury.	83	[TABLE 14]
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	82-84	Health & Safety Day Emergency Prevention & Readiness
Aspect B3: Development and Training			
General Disclosure		83	
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	84	[TABLE 15]
KPI B3.2	The average training hours completed per employee by gender and employee category.	84	[TABLE 15]
Aspect B4: Labour Standards			
General Disclosure		85	Summary of Labor Policy
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	85	
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	85	

HKEx ESG Reporting Guide Index			
General Disclosures & KPIs	**Description**	**Page number**	**Remarks**
OPERATING PRACTICE			
Aspect B5: Supply Chain Management			
General Disclosure		86-87	
KPI B5.1	Number of suppliers by geographical region.	87	[TABLE 16] [TABLE 17]
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	86-87	
Aspect B6: Product Responsibility			
General Disclosure		87-89	ISO 9001:2015
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.		Not relevant to our operation
KPI B6.2	Number of products and service related complaints received & how they are dealt with.		No complaint received
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	87	
KPI B6.4	Description of quality assurance process and recall procedures.	87	
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	87	
Aspect B7: Anti-corruption			
General Disclosure		89	
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.		No legal cases regarding corrupt practices
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	89	
COMMUNITY			
Aspect B8: Community Investment			
General Disclosure		89	
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	90	
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	90	

Independent Auditor's Report

Independent auditor's report to the shareholders of Cowell e Holdings Inc.
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Cowell e Holdings Inc. ("the Company") and its subsidiaries ("the Group") set out on pages 100 to 163, which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

<table>
<tr><td colspan="2">Revenue recognition</td></tr>
<tr><td colspan="2">Refer to accounting policy note 1(q) and note 2 to the consolidated financial statements</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Revenue mainly comprises sales of camera modules and optical components to customers.

The Group enters into a framework sale and purchase agreement with each major customer and sells its products in accordance with the terms of separate purchase orders.

For the majority of the Group's sales, once the products are delivered to the location designated by the customer (either the shipping port or the destination port), the control of the goods are considered to have been transferred to the customer and revenue is recognised accordingly.

We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.</td><td>Our audit procedures to assess the recognition of revenue included the following:

• evaluating the design, implementation and operating effectiveness of management's key internal controls which govern revenue recognition;

• inspecting key customer contracts to identify terms and conditions relating to goods acceptance and the right of return and assessing the Group's timing of recognition of revenue with reference to the requirements of the prevailing accounting standards;

• comparing sales transactions, on a sample basis, with the underlying sales invoices and shipping documents to assess whether the related revenue was recognised in accordance with the Group's revenue recognition accounting policies;

• assessing, on a sample basis, whether specific revenue transactions around the financial year end had been recognised in the appropriate financial period on the basis of the terms of sale as set out in the framework sale and purchase agreement by inspecting the relevant underlying shipping documents which indicated the date of delivery of the goods to the location designated by the customer;

• inspecting a sample of credit notes issued after the financial year end and evaluating whether the related adjustments to revenue had been recognised in the appropriate financial period; and

• inspecting all material manual adjustments to revenue raised during the reporting period, enquiring of management the reasons for such adjustments and comparing details of the adjustments with relevant underlying documentation.</td></tr>
</table>

Key audit matters (continued)

Valuation of inventories	
Refer to accounting policy note 1(i) and note 13 to the consolidated financial statements	
The Key Audit Matter	**How the matter was addressed in our audit**
The Group held significant inventories as at 31 December 2021, which comprised raw materials, work-in-progress and finished goods in respect of camera modules and optical components. Inventories are stated at the lower of cost and net realisable value. The Group maintains its inventory levels based on customer orders and forecast demand. There is a risk that the net realisable value of inventories may fall below their cost due to changes in customer demand and the consequent overstocking of inventories at the end of the reporting period. In addition, a significant proportion of the Group's products are manufactured to meet specific customer requirements. There is a risk that if there is a demand issue with customer's products, the related inventories held by the Group may not be able to sell. Management assesses the level of write-downs of inventories required at each reporting date after considering inventory ageing and other relevant factors. Such assessment involves significant management judgement and estimation in determining the value of inventories which might not be recoverable at each reporting date. We identified the valuation of inventories as a key audit matter because inventories are significant to the consolidated financial statements and there is significant degree of management judgement involved in determining the write-down of inventories.	Our audit procedures to assess the valuation of inventories included the following: • evaluating the design and implementation of management's key internal controls over the inventory write-down assessment process, including the Group's monitoring controls over slow-moving inventories; • assessing whether the inventory write-down policy is appropriate with reference to the Group's current circumstances and the requirements of the prevailing accounting standards; • assessing whether the inventory write-downs at the reporting date were calculated on a basis consistent with the Group's inventory write-down policy by recalculating the inventory write-downs based on the percentages and other parameters in the Group's inventory provision policy; • assessing the key parameters and assumptions used in the inventory write-downs adopted by the management, taking into account the historical write-downs rate and the Group's current circumstances; • assessing the classification of inventory items in the inventory ageing report by comparing with purchase invoices and other relevant underlying documents, on a sample basis; and • assessing the historical accuracy of management's calculation of write-downs of inventories by examining the utilisation or release of write-downs and write-downs recorded at the end of the previous financial year during the current financial year.

Information other than the consolidated financial statements and auditor's report thereon

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

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

The directors are 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. This 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.

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.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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 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.

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 Lee Ka Nang.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

24 March 2022

Consolidated Statement of Profit or Loss

for the year ended 31 December 2021
(Expressed in United States dollars)

	Note	2021 $'000	2020 $'000
Revenue	*2*	**799,291**	750,203
Cost of sales		**(678,793)**	(631,752)
Gross profit		**120,498**	118,451
Other revenue	*3*	**5,839**	3,281
Other net loss	*3*	**(21,177)**	(24,536)
Selling and distribution expenses		**(1,980)**	(3,051)
Administrative expenses		**(44,571)**	(40,768)
Profit from operations		**58,609**	53,377
Finance costs	*4(a)*	**(893)**	(708)
Profit before taxation	*4*	**57,716**	52,669
Income tax	*5*	**(7,911)**	(10,249)
Profit for the year		**49,805**	42,420
Earnings per share	*9*		
Basic		**$ 0.060**	$ 0.051
Diluted		**$ 0.059**	$ 0.051

The notes on pages 107 to 163 form part of these consolidated financial statements. Details of dividends payable to equity shareholder of the Company attributable to the profit for the year are set out in note 22(b).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2021
(Expressed in United States dollars)

	Note	2021 $'000	2020 $'000
Profit for the year		**49,805**	42,420
Other comprehensive income for the year (after tax adjustments):	*8*		
Exchange differences on translation of financial statements		**7,430**	21,009
Remeasurement of net defined benefit liability		**102**	(28)
		7,532	20,981
Total comprehensive income for the year		**57,337**	63,401

The notes on pages 107 to 163 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

as at 31 December 2021
(Expressed in United States dollars)

	Note	2021 $'000	2020 $'000
Non-current assets			
Property, plant and equipment	*10*	**74,233**	82,502
Intangible assets	*11*	**6,360**	6,211
Other receivables	*14(b)*	**3,038**	4,167
Deferred tax assets	*21(b)*	**11,284**	6,980
		94,915	99,860
Current assets			
Inventories	*13*	**138,695**	85,772
Trade and other receivables	*14*	**117,694**	106,607
Current tax recoverable	*21(a)*	**7**	14
Bank deposits	*15(a)*	**12,548**	4,785
Cash and cash equivalents	*15(a)*	**188,243**	84,603
		457,187	281,781
Current liabilities			
Trade and other payables	*16*	**140,876**	107,517
Bank loans	*17*	**72,865**	—
Lease liabilities	*18*	**3,378**	2,067
Current tax payable	*21(a)*	**9,831**	9,354
		226,950	118,938
Net current assets		**230,237**	162,843
Total assets less current liabilities		**325,152**	262,703

