Alltronics Holdings Limited
華訊股份有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 833

ANNUAL REPORT 2019

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. LAM Yin Kee *(Chairman and Chief Executive)*
Ms. YEUNG Po Wah
Ms. LIU Jing
Mr. LAM Chee Tai, Eric
Mr. SO Kin Hung
Mr. MENG Fei *(executive duties suspended)*

Non-executive Director

Mr. FAN, William Chung Yue

Independent Non-executive Directors

Mr. PANG Kwong Wah
Mr. YAU Ming Kim, Robert
Mr. YEN Yuen Ho, Tony
Mr. LIN Kam Sui

REGISTERED OFFICE

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Hutchins Drive
P.O. Box 2681
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Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Hong Kong

COMPANY SECRETARY

Mr. LEUNG Fuk Cheung

STOCK CODE

833

INDEPENDENT AUDITOR

Ernst & Young

AUDIT COMMITTEE

Mr. PANG Kwong Wah *(Chairman)*
Mr. YAU Ming Kim, Robert
Mr. YEN Yuen Ho, Tony

PRINCIPAL BANKERS

Hang Seng Bank Limited
Chong Hing Bank Limited
China CITIC Bank International Limited

SHARE REGISTRARS AND TRANSFER OFFICE

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

In Cayman Islands
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Grand Cayman KY1-1110
Cayman Islands

WEBSITE

http://www.irasia.com/listco/hk/alltronics/index.htm

On behalf of the board (the "Board") of directors (the "Directors") of Alltronics Holdings Limited (the "Company", and together with its subsidiaries, the "Group"), I am pleased to present to you the annual report for the year ended 31 December 2019.

BUSINESS REVIEW

The year 2019 was another challenging year of the Group. During the year, the demand for the Group's electronic products remained to be strong and irrigation controller products were the core electronic products of the Group. The production facilities at Yichun have been expanded in order to cope with the increasing demand from customers. Total revenue for the year from continuing operations had remained stable at approximately HK$1.3 billion. On the other hand, the transaction for the disposal of the Group's entire investment properties business has been completed in April 2019. However, despite the various collection efforts made by the Group, the consideration for the disposal transaction and the debt due from a disposed subsidiary were unsettled and full impairment losses on these amounts were made. As a result, the Group recorded a net loss attributable to owners of the parent of approximately HK$262 million for the year, compared to a net profit of approximately HK$104 million for the year 2018. The Group had initiated legal actions against the purchaser and the borrower of the debt to recover these overdue amounts, and will continue consulting its legal advisers on further actions to be taken to safeguard the interests of the Group as a whole.

Besides the disposal of the investment properties business, there was no other major acquisition or disposal transaction made during the year.

PROSPECTS

Despite the challenging global economic environment, the performance of the electronic products segment had remained strong and stable during the year. I expect the demand from customers for the Group's electronic products will continue to be strong and stable in the year ahead. United States has accounted for approximately 47.7% of the Group's total revenue for the year and will continue to be the major market for the Group's products in the near future.

The outbreak of COVID-19 since January 2020 has resulted in a challenging operational environment worldwide. The operations of the Group's factories in China have been suspended for about 3 weeks during February 2020. These factories had resumed operations gradually since the end of February 2020 and the Group has also taken a number of short-term cost saving measures in response. New products are expected to be launched in 2020 to maintain the growth momentum. The production facilities of the factories in Shenzhen and Yichun are sufficient to cope with the demand from existing and new customers.

During the year, the Group's associated company in Yichun, namely Yichun Yilian Print Tech Co., Ltd. ("Yichun Yilian"), was approved as one of the qualified suppliers of printers to governmental organisations in China. I expect the operations of Yichun Yilian will continue to expand in 2020 and its contribution to the Group will increase.

Although it is difficult to predict the full impact of the COVID-19, I have confidence that the Group will overcome all difficulties and challenges. The Group will continue to look for new investment opportunity so as to diversify its business and to provide a better return to all shareholders.

DIVIDEND

In order to retain more cash to finance the working capital requirements and future development of the Group, the Board did not recommended the payment of any dividend for the year.

APPRECIATION

On behalf of the Board, I would like to thank the management team and all of our staff for their hard work and contribution in the past year.

Lastly, I wish to extend my sincere gratitude to all our shareholders, customers and business partners for their continuing support.

Lam Yin Kee
Chairman

Hong Kong, 30 March 2020

FINANCIAL REVIEW

Revenue

Total turnover from continuing operations for the year ended 31 December 2019 had decreased slightly by 1.9% to HK$1,260.8 million, as compared to HK$1,284.8 million for the year 2018. The decrease in turnover was mainly due to the decrease in revenue from sales of electronic products during the year.

The turnover analysis by business segments for the two years ended 31 December 2019 and 2018 respectively are as follows:

	2019	2018
	HK$'000	HK$'000
Revenue from sales of electronic products	**1,255,843**	1,277,160
Revenue from biodiesel products and energy efficient gas stoves	**3,431**	4,161
Revenue from energy saving business	**1,573**	3,492
	1,260,847	1,284,813

Sales of electronic products comprise sales of finished electronic products; plastic moulds and components; and other components for electronic products. Total sales revenue from finished electronic products had remained stable with a slight decrease by HK$4.0 million. During the year, sales of irrigation controller products to the largest customer of the Group in the United States had increased by HK$24.1 million, from HK$433.6 million in 2018 to HK$457.7 million in 2019. Sales of walkie-talkie products had also increased by approximately HK$31.3 million. On the other hand, total revenue from sales of components for electronic products, including transformers, adapters and solenoids, had decreased by approximately HK$40.7 million and sales of plastic moulds and plastic components had increased by approximately HK$23.3 million.

The operations of the biodiesel products and energy efficient gas stoves business segment continued to remain at a low level during the year with total sales revenue of approximately HK$3.4 million.

Regarding the energy saving business segment, total revenue recognised during the year was HK$1.6 million, as compared to HK$3.5 million in 2018. The revenue represented the energy saving revenue generated from retail stores of Suning.com Co., Ltd. ("Suning") and two hotels operated by HNA Group Co., Ltd. with LED lighting equipment installed. During the year, the energy management contract with one of the hotels managed by HNA Group Co., Ltd. has expired.

In terms of geographical market, customers in the United States continued to be the major market for the Group's products and services which accounted for approximately 47.7% of the total revenue for the year (2018: 47.3%). On the other hand, sales to customers in The People's Republic of China (the "PRC") had increased by HK$56.7 million. Sales to customers in Hong Kong and Europe had dropped by HK$46.5 million and HK$38.0 million respectively during the year. For customers in the United States with their products subject to additional tariffs imposed by the United States, the production of most of these products had been shifted to the Group's sub-contractors in Malaysia and Philippines. The Group will continue its efforts to secure new customers in different markets so that the revenue by geographical location can be spread more evenly.

Gross profit

The overall gross profit margin from continuing operations had increased slightly from 14.5% for the year 2018 to 14.6% for the year 2019. During the year 2018, certain production facilities at Yangxi were relocated to Yichun which had caused temporary production halt and interruption. The efficiency level of the new production facilities at the early stage of operations was also low. These factors had affected the average gross profit margin in the year 2018. After about one year's operation, the production efficiency of the factories at Yichun has improved. On the other hand, the production of some of the electronic products which were subject to additional tariffs imposed by the United States had been shifted to the Group's sub-contractors in Malaysia and Philippines. This has affected the margins on these products. The increase in proportion of sales to customers in the PRC had also lowered the overall gross profit margin as the margins on these products were lower than those products sold to overseas customers. In view of the challenging market conditions, the Group will continue its effort to tighten the controls over production costs and overheads, and to improve production efficiency so as to meet any unexpected challenges and to maximise the gross profit margin for the electronic product segment.

Expenses and finance costs

Administrative expenses had decreased by HK$3.7 million and distribution costs had decreased by HK$5.7 million when compared to prior year. The decrease in administrative expenses was mainly due to decrease in overall administrative staff costs as a result of reduction in headcount during the year. Total administrative staff costs for the year, including directors' emoluments, had decreased by HK$4.7 million when compared to prior year. The decrease in distribution costs was mainly due to the reduction in sales commission by approximately HK$3.4 million.

Total finance costs had increased by HK$1.6 million which was mainly due to the increase in interest element of lease liabilities/finance lease of HK$1.3 million.