Consolidated Statement of Financial Position

as at 31 December 2021
(Expressed in United States dollars)

	Note	2021 $'000	2020 $'000
Non-current liabilities			
Lease liabilities	*18*	**16,448**	12,476
Net defined benefit retirement obligation	*19*	**35**	115
		16,483	12,591
NET ASSETS		**308,669**	250,112
CAPITAL AND RESERVES			
Share capital	*22(c)*	**3,337**	3,337
Reserves		**305,332**	246,775
TOTAL EQUITY		**308,669**	250,112

Approved and authorised for issue by the board of directors on 24 March 2022

Mr. Chen Han-Yang
Director

Mr. Wu Ying-Cheng
Director

The notes on pages 107 to 163 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2021
(Expressed in United States dollars)

	Note	Share capital $'000	Share premium $'000	Capital reserve $'000	Capital redemption reserve $'000	Other reserve $'000	General reserve fund $'000	Exchange reserve $'000	Retained profits $'000	Total $'000
Balance at 1 January 2020		3,326	57,850	3,335	7	762	12,417	(25,968)	284,239	335,968
Changes in equity for 2020:										
Profit for the year		–	–	–	–	–	–	–	42,420	42,420
Other comprehensive income	*8*	–	–	–	–	–	–	21,009	(28)	20,981
Total comprehensive income		–	–	–	–	–	–	21,009	42,392	63,401
Dividends approved in respect of the previous year	*22(b)*	–	–	–	–	–	–	–	(50,000)	(50,000)
Dividends declared in respect of the current year	*22(b)*	–	–	–	–	–	–	–	(100,157)	(100,157)
Transfer from retained profits		–	–	–	–	–	4,375	–	(4,375)	–
Shares issued under share option scheme	*22(c)(ii)*	11	1,251	(421)	–	–	–	–	–	841
Equity settled share-based transactions		–	–	59	–	–	–	–	–	59
Share options lapsed		–	–	(279)	–	–	–	–	279	–
		11	1,251	(641)	–	–	4,375	–	(154,253)	(149,257)
Balance at 31 December 2020		3,337	59,101	2,694	7	762	16,792	(4,959)	172,378	250,112

Consolidated Statement of Changes in Equity

for the year ended 31 December 2021
(Expressed in United States dollars)

	Note	Share capital $'000	Share premium $'000	Capital reserve $'000	Capital redemption reserve $'000	Other reserve $'000	General reserve fund $'000	Exchange reserve $'000	Retained profits $'000	Total $'000
Balance at 1 January 2021		3,337	59,101	2,694	7	762	16,792	(4,959)	172,378	250,112
Changes in equity for 2021:										
Profit for the year		–	–	–	–	–	–	–	49,805	49,805
Other comprehensive income	8	–	–	–	–	–	–	7,430	102	7,532
Total comprehensive income		–	–	–	–	–	–	7,430	49,907	57,337
Transfer from retained profits		–	–	–	–	–	3,325	–	(3,325)	–
Shares issued under share option scheme	22(c)(ii)	–*	116	(44)	–	–	–	–	–	72
Equity settled share-based transactions		–	–	1,148	–	–	–	–	–	1,148
Share options lapsed		–	–	(610)	–	–	–	–	610	–
		–	116	494	–	–	3,325	–	(2,715)	1,220
Balance at 31 December 2021		3,337	59,217	3,188	7	762	20,117	2,471	219,570	308,669

* The balance represents amount less than $1,000.

The notes on pages 107 to 163 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2021
(Expressed in United States dollars)

	Note	2021 $'000	2020 $'000
Operating activities			
Cash generated from operations	*15(b)*	75,812	107,171
Tax refunded			
— Hong Kong Profits Tax (paid)/refunded		(7,165)	350
— Overseas tax paid		(4,105)	(6,371)
Net cash generated from operating activities		64,542	101,150
Investing activities			
Payment for purchase of property, plant and equipment		(25,062)	(19,417)
Payment for purchase of intangible assets		(1,227)	(412)
Interest received		1,344	1,606
(Increase)/decrease in bank deposits		(7,763)	30,171
Net cash (used in)/generated from investing activities		(32,708)	11,948
Financing activities			
Proceeds from bank loans	*15(c)*	72,865	—
Decrease in pledged deposits		—	3,113
Capital element of lease rental paid	*15(c)*	(2,962)	(2,016)
Interest element of lease rental paid	*15(c)*	(712)	(708)
Other borrowing costs paid	*15(c)*	(181)	—
Proceeds from shares issued under share option scheme		72	841
Dividends paid to equity shareholders of the Company			
— Final and special dividends of the previous year		—	(50,000)
— Special dividend of the current year		—	(100,157)
Net cash generated from/(used in) financing activities		69,082	(148,927)
Net increase/(decrease) in cash and cash equivalents		100,916	(35,829)
Cash and cash equivalents at 1 January		84,603	119,571
Effect of foreign exchange rate changes		2,724	861
Cash and cash equivalents at 31 December	*15(a)*	188,243	84,603

The notes on pages 107 to 163 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related interpretations, promulgated by the International Accounting Standards Board ("IASB"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2021 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that certain employee benefits are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 27.

1 Significant accounting policies (continued)

(c) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

None of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss be recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(h)).

1 Significant accounting policies (continued)

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(h)), with the exception of construction in progress which is stated at cost less any impairment losses (see note 1(h)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(s)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

–	Leasehold improvements	Shorter of the terms of leases or 20 years
–	Plant and machinery	7–8 years
–	Equipment, furniture and fixtures	3–5 years
–	Motor vehicles	3–5 years
–	Properties leased for own use	Unexpired terms of leases

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

1 Significant accounting policies (continued)

(f) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(s)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(h)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(h)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Development costs	5 years
– Software	5 to 10 years

Both the period and method of amortisation are reviewed annually.

Club membership are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(g) Leased assets

At inception of a contract, the Group assesses whether the 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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

1 Significant accounting policies (continued)

(g) Leased assets (continued)

As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 1(g) and 1(h)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and presents lease liabilities separately in the consolidated statement of financial position.

1 Significant accounting policies (continued)

(h) Credit losses and impairment of assets

(i) Credit losses

The Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECL on these financial assets are estimated based on the actual loss experience over the past years and further adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

1 Significant accounting policies (continued)

(h) Credit losses and impairment of assets (continued)

(i) ***Credit losses*** (continued)

Significant increases in credit risk

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

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

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

1 Significant accounting policies (continued)

(h) Credit losses and impairment of assets (continued)

(i) ***Credit losses*** (continued)

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment, including right-of-use assets;

– intangible assets; and

– interests in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

1 Significant accounting policies (continued)

(h) Credit losses and impairment of assets (continued)

(i) ***Credit losses*** (continued)

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

– *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1 Significant accounting policies (continued)

(j) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(h)(i)).

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, trade and other payables are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 1(h)(i).

(n) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

1 Significant accounting policies (continued)

(n) Employee benefits (continued)

(ii) Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense/(income) on the net defined benefit liability/(asset) are recognised in profit or loss and allocated by function as part of "cost of sales", "selling and distribution expenses" or "administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense/(income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability/(asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/(asset)).

(iii) Share-based payments

The fair value of share options granted to employees recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

1 Significant accounting policies (continued)

(n) Employee benefits (continued)

(iii) Share-based payments (continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital and share premium for the shares issued) or the option expires (when it is released directly to retained profits).

(iv) Termination benefits

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

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amount of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss can be utilised.