Other operating income/expenses

During the year, the net other operating income has decreased by HK$4.2 million which was mainly due to the decrease in exchange gains.

Discontinued operation

On 20 December 2018, the Group entered into a sale and purchase agreement (the "Sale and Purchase Agreement") for the disposal (the "Disposal") of the entire issued share capital of Bonroy Limited (together with its subsidiaries, the "Bonroy Group"), being an indirect wholly-owned subsidiary of the Company which recorded all of the Group's investment properties business, at a consideration (the "Consideration") of RMB100 million.

On 20 March 2019, an extraordinary general meeting of the Company was held and the resolution for the Disposal was duly approved by the shareholders of the Company. The Disposal was completed on 15 April 2019 (the "Completion Date") and the results of the investment properties business segment up to the Completion Date were reported as a discontinued operation in the consolidated statement of profit or loss for the year ended 31 December 2019.

Despite extensions were granted to the purchaser (the "Purchaser") of Bonroy Limited for settlement of the Consideration, the Purchaser has defaulted the payment of the Consideration on the agreed due date. On 14 November 2019, the Group has served a statutory demand on the Purchaser for the immediate settlement of the overdue Consideration and accrued interests thereon. In view of the uncertainty on the recoverability of the Consideration, full impairment loss of approximately HK$113.7 million was recognised in the consolidated statement profit or loss.

The debt (the "Debt") due from a disposed subsidiary of the Bonroy Group (the "Borrower") was overdue and remained unsettled despite the efforts made by the Group to recover the Debt, including legal proceedings implemented against the Borrower. The Company is of the view that recovery of the full amount of the Debt in the foreseeable future in not likely and full impairment loss of approximately HK$255.4 million was recognised in the consolidated statement profit or loss.

As at the date of this report, the Group is consulting its legal advisers in respect of the possible further actions to be taken against the Purchaser, the Borrower and the guarantor pursuant to the Sale and Purchase Agreement to recover the Consideration and the Debt.

Loss attributable to owners of the parent

There was a loss for the year attributable to owners of the parent of HK$262.0 million, compared to a profit of HK$104.2 million for the year 2018. The loss was mainly due to the impairment losses on the Consideration and the Debt of approximately HK$113.7 million and HK$255.4 million respectively. On the other hand, there was a net profit from a discontinued operation of HK$73.4 million.

The loss for the year from continuing operations attributable to owners of the parent was HK$335.5 million. However, if the impairment losses on the Consideration and the Debt of HK$113.7 million and HK$255.4 million respectively were excluded, there would be a profit for the year from continuing operations attributable to the owners of the parent of HK$33.6 million, compared to a profit of HK$75.4 million for the year 2018.

PRODUCTION FACILITIES

The Group currently has three production facilities in the PRC for the manufacture of electronic products and components, two of which are located at Shenzhen, and one at Yichun. During the year, the Group incurred approximately HK$7.8 million to acquire property, plant and equipment to enhance its production capacity.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At 31 December 2019, the Group's total cash and cash equivalents, net of current bank overdrafts, amounted to HK$37.3 million. The net funds are sufficient to finance the Group's working capital and capital expenditure plans.

At 31 December 2019, total borrowings of the Group amounted to HK$254.2 million, comprising bank overdrafts of HK$24.1 million, bank loans of HK$228.7 million and trust receipt loans of HK$1.4 million, of which HK$197.6 million were denominated in Hong Kong dollars, HK$23.0 million were denominated in RMB and HK$33.6 million were denominated in USD respectively.

The Group's trade receivable turnover, inventory turnover and trade payable turnover for the year were approximately 66 days, 99 days and 91 days respectively. These turnover periods are consistent with the respective policies of the Group on credit terms granted to customers and obtained from suppliers.

As at 31 December 2019, the Group's total current assets were HK$626.5 million compared to HK$3,598.0 million as at 31 December 2018, and the Group's total current liabilities were HK$594.4 million compared to HK$3,340.3 million as at 31 December 2018. The current ratio (current assets/current liabilities) as at 31 December 2019 was 1.05 times, compared to 1.08 times as at 31 December 2018.

During the year, the Company had not issued any new shares and had not repurchased any of its own shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

At 31 December 2019, the Company had in issue a total of 946,116,360 ordinary shares. A new share option scheme (the "2016 Share Option Scheme") has been adopted by the shareholders of the Company at the annual general meeting of the Company held on 7 June 2016. There were no share options granted, exercised, lapsed or cancelled since the adoption of the 2016 Share Option Scheme. As at 31 December 2019, the Company did not have any share options outstanding.

CASH FLOWS

The net balance of cash, cash equivalents and bank overdrafts at 31 December 2019 was HK$37.3 million, which had decreased by HK$0.6 million compared to the balance at 31 December 2018.

The net cash generated from operating activities for the year was HK$150.9 million. The net cash generated from investing activities amounted to HK$0.3 million, which was mainly due to HK$8.1 million being paid for the acquisition of property, plant and equipment and the decrease in non-current long term receivables of HK$7.7 million.

On the other hand, there was a net cash outflow of HK$157.3 million from financing activities. During the year, new borrowings of HK$109.6 million were obtained, HK$19.7 million was used to pay for principal portion of leases and finance lease rental and HK$248.5 million was used to repay bank and other borrowings.

CAPITAL EXPENDITURE

During the year, the Group acquired property, plant and equipment at a total cost of HK$7.8 million, mainly financed by internal resources of the Group.

PLEDGE OF ASSETS

At 31 December 2019, the Group had total bank borrowings (excluding obligations under finance leases) of HK$254.2 million, out of which HK$82.4 million were secured by the land and buildings and right-of-use assets of HK$173.9 million in aggregate, and HK$7.5 million were secured by short-term bank deposits of HK$5.3 million and trade receivables of HK$0.6 million.

DEBT POSITION AND GEARING

As at 31 December 2019, the Group has net debts (being total bank and other borrowings excluding trade debts and net of cash and cash equivalents) of approximately HK$191.4 million (At 31 December 2018: HK$330.8 million). The total equity was approximately HK$329.1 million (At 31 December 2018: HK$579.8 million). The gearing ratio as at 31 December 2019 was approximately 58.2% (At 31 December 2018: 57.1%).

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the maintaining appropriate debt and equity balance. The directors of the Company review the capital structure of the Group on a regular basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through various alternatives including the payment of dividends, new share issues and share buy-backs as well as the issue of new debts or the redemption of existing debts.

LITIGATIONS AND CONTINGENT LIABILITIES

During the year ended 31 December 2019 and as at 31 December 2019 and 2018, the Group was not a defendant in any of the legal proceedings against the Group. The Group did not have any material contingent liabilities as at both 31 December 2019 and 31 December 2018.

EMPLOYEES

At 31 December 2019, the Group had 2,854 employees, of which 71 were employed in Hong Kong and 2,783 were employed in the PRC. Salaries of employees are maintained at competitive levels. The Group operates a defined contribution mandatory provident fund retirement benefits scheme for all its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulations in the PRC. The Group also offers discretionary bonuses to its employees by reference to the performance of individual employees and the overall performance of the Group.

No share options had been granted, exercised, lapsed or cancelled since the adoption of the 2016 Share Option Scheme. As at 31 December 2019, there were no share options remained outstanding.

The Group did not experience any significant labour disputes or substantial changes in the number of its employees that led to any disruption of its normal business operations. The Board believes that the Group's management and employees are the most valuable asset of the Group and they have contributed to the success of the Group.

FOREIGN EXCHANGE EXPOSURE

Most of the Group's sales are denominated in United States dollars and Renminbi, and most of the purchases of raw materials are denominated in Renminbi and Hong Kong dollars. Furthermore, most of the Group's monetary assets are denominated in Hong Kong dollars, United States dollars and Renminbi.

The Group's principal production facilities are located in the PRC whilst its sales proceeds are primarily settled in United States dollars, Hong Kong dollars or Renminbi. As such, management is aware of the potential foreign currency risk that may arise from the fluctuation of exchange rates between United States dollars, Hong Kong dollars and Renminbi. Management will consider various actions to minimise the risk, including the entering into forward foreign exchange contracts with major and reputable financial institutions to hedge its foreign exchange risk exposure. These were for hedging against foreign exchange risk exposure relating to the production costs and certain outstanding payables denominated in Renminbi. As at 31 December 2019, the Group did not have any outstanding forward foreign exchange contracts. Management will continue to evaluate the Group's foreign currency exposure and take further actions as appropriate to minimise the Group's exposure whenever necessary.