1 Significant accounting policies (continued)

(o) Income tax (continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 Significant accounting policies (continued)

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

(q) Revenue recognition

Income is classified by the Group as revenue when it arises from the sale of goods or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sales of goods

Revenue is recognised when the customer takes possession of and accepts the goods. If the goods are a partial fulfilment of a contract covering other goods then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods promised under the contract on a relative stand-alone selling price basis.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

1 Significant accounting policies (continued)

(q) Revenue recognition (continued)

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Compensation income

Compensation income is recognised when the right to receive payment is established.

(v) Subsidy income

Subsidies are recognised initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached to them. Subsidies that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Subsidies that compensate the Group for the cost of an asset are initially recognised as deferred income and consequently are recognised in profit or loss over the useful life of the assets by way of reduced depreciation expense.

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of operations with functional currency other than United States dollars are translated into United States dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into United States dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation with functional currency other than United States dollars, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

1 Significant accounting policies (continued)

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Related parties

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

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

(2) has significant influence over the Group; or

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

(ii) An entity is related to the Group if any of the following conditions applies:

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

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

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) 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).

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

1 Significant accounting policies (continued)

(t) Related parties (continued)

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

(u) Segment reporting

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

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

2 Revenue and segment reporting

(a) Revenue

The principal activities of the Group are manufacturing and sale of camera module and optical components. Revenue represents the sales value of goods supplied to customers and excludes value added tax or other sales taxes and is after deduction of any trade discounts.

The Group's customer base includes one customer (2020: one customer), with whom transactions have exceeded 10% of the Group's revenues, for the year ended 31 December 2021. Revenues from sales to this customer during the reporting period are set out below.

	2021 $'000	2020 $'000
Largest customer	**793,525**	729,365
Percentage of total revenue	**99%**	97%

Details of concentration of credit risk arising from this customer are set out in note 23(a).

2 Revenue and segment reporting (continued)

(b) Segment reporting

The Group manages its businesses by division, which recognised by geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has aggregated the camera module and optical components segments into a single reportable segment starting from 2021. The directors consider a standalone optical components segment is no longer significant to the Group and the change in segment reporting can clearly reflects the business development and operating structure of the Group.

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment and intangible assets ("specified non-current assets"). The Group's revenue from external customers is presented based on locations of goods physically delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment and the location of the operation to which they are allocated, in the case of intangible assets.

	Revenue from external customers		Specified non-current assets	
	2021 $'000	2020 $'000	**2021 $'000**	2020 $'000
The People's Republic of China ("PRC") (including Hong Kong)	**793,827**	727,708	**80,586**	88,124
The Republic of Korea ("Korea")	**5,464**	3,964	**7**	589
Others	**—**	18,531	**—**	—
	799,291	750,203	**80,593**	88,713

3 Other revenue and other net loss

	2021 $'000	2020 $'000
(a) Other revenue		
Bank interest income	**1,344**	1,606
Government subsidy	**1,728**	1,470
Compensation from a customer	**2,250**	—
Others	**517**	205
	5,839	3,281
(b) Other net loss		
Net loss on disposal of plant and equipment	**(18,325)**	(14,212)
Net foreign exchange loss	**(2,759)**	(10,255)
Others	**(93)**	(69)
	(21,177)	(24,536)

4 Profit before taxation

Profit before taxation is arrived at after charging:

	2021 $'000	2020 $'000
(a) Finance costs		
Interest on bank loans	181	—
Interest on lease liabilities	712	708
	893	708
(b) Staff costs # *		
Contributions to defined contribution retirement plan	2,902	1,254
Expenses recognised in respect of defined benefit retirement plans (note 19(a)(v))	91	117
Equity settled share-based payment expenses (note 20)	1,148	59
Salaries, wages and other benefits	47,752	44,621
	51,893	46,051

Staff costs also include directors' remuneration disclosed in note 6.

	2021 $'000	2020 $'000
(c) Other items		
Amortisation (note 11)	1,083	1,053
Depreciation # (note 10)		
– owned property, plant and equipment	20,405	23,665
– right-of-use assets	2,131	2,165
Auditors' remuneration	327	322
Research and development costs other than depreciation and amortisation*	23,407	19,865
Cost of inventories # (note 13(b))	678,793	631,752

Cost of inventories includes $41,193,000 (2020: $39,933,000) relating to staff costs and depreciation expenses, which amounts are also included in the respective total amounts disclosed separately above or in note 4(b) for each of these types of expenses.

* Research and development costs other than depreciation and amortisation includes $11,887,000 (2020: $13,368,000) relating to staff costs, which amounts are also included in the respective total amounts disclosed separately in note 4(b).

5 Income tax in the consolidated statement of profit or loss

(a) Income tax in the consolidated statement of profit or loss represents:

	2021 $'000	2020 $'000
Current tax – Hong Kong Profits Tax		
Provision for the year	4,196	3,830
Over-provision in respect of prior years	(1)	(23)
	4,195	3,807
Current tax – Overseas		
Provision for the year	5,207	6,767
Under/(over)-provision in respect of prior years	2,224	(104)
	7,431	6,663
Deferred tax		
Origination and reversal of temporary differences	(3,715)	(2,892)
Effect on deferred tax balances at 1 January resulting from a change in tax rate	–	2,671
	(3,715)	(221)
	7,911	10,249

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

The provision for Hong Kong Profits Tax for 2021 is calculated at 16.5% (2020: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first Hong Kong dollars ("HK$") 2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5% in 2021. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2020.

5 Income tax in the consolidated statement of profit or loss (continued)

(a) Income tax in the consolidated statement of profit or loss represents: (continued)

Pursuant to the Administrative Measures for Recognition of High-New Technology Enterprise ("HNTE") jointly issued by the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation, Dongguan Cowell Optic Electronics Co., Ltd. ("Cowell China"), an indirect wholly owned subsidiary of the Company, was certified as a HNTE in 2021 and 2020. According to the provisions of Article 28 "Corporate Income Tax Law of the People's Republic of China", the effective Corporate Income Tax ("CIT") rate for 2021 and 2020 was subject to a reduced tax rate of 15%.

Under the tax law in Korea, the statutory corporate tax rate applicable to the subsidiary in Korea is 10% for assessable income below Korean Won ("KRW") 200 million, 20% for assessable income between KRW200 million and KRW20 billion and 22% for assessable income above KRW20 billion for the years presented.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2021 $'000	2020 $'000
Profit before taxation	57,716	52,669
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	9,293	8,129
Tax effect of non-deductible expenses	85	113
Tax effect of non-taxable income	(2)	(127)
Effect of research and development bonus deduction	(3,489)	(2,405)
Under/(over)-provision in prior years	2,223	(127)
Tax effect of unused tax losses not recognised	–	37
Tax effect of utilisation of tax losses previously unrecognised	(37)	–
Tax effect of temporary difference not recognised	–	24
Withholding tax in a subsidiary operating in other jurisdiction	–	1,879
Effect on deferred tax balances at 1 January resulting from a change in tax rate	–	2,671
Others	(162)	55
Actual tax expense	7,911	10,249