OUTLOOK

Electronic products segment

The Group is cautiously optimistic for the year 2020 though the global economic environment will remain uncertain due to a number of factors. The recent outbreak of the new coronavirus pneumonia ("COVID-19") in January 2020 had led to temporary suspension of operation of the Group's factories in China for about three weeks. The factories had resumed operations gradually since 24 February 2020 and shipments to customers had been delayed. The COVID-19 has adverse impacts on the business operation and overall economy in China and worldwide. The Group has implemented various cost-cutting measures to minimise the adverse effects due to the COVID-19. It is difficult to estimate the full impact in the coming months given the dynamic nature of these circumstances. The Group will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts, and will try its best to meet the needs of its customers as much as possible.

The ongoing trade disputes between the United States and the PRC may further escalate geopolitical tensions and may lead to negative impact to the global economy. The production of the Group's products affected by the tariffs have or will be shifted to the Group's sub-contractors in Malaysia and Philippines for production. The final outcome of these disputes may have an impact on the Group's performance in the future.

On the other hand, the risk of fluctuation in exchange rate of Renminbi against United States dollars and Hong Kong dollars and the risk of fluctuation in interest rate will also affect the performance of the Group's electronic products segment. The Group will continue its efforts to manage these factors and to tighten controls over production costs and overheads, and to improve production efficiency so as to maximise the gross profit margin.

Management foresees that the demand for the Group's irrigation controllers and other major electronic products will remain stable in the year 2020. In addition, new products for new customers in the PRC and in Europe are expected to be launched in 2020 to provide momentum for the continuing growth in revenue. The Group has confidence that the overall performance of the electronic products segment will remain stable in the near future.

In terms of geographical market, the Group foresees that United States will still be the major market for its products in 2020. The Group will continue to devote efforts to explore new markets and new customers to broaden its customer base.

Yichun Yilian Print Tech Co., Ltd. ("Yichun Yilian") is an associate of the Group, which is established in the PRC and principally engaged in the manufacture and sale of printers and other accessory products, and the provision of on-line printing services on a charge-by-page basis. During the year, Yichun Yilian was approved as a qualified supplier of printers to governmental organisations in the PRC and has also established new channels to sell its printers to governmental organisations in the PRC. The Group foresees that these will contribute continuing growth momentum to Yichun Yilian's business in the near future.

The Group will continue to explore opportunities for new electronic products with other potential customers so as to broaden its revenue base and to maintain its growth momentum.

Biodiesel products and energy efficient gas stoves segment

The Group expects that the business of biodiesel products and energy efficient gas stoves will remain stable in the year 2020.

Energy saving business

As at 31 December 2019, over 650 retail stores of Suning have completed the installation work and generating energy saving revenue. During the year, the energy management contract with one of the hotels managed by HNA Group Co., Ltd. has expired. The Group expects that the energy saving business will remain stable in the near future.

Looking forward, the Group will continue to explore opportunities for new products and projects with other potential customers in Hong Kong, in the PRC and overseas, and will continue to look for investment opportunity to diversify its business and to provide a better return to all shareholders.

DIVIDEND

In order to retain more cash to finance the working capital requirements and future development of the Group, the Board does not recommend the payment of any final dividend for the year ended 31 December 2019 (2018: Nil). The Board will consider future dividend distribution in due course according to dividend policy.

DIRECTORS

Executive Directors

Mr. Lam Yin Kee (林賢奇), aged 73, is an executive Director and the Chairman of the Company. Being the founder of the Group, Mr. Lam has over 50 years of experience in the electronic industry and he is responsible for the Groups' overall strategic planning and business development. He is also responsible for overseeing the overall operation in the sales and marketing and administration management of the Group. Prior to establishing the Group in 1997, Mr. Lam was the vice-chairman of a listed group in Hong Kong engaging in the manufacture and sales of electronic products for over 20 years. Mr. Lam is the spouse of Ms. Yeung Po Wah and the father of Mr. Lam Chee Tai, Eric.