6 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

	Directors' fees $'000	Discretionary bonuses $'000	Salaries, allowances and benefits in kind $'000	Retirement Scheme contributions $'000	Sub-total $'000	Share-based payments $'000	2021 Total $'000
Chairman							
Meng Yan (appointed on 15 January 2021)	–	–	144	–	144	92	236
Kwak Jung Young (resigned on 5 February 2021)	–	–	10	–	10	–	10
Executive directors							
Wu Ying Cheng (appointed on 15 January 2021)	–	119	319	–	438	61	499
Cho Young Hoon (resigned on 5 February 2021)	–	–	24	36	60	–	60
Non-Executive directors							
Chen Han-Yang (appointed on 1 March 2021)	–	–	42	–	42	52	94
Yang Li (appointed on 1 March 2021)	–	–	42	–	42	52	94
Independent non-executive directors							
Su Yen-Hsueh (appointed on 15 January 2021)	–	–	19	–	19	–	19
Tsai Chen Lung (appointed on 15 January 2021)	–	–	19	–	19	–	19
Liu Xia (appointed on 26 July 2021)	–	–	9	–	9	–	9
Luo Zhenbang (appointed on 15 January 2021 and resigned on 26 July 2021)	–	–	11	–	11	–	11
Kim Chan Su (resigned on 5 February 2021)	–	–	3	–	3	–	3
Song Si Young (resigned on 5 February 2021)	–	–	3	–	3	–	3
Jung Jong Chae (resigned on 5 February 2021)	–	–	2	–	2	–	2
	–	119	647	36	802	257	1,059

6 Directors' emoluments (continued)

	Directors' fees $'000	Discretionary bonuses $'000	Salaries, allowances and benefits in kind $'000	Retirement Scheme contributions $'000	Sub-total $'000	Share-based payments $'000	2020 Total $'000
Chairman							
Kwak Jung Young (appointed on 26 March 2020)	–	–	91	2	93	–	93
Seong Seokhoon (resigned on 26 March 2020)	–	75	–	–	75	–	75
Executive directors							
Cho Young Hoon (appointed on 26 March 2020)	–	1,038	105	–	1,143	–	1,143
Lee Dong Goo (resigned on 26 March 2020)	–	12	43	–	55	–	55
Independent non-executive directors							
Kim Chan Su	–	–	30	–	30	–	30
Song Si Young	–	–	30	–	30	–	30
Jung Jong Chae	–	–	25	–	25	–	25
	–	1,125	324	2	1,451	–	1,451

No director received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

7 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2020: one) are directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other three (2020: four) individuals are as follows:

	2021 $'000	2020 $'000
Salaries, allowances and benefits in kind	457	1,235
Discretionary bonuses	–	–
Contributions to retirement benefit scheme	–	–
	457	1,235

7 Individuals with highest emoluments (continued)

The emoluments of the three (2020: four) individuals with the highest emoluments are within the following bands:

	2021 Number of individuals	2020 Number of individuals
HK$1,000,001 (equivalent to $129,000) to HK$1,500,000 (equivalent to $193,000)	3	—
HK$2,000,001 (equivalent to $258,000) to HK$2,500,000 (equivalent to $322,000)	–	3
HK$2,500,001 (equivalent to $322,001) to HK$3,000,000 (equivalent to $387,000)	–	1

The three (2020: four) individuals above did not receive any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

8 Other comprehensive income

Tax effects relating to each component of other comprehensive income

	2021			2020		
	Before tax amount $'000	Tax expense $'000	Net-of-tax amount $'000	Before tax amount $'000	Tax expense $'000	Net-of-tax amount $'000
Exchange differences on translation of financial statements	7,430	–	7,430	21,009	—	21,009
Remeasurement of net defined benefit liability	91	11	102	(32)	4	(28)
Other comprehensive income	7,521	11	7,532	20,977	4	20,981

9 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $49,805,000 (2020: $42,420,000) and the weighted average of 834,358,000 ordinary shares (2020: 832,067,000 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2021	2020
Issued ordinary shares as at 1 January	**834,219**	831,519
Effect of share options exercised (note 22(c)(ii))	**139**	548
Weighted average number of ordinary shares at 31 December	**834,358**	832,067

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $49,805,000 (2020: $42,420,000) and the weighted average number of ordinary shares of 844,824,000 shares (2020: 832,845,000 shares), calculated as follows:

(i) Profit attributable to ordinary equity shareholders of the Company (diluted)

	2021 $'000	2020 $'000
Profit attributable to ordinary equity shareholders (diluted)	**49,805**	42,420

(ii) Weighted average number of ordinary shares (diluted)

	2021 '000	2020 '000
Weighted average number of ordinary shares at 31 December	**834,358**	832,067
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 20)	**10,466**	778
Weighted average number of ordinary shares (diluted) at 31 December	**844,824**	832,845

10 Property, plant and equipment

Reconciliation of carrying amount

	Leasehold improvements $'000	Properties leased for owned use $'000	Plant and machinery $'000	Equipment, furniture and fixtures $'000	Motor vehicles $'000	Construction in progress $'000	Total $'000
Cost or valuation:							
At 1 January 2020	41,809	13,565	122,395	28,895	830	–	207,494
Exchange adjustments	2,928	1,388	6,211	2,086	162	5	12,780
Additions	581	–	14,738	4,195	139	511	20,164
Disposals	–	–	(62,753)	(2,447)	(141)	–	(65,341)
Transfers	–	–	422	–	–	(422)	–
At 31 December 2020 and 1 January 2021	45,318	14,953	81,013	32,729	990	94	175,097
Exchange adjustments	1,019	375	217	1,330	663	98	3,702
Additions	523	6,796	12,531	4,214	178	7,616	31,858
Disposals	(3,614)	(4,738)	(44,907)	(22,740)	(378)	–	(76,377)
Transfers	–	–	523	–	–	(523)	–
At 31 December 2021	43,246	17,386	49,377	15,533	1,453	7,285	134,280
Accumulated depreciation and impairment losses:							
At 1 January 2020	19,360	1,761	67,903	19,613	525	–	109,162
Exchange adjustments	1,701	337	5,113	1,507	74	–	8,732
Charge for the year	1,731	2,067	17,009	4,816	207	–	25,830
Written back on disposals	–	–	(49,767)	(1,302)	(60)	–	(51,129)
At 31 December 2020 and 1 January 2021	22,792	4,165	40,258	24,634	746	–	92,595
Exchange adjustments	529	169	1,362	253	655	–	2,968
Charge for the year	2,434	2,026	9,954	7,984	138	–	22,536
Written back on disposals	(2,252)	(4,477)	(28,712)	(22,237)	(374)	–	(58,052)
At 31 December 2021	23,503	1,883	22,862	10,634	1,165	–	60,047
Net book value:							
At 31 December 2020	22,526	10,788	40,755	8,095	244	94	82,502
At 31 December 2021	19,743	15,503	26,515	4,899	288	7,285	74,233

A customer has provided machinery to the Group for production of goods to that customer. The original acquisition costs of machinery borne by the customer amounted to $111,382,000 (2020: $111,567,000) and was not recognised as the Group's property, plant and equipment. There is no rental charge for the machinery and the management consider that the arrangement has been taken into account in determining sales prices with the customer.

10 Property, plant and equipment (continued)

Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	2021 $'000	2020 $'000
Properties leased for own use, carried at depreciated cost	**15,503**	10,788
Motor vehicles, carried at depreciated cost	**288**	210
	15,791	10,998

The Group has obtained the right to use properties mainly as its factory, warehouses, offices and vehicles through tenancy agreements. The leases typically run for an initial period of 2 to 18 years.

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2021 $'000	2020 $'000
Depreciation charge of right-of-use assets by class of underlying asset:		
– Properties leased for own use	**2,026**	2,067
– Motor vehicles	**105**	98
	2,131	2,165
Interest on lease liabilities (note 4(a))	**712**	708
Expense relating to short-term leases	**1,945**	1,635

During the year, additions to right-of-use assets were $6,974,000 (2020: $139,000). This amount primarily related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 15(c) and 18, respectively.

11 Intangible assets

	Development costs $'000	Software $'000	Club membership $'000	Total $'000
Cost:				
At 1 January 2020	74	8,902	178	9,154
Exchange adjustments	5	550	12	567
Additions	—	412	—	412
At 31 December 2020 and 1 January 2021	**79**	**9,864**	**190**	**10,133**
Exchange adjustments	**(6)**	**2**	**(17)**	**(21)**
Additions	**—**	**1,227**	**—**	**1,227**
Disposal	**—**	**—**	**—**	**—**
At 31 December 2021	**73**	**11,093**	**173**	**11,339**
Accumulated amortisation:				
At 1 January 2020	74	2,581	—	2,655
Exchange adjustments	5	209	—	214
Charge for the year	—	1,053	—	1,053
At 31 December 2020 and 1 January 2021	**79**	**3,843**	**—**	**3,922**
Exchange adjustments	**(6)**	**(20)**	**—**	**(26)**
Charge for the year	**—**	**1,083**	**—**	**1,083**
At 31 December 2021	**73**	**4,906**	**—**	**4,979**
Net book value:				
At 31 December 2021	**—**	**6,187**	**173**	**6,360**
At 31 December 2020	—	6,021	190	6,211

The amortisation charge for the year is included in "administrative expenses" in the consolidated statement of profit or loss.

12 Investments in subsidiaries

The following list contains the particulars of the subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

			Proportion of ownership interest			
Name of company	**Place of incorporation/ registration and operation**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activities**
Cowell Optic Electronics Limited	Hong Kong	100 shares	100%	100%	—	Trading of camera module and optical products
Cowell China*	PRC*	$283,831,900	100%	—	100%	Manufacture of camera module and optical products

* Registered under the laws of the PRC as wholly foreign owned enterprise.

13 Inventories

(a) Inventories in the consolidated statement of financial position comprise:

	2021 **$'000**	2020 $'000
Raw materials	**26,228**	17,569
Work in progress	**14,717**	8,714
Finished goods	**97,750**	59,489
	138,695	85,772

13 Inventories (continued)

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2021 $'000	2020 $'000
Carrying amount of inventories sold	**671,936**	626,247
Write-down of inventories	**10,919**	5,627
Reversal of write-down of inventories	**(4,062)**	(122)
	678,793	631,752

The reversal of write-down of inventories arose upon sales of inventories, the value of which was written-down in prior years.

14 Trade and other receivables

	2021 $'000	2020 $'000
Trade receivables, net of loss allowance	**108,532**	101,682
Other receivables and prepayments	**9,162**	4,925
	117,694	106,607

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables (which are included in trade and other receivables), based on the invoice date and net of loss allowance is as follows:

	2021 $'000	2020 $'000
Within 1 month	**108,507**	62,510
Over 1 to 2 months	**–**	35,288
Over 2 to 3 months	**–**	2,952
Over 3 months	**25**	932
	108,532	101,682

Trade receivables are due within 30 to 90 days from the date of billing. Further details on the Group's credit policy are set out in note 23(a).

14 Trade and other receivables (continued)

(b) Non-current other receivables represented deposits and prepayments for property rental and purchase of property, plant and equipment and intangible assets.

15 Cash and cash equivalents

(a) Cash and cash equivalents and bank deposits:

	2021 $'000	2020 $'000
Bank deposits within three months to maturity when placed	78,671	14,908
Cash at bank and on hand	109,572	69,695
Cash and cash equivalents in the consolidated cash flow statement	188,243	84,603
Bank deposits with more than three months to maturity when placed	12,548	4,785

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2021 $'000	2020 $'000
Profit before taxation		57,716	52,669
Adjustments for:			
Interest income	*3(a)*	(1,344)	(1,606)
Net loss on disposal of plant and equipment	*3(b)*	18,325	14,212
Finance costs	*4(a)*	893	708
Equity settled share-based payment expenses	*4(b)*	1,148	59
Amortisation	*4(c)*	1,083	1,053
Depreciation	*4(c)*	22,536	25,830
Foreign exchange loss		5,159	16,430
Changes in working capital:			
Increase in inventories		(52,923)	(15,592)
(Increase)/decrease in trade and other receivables		(9,958)	10,300
Increase in trade and other payables		33,359	3,187
Decrease in defined benefit obligations		(182)	(79)
Cash generated from operations		75,812	107,171

15 Cash and cash equivalents (continued)

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans (Note 17) $'000	Lease liabilities (Note 18) $'000	Total $'000
At 1 January 2020	—	15,248	15,248
Changes from financing cash flows:			
Capital element of lease rentals paid	—	(2,016)	(2,016)
Interest element of lease rentals paid	—	(708)	(708)
Total changes from financing cash flows	—	(2,724)	(2,724)
Exchange adjustments	—	1,193	1,193
Other changes:			
Increase in lease liabilities from entering into new leases during the period	—	121	121
Decrease in lease liabilities from termination of leases during the period	—	(3)	(3)
Interest expenses	—	708	708
Total other changes	—	826	826
At 31 December 2020	—	14,543	14,543

15 Cash and cash equivalents (continued)

(c) Reconciliation of liabilities arising from financing activities (continued)

	Bank loans (Note 17) $'000	Lease liabilities (Note 18) $'000	Total $'000
At 1 January 2021	–	14,543	14,543
Changes from financing cash flows:			
Proceeds from bank loans	72,865	–	72,865
Interest paid on bank loans	(181)	–	(181)
Capital element of lease rentals paid	–	(2,962)	(2,962)
Interest element of lease rentals paid	–	(712)	(712)
Total changes from financing cash flows	72,684	(3,674)	69,010
Exchange adjustments	–	1,468	1,468
Other changes:			
Increase in lease liabilities from entering into new leases during the period	–	6,974	6,974
Decrease in lease liabilities from termination of leases during the period	–	(215)	(215)
Interest expenses	181	712	893
Total other changes	181	7,471	7,652
At 31 December 2021	72,865	19,808	92,673

15 Cash and cash equivalents (continued)

(d) Total cash outflow for leases

Amounts included in the consolidated cash flow statement for lease rental paid comprise the following:

	2021 $'000	2020 $'000
Within operating cash flows	**930**	108
Within financing cash flows	**3,674**	2,724
	4,604	2,832

16 Trade and other payables

	2021 $'000	2020 $'000
Trade payables	**129,158**	97,281
Accrued charges and other payables	**11,718**	10,236
	140,876	107,517

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of trade payables (which are included in trade and other payables), based on the invoice date, is as follows:

	2021 $'000	2020 $'000
Within 1 month	**112,434**	64,037
Over 1 to 3 months	**16,089**	33,173
Over 3 to 6 months	**635**	71
	129,158	97,281

17 Bank loans

	2021 $'000	2020 $'000
Current – Within 1 year or on demand (unsecured)	**72,865**	–

At 31 December 2021, the bank facilities were guaranteed by the Company, its immediate holding company and/or ultimate controlling party.

18 Lease liabilities

At 31 December 2021, the lease liabilities were repayable as follows:

	2021		2020	
	Present value of the minimum lease payments $'000	**Total minimum lease payments $'000**	Present value of the minimum lease payments $'000	Total minimum lease payments $'000
Within 1 year	**3,378**	**3,673**	2,067	2,725
After 1 year but within 2 years	**2,810**	**3,548**	1,341	1,923
After 2 years but within 5 years	**6,862**	**8,355**	3,931	5,290
After 5 years	**6,776**	**7,252**	7,204	8,042
	16,448	**19,155**	12,476	15,255
	19,826	**22,828**	14,543	17,980
Less: total future interest expenses		**(3,002)**		(3,437)
Present value of lease liabilities		**19,826**		14,543

19 Employees retirement schemes

(a) Defined benefit retirement plan

The Group makes contributions to a defined benefit retirement plan for Korean employees working in Korea which covers 0.4% (2020: 0.7%) of the Group's employees. The plan is administered by a trustee, who is independent, with its assets held separately from those of the Group.