Ms. Yeung Po Wah (楊寶華), aged 70, is an executive Director of the Company. Ms. Yeung is a co-founder of the Group and is responsible for the overall administrative functions and strategic planning of the Group. From 1967 to 1984, Ms. Yeung worked at the Bank of Tokyo with the last position being assistant manager of the remittance department. Ms. Yeung is the spouse of Mr. Lam Yin Kee and the mother of Mr. Lam Chee Tai, Eric.

Ms. Liu Jing (劉靖), aged 47, was appointed as an executive Director of the Company from 5 March 2016. Ms. Liu completed the studies for master degree in Finance, Trade and Economics at the Graduate School of Chinese Academy of Sciences, and is a senior accountant and a member of The Chinese Institute of Certified Public Accountants. Ms. Liu is currently an executive director of Beijing Extraordinary Leading Investment Management Co. Ltd., and is responsible for financial administration. Ms. Liu has over twenty years' experience in corporate strategic development, business operation management and finance, and has over seven years' experience in management of investment funds. During the period from July 1994 to July 2009, Ms. Liu held various positions in HNA Group Co. Ltd. and its affiliates, including assistant general manager, general manager and chief financial officer, and was responsible for financial, investment and corporate finance activities of the group. During the period from July 2009 to July 2012, Ms. Liu set up Shanghai Rich-yield Investment Management Centre (Limited Partnership) with other founders, and was responsible for its investment and corporate finance activities.

Mr. Lam Chee Tai, Eric (林子泰), aged 40, was appointed as an executive Director of the Company on 30 March 2012. Mr. Lam holds a Bachelor Degree in Commerce (Marketing) and a Master Degree in Business Systems from Monash University, Australia. Mr. Lam joined the Group as an assistant Marketing Manager in June 2004 and is currently the General Manager of a major subsidiary of the Group. Mr. Lam has extensive experience in production and customer management and is mainly responsible for the overall supervision of the Group's manufacturing operations in China and for business development in China market. Mr. Lam is the son of Mr. Lam Yin Kee and Ms. Yeung Po Wah.

Mr. So Kin Hung (蘇健鴻), aged 63, was appointed as an executive Director of the Company on 1 August 2008. Mr. So graduated from the University of East London (previously known as "North East London Polytechnic") in the United Kingdom in 1982, with a degree of Bachelor of Science (Electrical and Electronic Engineering). Mr. So joined the Group since 1997 and is also the general manager of two of the Group's subsidiaries, namely Alltronics Tech. Mftg. Limited and Shenzhen Allcomm Electronic Co. Ltd. He has over 35 years of experience in the electronic industry and is responsible for the marketing and engineering operations of the Group. Prior to joining the Group in 1997, Mr. So worked for a Hong Kong listed company as the assistant general manager.

Mr. Meng Fei (孟飛), aged 45, was appointed as an executive Director of the Company from 1 June 2017. Mr. Meng has completed the master degree study in Macro Economy at Tianjin University of Finance and Economics. Mr. Meng has over ten years experience in trade, corporate management, finance and investment, business re-structuring and capital market, and currently is the Deputy General Manager of Shenzhen Ao Ying Investment Co., Limited. Mr. Meng was the Deputy General Manager of South Huitong Shihua Micro Hard-Drive Company from 2004 to 2006, and was the Deputy General Manager of International Business Office of China Potevio Company Limited from 2006 to 2016.

The executive duties of Mr. Meng have been suspended from 28 March 2019.

Non-executive Director

Mr. Fan, William Chung Yue (范仲瑜), aged 79, is a non-executive Director appointed by the Group in June 2005. Mr. Fan is a solicitor in Hong Kong and has officially retired in April 2013. Mr. Fan was an independent non-executive director of National Agricultural Holdings Limited from January 2015 to November 2019, which was a company listed on the Main Board of the Stock Exchange until 21 November 2019. Mr. Fan was also a non-executive director of Chinney Investments, Limited from May 1987 to August 2017, which is a company listed on the Main Board of the Stock Exchange.