The plan is funded by contributions from the Group in accordance with an independent actuary's recommendation based on an annual actuarial valuation. The independent actuarial valuation of the plan at 31 December 2021 was prepared by certified insurance actuaries of Dlog Actuarial Consulting, who are registered with the Financial Services Commission, using the projected unit cost method. The actuarial valuation indicates that the Group's obligations under the defined benefit retirement plan are 92% (2020: 84%) covered by the plan assets held by the trustees at 31 December 2021.

19 Employees retirement schemes (continued)

(a) Defined benefit retirement plan (continued)

The plan exposes the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market risk.

(i) The amounts recognised in the consolidated statement of financial position are as follows:

	2021 $'000	2020 $'000
Present value of wholly or partly funded by obligation	**428**	716
Fair value of plan assets	**(393)**	(601)
	35	115

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay $16,000 in contributions to the defined benefit retirement plan in 2022.

(ii) Plan assets

As at 31 December 2020 and 2021, the Group's liability under this plan is covered by deposits placed with several banks. There is no plan asset invested in the Company's own financial instruments or any property occupied or other assets used by the Group.

19 Employees retirement schemes (continued)

(a) Defined benefit retirement plan (continued)

(iii) Movements in the present value of the defined benefit obligation

	2021 $'000	2020 $'000
At 1 January	**716**	625
Remeasurements:		
– Actuarial (gains)/losses arising from experience	**(88)**	31
– Actuarial gains arising from changes in financial assumptions	**(14)**	(3)
	(102)	28
Benefits paid by the plan	**(235)**	(107)
Current service cost	**88**	111
Past service cost	**(1)**	—
Interest cost	**14**	14
Exchange difference	**(52)**	45
At 31 December	**428**	716

The weighted average duration of the defined benefit obligation is 8.5 years (2020: 9.7 years).

(iv) Movements in plan assets

	2021 $'000	2020 $'000
At 1 January	**601**	457
Group's contributions paid to the plan	**72**	209
Benefits paid by the plan	**(235)**	(107)
Interest income	**11**	8
Return on plan assets, excluding interest income	**(11)**	(4)
Exchange difference	**(45)**	38
At 31 December	**393**	601

19 Employees retirement schemes (continued)

(a) Defined benefit retirement plan (continued)

(v) *Amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:*

	2021 $'000	2020 $'000
Current service cost	88	111
Net interest on net defined benefit liability	3	6
Total amount recognised in profit or loss	91	117
Actuarial (gains)/losses	(102)	28
Return on plan assets, excluding interest income	11	4
Total amounts recognised in other comprehensive income	(91)	32
Total defined benefits costs	–	149

The current service cost and the net interest on net defined benefit liability are recognised in administrative expenses in the consolidated statement of profit or loss.

(vi) *Significant actuarial assumptions (expressed as weighted averages) and sensitivity analysis are as follows:*

	2021	2020
Discount rate	2.59%	2.44%
Future salary increases	3.50%	3.97%

The below analysis shows how the defined benefit obligation would have increased/(decreased) as a result of 1% change in the significant actuarial assumptions:

	Increase in 1%		Decrease in 1%	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Discount rate	(33)	(62)	38	74
Future salary increases	38	72	(33)	(62)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

19 Employees retirement schemes (continued)

(b) Defined contribution retirement plan

The subsidiary in Hong Kong also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the scheme vest immediately, there is no forfeited contributions that may need to be used by the Group to reduce the existing level of contribution.

Cowell China participates in the defined contribution retirement schemes operated by the local authorities for employees in the PRC. Contributions to these schemes are charged to profit or loss when incurred. The Group is required to contribute 16.5% (2020: 16.5%) of employees' remuneration to these schemes during the year. Contributions to the scheme vest immediately, there is no forfeited contributions that may need to be used by the Group to reduce the existing level of contribution.

20 Equity settled share-based transactions

The Company has a share option scheme (the "Old Share Option Scheme") which was adopted on 4 February 2015. On 5 May 2021, the Old Share Option Scheme was terminated and the Company adopted a new share option scheme (the "Share Option Scheme") on 5 May 2021, whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at HK$1 to subscribe for shares of the Company. The options vest after 1 to 5 years from the date of grant and are then exercisable within a period of 6 to 10 years. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

(Expressed in United States dollars unless otherwise indicated)

20 Equity settled share-based transactions (continued)

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 25 May 2021	2,780,000	1 year from the date of grant	10 years
	2,780,000	2 years from the date of grant	9 years
	2,780,000	3 years from the date of grant	8 years
	2,780,000	4 years from the date of grant	7 years
	2,780,000	5 years from the date of grant	6 years
Options granted to employees:			
– on 25 May 2021	6,310,000	1 year from the date of grant	10 years
	6,310,000	2 years from the date of grant	9 years
	6,310,000	3 years from the date of grant	8 years
	6,310,000	4 years from the date of grant	7 years
	6,310,000	5 years from the date of grant	6 years
– on 15 October 2021	3,440,000	1 year from the date of grant	10 years
	3,440,000	2 years from the date of grant	9 years
	3,440,000	3 years from the date of grant	8 years
	3,440,000	4 years from the date of grant	7 years
	3,440,000	5 years from the date of grant	6 years
Total share options granted	62,650,000		

20 Equity settled share-based transactions (continued)

(b) The number and weighted average exercise prices of share options are as follows:

	2021 Weighted average exercise price	**2021** Number of options '000	2020 Weighted average exercise price	2020 Number of options '000
Outstanding at the beginning of the period	**HK$2.75**	**3,850**	HK$2.76	7,550
Exercised during the period	**HK$3.76**	**(150)**	HK$2.42	(2,700)
Granted during the period	**HK$4.49**	**62,650**	—	—
Lapsed/cancelled during the period	**HK$3.53**	**(8,700)**	HK$3.76	(1,000)
Outstanding at the end of the period	**HK$4.35**	**57,650**	HK$2.75	3,850
Exercisable at the end of the period	**–**	**–**	HK$2.75	3,850

The options outstanding as at 31 December 2021 had a weighted average exercise price of $0.56 (equivalents to HK$4.35) (2020: $0.35 (equivalents to HK$2.75)) and a weighted average remaining contractual life of 9.4 years (2020: 6.1 years).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial option pricing model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial option pricing model. There was no share options granted during the year ended 31 December 2020.

Fair value of share options granted in 2021 related assumptions

	2021
Fair value at measurement date	**HK$0.56–0.70**
Share price	**HK$4.10–4.84**
Exercise price	**HK$4.14–4.84**
Expected volatility (expressed as weighted average volatility used in the modelling under binomial option pricing model)	**67.41%**
Option life (expressed as weighted average life used in the modelling under binomial option pricing model)	**6–10 years**
Expected dividends	**27.95%**
Risk-free interest rate (based on yields of Hong Kong government bonds and treasury bills)	**1.08%**

20 Equity settled share-based transactions (continued)

(c) Fair value of share options and assumptions (continued)

Fair value of share options granted in 2021 related assumptions (continued)

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

21 Income tax in the consolidated statement of financial position

(a) Current taxation in the consolidated statement of financial position represents:

	2021 $'000	2020 $'000
Provision for Hong Kong Profits Tax for the year	**4,196**	3,830
Provision for tax outside Hong Kong	**5,628**	5,510
	9,824	9,340
Representing:		
Tax recoverable	**(7)**	(14)
Tax payable	**9,831**	9,354
	9,824	9,340

21 Income tax in the consolidated statement of financial position (continued)

(b) Deferred tax assets and liabilities recognised:

Movement of each component of deferred tax assets and liabilities

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Depreciation in excess of the related depreciation allowances $'000	Defined benefit retirement plan liability $'000	Provisions $'000	Unrealised profits $'000	Others $'000	Total $'000
At 1 January 2020	(6,226)	(138)	(108)	(335)	51	(6,756)
(Credited)/charged to profit or loss (note 5(a))	(191)	131	(207)	137	(91)	(221)
Charged to reserves (note 8)	—	4	—	—	—	4
Exchange adjustments	—	3	1	—	(11)	(7)
At 31 December 2020 and 1 January 2021	**(6,417)**	**–**	**(314)**	**(198)**	**(51)**	**(6,980)**
(Credited)/charged to profit or loss (note 5(a))	**(2,872)**	**(11)**	**(888)**	**75**	**(19)**	**(3,715)**
Charged to reserves (note 8)	**–**	**11**	**–**	**–**	**–**	**11**
Exchange adjustments	**(590)**	**–**	**–**	**–**	**(10)**	**(600)**
At 31 December 2021	**(9,879)**	**–**	**(1,202)**	**(123)**	**(80)**	**(11,284)**

21 Income tax in the consolidated statement of financial position (continued)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(o), the Group had not recognised deferred tax assets in respect of cumulative tax losses and temporary differences of $336,000 and $216,000 respectively for the year ended 31 December 2020, as it was not probable that future taxable profits against which the losses and temporary differences could be utilised would be available in the relevant tax jurisdiction and entity. As at 31 December 2021, there were no unrecognised deferred tax assets.

(d) Deferred tax liabilities not recognised

Under the CIT and its implementation rules, a withholding tax at 10%, unless reduced by a tax treaty or arrangement, is applied on dividends received by non-PRC-resident corporate investors from PRC-resident enterprises, such as the Company's PRC subsidiary. Undistributed earnings prior to 1 January 2008 are exempt from such withholding tax. Under the China-Hong Kong Tax Arrangement and the relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% equity interests or more of a PRC enterprise is entitled to a reduced withholding tax rate of 5%.

As at 31 December 2021, temporary differences relating to the undistributed profits of the Group's PRC subsidiary amounted to $156,768,000 (2020: $124,533,000). Deferred tax liabilities have not been recognised in respect of these undistributed profits as the Company controls the dividend policy of the subsidiary and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

22 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual component of equity between the beginning and the end of the year are set out below:

The Company

	Note	Share capital $'000	Share premium $'000	Capital reserve $'000	Capital redemption reserve $'000	Other reserve $'000	Retained profits $'000	Total $'000
At 1 January 2020	*26*	3,326	57,850	3,335	7	707	4,593	69,818
Changes in equity for 2020:								
Profit for the year and total comprehensive income		–	–	–	–	–	149,212	149,212
Dividends approved in respect of the previous year	*22(b)*	–	–	–	–	–	(50,000)	(50,000)
Dividends declared in respect of the current year	*22(b)*	–	–	–	–	–	(100,157)	(100,157)
Shares issued under share option scheme	*22(c)(ii)*	11	1,251	(421)	–	–	–	841
Equity settled share-based transactions		–	–	59	–	–	–	59
Share options lapsed		–	–	(279)	–	–	279	–
At 31 December 2020 and 1 January 2021	*26*	**3,337**	**59,101**	**2,694**	**7**	**707**	**3,927**	**69,773**
Changes in equity for 2021:								
Loss for the year and total comprehensive income		**–**	**–**	**–**	**–**	**–**	**(2,368)**	**(2,368)**
Shares issued under share option scheme	*22(c)(ii)*	**–***	**116**	**(44)**	**–**	**–**	**–**	**72**
Equity settled share-based transactions		**–**	**–**	**1,044**	**–**	**–**	**–**	**1,044**
Share options lapsed		**–**	**–**	**(610)**	**–**	**–**	**610**	**–**
At 31 December 2021	*26*	**3,337**	**59,217**	**3,084**	**7**	**707**	**2,169**	**68,521**

* The balance represents amount less than $1,000.

22 Capital, reserves and dividends (continued)

(b) Dividends

(i) *Dividends payable to equity shareholders of the Company attributable to the year*

	2021 $'000	2020 $'000
Special dividend declared and paid of HK$Nil (2020: HK93.2060 cents) per ordinary share	–	100,157

(ii) *Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year.*

	2021 $'000	2020 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$Nil (2020: HK24.2640 cents) per share	–	26,000
Special dividend in respect of the previous financial year, approved and paid during the year, of HK$Nil (2020: HK22.3976 cents) per share	–	24,000
	–	50,000

22 Capital, reserves and dividends (continued)

(c) Share capital

(i) Authorised and issued share capital

	2021 Number of shares '000	2021 Amount $'000	2020 Number of shares '000	2020 Amount $'000
Authorised:				
Ordinary shares of $0.004 each	**10,000,000**	**40,000**	10,000,000	40,000
Ordinary shares, issued and fully paid:				
At 1 January	**834,219**	**3,337**	831,519	3,326
Shares issued under share option scheme	**150**	**—***	2,700	11
At 31 December	**834,369**	**3,337**	834,219	3,326

* The balance represents amount less than $1,000.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Shares issued under share option scheme

During the year ended 31 December 2021, options were exercised to subscribe for 150,000 (2020: 2,700,000) ordinary shares in the Company at a consideration of $72,000 (2020: $841,000). $44,000 (2020: $421,000) was transferred from the capital reserve to the share capital and share premium account in accordance with policy set out in note 1(n)(iii).

22 Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves

(i) Share premium and capital redemption reserve

The application of the share premium and the capital redemption reserve of the Group and the Company is governed by the Companies Law of the Cayman Islands.

(ii) Capital reserve

The capital reserve comprises the following:

– The portion of the grant date fair value of unexercised share options granted to directors and employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in note 1(n)(iii); and

– The contribution from one of the substantial shareholders of $2,040,000 to compensate part of the listing expenses incurred in 2015.

(iii) Other reserve

The Company's other reserve represents the fair value of the estimated number of unexercised share options granted to directors and employees of the Group in 2010. The share options were cancelled without any exercise in 2012.

The Group's other reserve comprises the Company's other reserve and the difference between the consideration paid by the Company to acquire non-controlling interests in Cowell Electronics Co., Ltd. and its carrying amount on the date of acquisition in 2012.

(iv) General reserve fund

According to the PRC laws applicable to wholly-owned foreign investment enterprises, the PRC subsidiary of the Group is required to set up a general reserve fund and appropriate at least 10% of their annual net profits after taxation, as determined under PRC accounting regulations, to the general reserve fund until the balance of the fund equals to 50% of the respective enterprise's authorised capital. This fund can be used to make good losses and to convert into paid-up capital.

(v) Exchange reserve

The exchange reserve of the Group comprises all foreign exchange differences arising from the translation of the financial statements of operations with functional currency other than United States dollars. The reserve is dealt with in accordance with the accounting policies set out in note 1(r).

22 Capital, reserves and dividends (continued)

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-capital ratio. For this purpose the Group defines net debt plus unaccrued proposed dividend as total debt less cash and cash equivalents and bank deposits. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

The Group did not have net debt as at 31 December 2021 and 2020. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

23 Financial risk management and fair values

Exposure to credit, liquidity, currency and interest rate risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks for which the Group considers to have low credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 99.9% (2020: 93.1%) of the total trade receivables was due from the Group's largest customer and 100% (2020: 100%) of trade receivables were due from the Group's five largest customers.

In respect of trade and other receivables, individual credit evaluations are performed on all customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing. Debtors with balances that are more than three months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers. In respect of deposits with banks, the Group only places deposits with major financial institutions which the Group's management believes are of high credit rating.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is based on the actual loss experience over the past years and further adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different business lines, the loss allowance based on past due status is not further distinguished between the Group's different business lines. There is no loss allowance recognised under the ECL model in 2020 and 2021.