Independent Non-executive Directors

Mr. Pang Kwong Wah (彭廣華), aged 74, is an independent non-executive Director appointed by the Group in June 2013. Mr. Pang graduated from the University of Southern California in the United States of America with a Master of Business Administration and has extensive experience in finance and administration, business and general management. Mr. Pang was a principal of corporate services division of an international audit firm during 1985 to 1988 and had held senior positions including the chief operating officer and chief executive officer of a listed company in Hong Kong during 1988 to 2002. Mr. Pang was also a non-executive director of a listed company in Hong Kong during 2004 to 2005.

Mr. Yau Ming Kim, Robert (丘銘劍), aged 81, is an independent non-executive Director appointed by the Group in September 2009. Mr. Yau graduated from Wah Yan College and has extensive experience in the textile and clothing industry and worldwide trade affairs. He served as a trade officer in the Hong Kong Government from 1964 to 1971. In 1970, he was seconded to the General Agreement on Tariffs and Trade ("GATT") Secretariat (now known as "World Trade Organisation") in Geneva, Switzerland and was awarded GATT Fellowship. Mr. Yau had held senior positions including chief executive and managing director of various major international and local apparel companies since 1971. In addition, from 1998 to 2004, he was appointed as the vice chairman of Hong Kong Exporters' Association, member of the Executive Committee of The Hong Kong Shippers' Council and member of the Garment Advisory Committee of the Hong Kong Trade Development Council.

Mr. Yau is currently an independent non-executive director of Parkson Retail Group Limited and Tungtex (Holdings) Company Limited since 1 January 2007 and 18 September 2006 respectively. The shares of these two companies are listed on the Main Board of the Stock Exchange.

Mr. Yen Yuen Ho, Tony (嚴元浩), aged 72, is an independent non-executive Director appointed by the Group in August 2016. Mr. Yen is a solicitor of Hong Kong and the United Kingdom. He is also a barrister and solicitor of Australia. From August 1994 to March 2007, he was the Law Draftsman of the Department of Justice of Hong Kong. He was also a member of the Hong Kong Government's Law Reform Commission. Mr. Yen was conferred the Silver Bauhinia Star Medal by the Hong Kong Government in 2000. Currently, he is an adjunct professor at the Hong Kong Shue Yan University and the Beijing Normal University. Mr. Yen is an Honorary Court Member of the Hong Kong University of Science and Technology and an Honorary Fellow of the Faculty of Education, University of Hong Kong. He is the director of two secondary schools, the Vice President of the Neighbourhood Advice Action Council and a member of Heep Hong Society's Executive Council. He is an honorary adviser to the Pok Oi Hospital and the Hong Kong Academy of Nursing. From April 2009 to April 2015, Mr. Yen was the vice chairman of the Hong Kong Government's Social Welfare Department Lump Sum Grant Independent Complaints Handling Committee. From 2011 to 2017, Mr. Yen was a member of the Hong Kong Government's Panel of Review Board on School Complaints.

Mr. Yen is an independent non-executive director of Jinchuan Group International Resources Company Limited (stock code: 2362) and Panda Green Energy Group Limited (stock code: 686), whose shares are listed on the Main Board of the Stock Exchange. Mr. Yen also served as an independent non-executive director of Link Holdings Limited (stock code: 8237) from 20 June 2014 to 16 October 2014, whose shares are listed on the GEM of the Stock Exchange. On 16 December 2016, Mr. Yen was appointed as an independent non-executive director of WWPKG Holdings Company Limited, whose shares are listed on the GEM of the Stock Exchange since 12 January 2017.

Mr. Lin Kam Sui (連金水), aged 70, is an independent non-executive Director appointed by the Group in June 2017. Mr. Lin was graduated from Hong Kong Technical College (now known as Hong Kong Polytechnic University) and has over 50 years of experience in the field of electrical and mechanical engineering. After graduation, Mr. Lin worked in The Jardine Engineering Corporation Limited and held various senior positions until retired in 2015. Mr. Lin currently is the Business Development Director of Midea Electric (HK) Limited.

Mr. Lin is a Chartered Engineer of the Engineering Council UK, a Fellow Member of The Chartered Institution of Building Services Engineers (UK), a Fellow Member of The Hong Kong Institution of Engineers, and a Life Member of American Society of Heating, Refrigerating and Air Conditioning Engineers. Mr. Lin is also the Honorary Life President of The Hong Kong Air Conditioning and Refrigeration Association Limited.