23 Financial risk management and fair values (continued)

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to the approval by the parent company's board in respect of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, if any, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

	2021						2020					
	Contractual undiscounted cash outflow						Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Lease liabilities	3,673	3,548	8,355	7,252	22,828	19,826	2,725	1,923	5,290	8,042	17,980	14,543
Bank loans	73,442	–	–	–	73,442	72,865	–	–	–	–	–	–
Trade and other payables	140,876	–	–	–	140,876	140,876	107,517	–	–	–	107,517	107,517
	217,991	3,548	8,355	7,252	237,146	233,567	110,242	1,923	5,290	8,042	125,497	122,060

(c) Currency risk

The Group has no significant exposure to foreign currency risk as substantially all of the Group's transactions are denominated in US$ and HK$, which is pegged to US$.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from lease liabilities and bank loans. Borrowings issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk. The Group's interest rate profile as monitored by management is set out below.

23 Financial risk management and fair values (continued)

(d) Interest rate risk (continued)

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

	2021 Effective interest rate %	2021 $'000	2020 Effective interest rate %	2020 $'000
Fixed rate borrowings:				
Lease liabilities	4.83	19,826	4.90	14,543
Bank loans	1.51–1.53	12,865	—	—
		32,691		14,543
Variable rate borrowings:				
Bank loans	1.02	60,000	N/A	—

Sensitivity analysis

At 31 December 2021, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and retained profits by approximately $501,000 (2020: $Nil). Other components of consolidated equity would not be affected in response to a general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after taxation (and retained profits) and other components of consolidated equity that would arise assuming that change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. The analysis is performed on the same basis as 2020.

(e) Fair values

The directors consider that the carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at the end of the reporting period.

24 Commitments

Capital commitments outstanding at 31 December 2021 not provided for in the financial statements were as follows:

	2021 $'000	2020 $'000
Contracted for	**2,312**	669

25 Material related party transactions

(a) Key management personnel remuneration

All members of key management personnel are the directors of the Company, and their remuneration is disclosed in note 6.

(b) Consultancy fee payable to a substantial shareholder

In April 2016, the Group entered into a consulting agreement at the annual rate of $380,000 in respect of consultancy service provided by Mr. Kwak Joung Hwan, a former substantial shareholder. The consulting agreement has been terminated since 17 December 2020. No consultancy service fee is incurred during the year ended 31 December 2021 (2020: $366,000). No amounts were outstanding as at 31 December 2021 and 2020.

(c) Applicability of the Listing Rules relating to connected transactions

The related party transaction in respect of note 25(b) above constitutes connected transactions as defined in Chapter 14A of the Listing Rules. However the transaction is exempt from the disclosure requirements in Chapter 14A of the Listing Rules as it is below the de minimis threshold under Rule 14A.76(1).

26 Company-level statement of financial position

	2021 $'000	2020 $'000
Non-current assets		
Interests in subsidiaries	65,993	53,925
	65,993	53,925
Current assets		
Other receivables	–	12
Cash and cash equivalents	2,692	16,007
	2,692	16,019
Current liabilities		
Other payables	164	171
Net current assets	2,528	15,848
NET ASSETS	68,521	69,773
CAPITAL AND RESERVES		
Share capital	3,337	3,337
Reserves	65,184	66,436
TOTAL EQUITY	68,521	69,773

27 Accounting judgements and estimates

Key area of estimation uncertainty is set out as follows:

Write down of inventories

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

28 Immediate and ultimate controlling party

At 31 December 2021, the directors consider the immediate parent and ultimate controlling party of the Group to be Luxvisions Innovation Technology Limited and Mr. Wang Laixi respectively. Luxvisions Innovation Technology Limited is incorporated in Hong Kong and does not provide financial statements available for public use.

(Expressed in United States dollars unless otherwise indicated)

29 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2021

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
Amendments to IAS 37, *Onerous Contracts — Cost of Fulfilling a Contract*	1 January 2022
Annual Improvements to IFRSs 2018–2020 Cycle	1 January 2022
Amendments to IAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2, *Disclosure of Accounting Policies*	1 January 2023
Amendments to IAS 8, *Definition of Accounting Estimates*	1 January 2023
Amendments to IAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

Five-Year Financial Summary

	2017 (in US$000)	2018 (Note 2) (in US$000)	2019 (Note 1) (in US$000)	2020 (Note 1) (in US$000)	**2021** **(in US$000)**
Revenue	740,734	535,862	542,614	750,203	**799,291**
Gross profit	74,227	52,295	77,097	118,451	**120,498**
Gross profit margin	10.0%	9.8%	14.2%	15.8%	**15.1%**
Operating profit	31,113	14,327	31,371	53,377	**58,609**
Operating margin	4.2%	2.7%	5.8%	7.1%	**7.3%**
Profit attributable to equity holders of the Company	27,619	13,906	29,280	42,420	**49,805**
Bank balance and cash	93,937	112,304	119,571	84,603	**188,243**
Borrowings	47,114	—	—	—	**72,865**
Total assets	504,146	384,352	460,836	381,641	**552,102**
Total liabilities	170,650	58,038	124,868	131,529	**243,433**
Total equity	333,496	326,314	335,968	250,112	**308,669**

Notes:

1. As a result of the adoption of IFRS 16, *Leases*, with effect from 1 January, 2019, the Group changed its accounting policies in respect of the lessee accounting model. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of opening balance adjustments to recognise right-of-use assets and lease liabilities as at 1 January, 2019. After initial recognition of these assets and liabilities, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Figures in years earlier than 2019 are stated in accordance with the policies applicable in those years.

2 The Group adopted IFRS 9, *Financial instruments*, from 1 January, 2018. As a result, the Group changed its accounting policies in relation to financial instruments. As allowed by IFRS 9, the Group did not restate information relating to prior years. Differences in the carrying amounts of the financial assets resulting from the adoption of IFRS 9 were recognised in retained profits at 1 January, 2018. There was no difference in the carrying amounts of the financial liabilities. Figures in years earlier than 2018 are stated in accordance with the policies applicable in those years.

Definitions

"Articles of Association"	the articles of association of the Company (as amended from time to time), conditionally adopted on March 10, 2015
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Company"	Cowell e Holdings Inc., an exempted company incorporated in the Cayman Islands with limited liability on November 28, 2006
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Cowell China" or "Dongguan Cowell"	Dongguan Cowell Optic Electronics Co., Ltd. (東莞高偉光學電子有限公司), a wholly foreign-owned enterprise incorporated in the PRC on February 5, 2002, which is a wholly owned subsidiary of Cowell Hong Kong
"Cowell Hong Kong"	Cowell Optic Electronics Limited (高偉光學電子有限公司), a limited liability company incorporated in Hong Kong on March 6, 2002, which is a wholly owned subsidiary of the Company
"Cowell Korea"	Cowell Electronics Co., Ltd. (formerly known as Cowell World Optic Co., Ltd. and World Optic Co., Ltd.), a stock corporation incorporated under the laws of Korea on January 29, 1997, which is a wholly owned subsidiary of the Company
"Director(s)"	the director(s) of the Company
"Global Offering"	has the meaning ascribed to it in the Prospectus
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Listing Date"	March 31, 2015, on which the Shares are listed on the Hong Kong Stock Exchange and from which dealings in the Shares are permitted to commence on the Hong Kong Stock Exchange

"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"PRC"	People's Republic of China
"Prospectus"	the prospectus of the Company dated March 19, 2015
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Shareholder(s)"	holder(s) of Shares
"Shares"	ordinary share(s) of US$0.004 each in the share capital of the Company
"US$"	U.S. dollars, the lawful currency of the United States of America