PUBLIC SANCTION

On 15 April 2010, the Stock Exchange publicly censured the Company for its breach of the former Rule 13.09 of the Listing Rules for failing to publish an announcement to disclose the deterioration of the Group's business performance in the first six months ended 30 June 2008. Mr. Lam Yin Kee and Ms. Yeung Po Wah were also publicly censured for their breach of director’s undertakings in failing to use their best endeavours to procure the Company's compliance with the former Rule 13.09 of the Listing Rules. Mr. So Kin Hung, Mr. Fan, William Chung Yue and three former independent non-executive Directors of the Company, Mr. Barry John Buttifant, Mr. Leung Kam Wah and Ms. Yeung Chi Ying, were publicly criticised for their respective breaches of director’s undertakings in failing to use their best endeavours to procure the Company's compliance with the former Rule 13.09 of the Listing Rules.

SENIOR MANAGEMENT

Mr. Ieong Kin San, Sunny (楊建燊), aged 69, is a co-founder of a major subsidiary, Southchina Engineering and Manufacturing Limited (“Southchina”), and currently is the marketing director and general manager of Southchina. He is responsible for overseeing the sales and marketing activities of Southchina and has over 40 years of management experience in manufacturing field.

Mr. Lam On Bong (林安邦), aged 68, is a co-founder of Southchina and currently is the operation director of Southchina. He is responsible for the overall management of Southchina’s production facilities in the PRC and has over 40 years of management experience in manufacturing field.

Mr. Leung Hon Kwong, Jackson (梁漢光), aged 67, is a co-founder of Southchina and is currently the financial and purchasing director of Southchina. He is responsible for overseeing the purchasing and financial functions of Southchina and has over 40 years of management experience in manufacturing field.

Mr. Leung Fuk Cheung (梁福祥), aged 56, is the company secretary and qualified accountant of the Group. Mr. Leung is responsible for the Group’s overall financial administration. He has extensive experience in finance, accounting, auditing and company secretarial practice and is currently a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of the Chartered Certified Accountants. Mr. Leung has worked for international accounting firms for over 12 years. Prior to joining the Group in August 2002, Mr. Leung worked as the financial controller for a jewelry manufacturing company.

1. OUR REPORT

1.1. Overview

This report provides information on the corporate social responsibility performance of Alltronics Holdings Limited (the "Group" or "we") in terms of environment, society and governance during the year from 1 January 2019 to 31 December 2019. This report is in compliance with the "comply or explain" provisions of the Environmental, Social and Governance Reporting Guide (the "Guide") contained in Appendix 27 of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange and contains all disclosures as recommended in the Guide.

1.2. Scope of Reporting

This environmental, social and governance report covers the operations of the headquarters office of Alltronics Holdings Limited and its main electronics manufacturing plant in Shenzhen (the "Shenzhen Factory"). Unless otherwise stated, all key performance index in this report only provided by the Shenzhen Factory.

1.3. Feedback Mechanism

The opinions of customers, business partners, the public, the media or non-governmental organisations can help us determine our future sustainability strategy. If you have any comments or suggestions on this report or our corporate social responsibility reporting, you are welcome to contact us via email.

2. MESSAGE FROM THE CHAIRMAN

Upholding to the historical mission of "Green" in pursuit of environmental protection since its establishment, the Group has incorporated the environmental protection ideas into its production, procurement, marketing, consumption and other process and injected green culture into different levels by using green technology, developing new green products, implementing green production and commencing green marketing and green services.

We understand the impact of the production process on the environment. The management of the Group emphasises the control of emissions and optimises the use of energy. We deeply understand that the quality of the environment is directly related to the overall health and long-term development of the community. While maintaining social health, the Group protects the health and rights of employees, and provides a comprehensive employment system and a healthy and safe working environment.

By taking a series of measures and actions, the Company has undertaken the important tasks of corporate development, environmental protection and maintaining ecological balance. I would like to thank our business units for their tireless efforts and seamless coordination in fast-tracking these necessary enhancements in our management approach.

As we embark on this sustainability journey, we are well aware of our stakeholder's expectations and certainly take this responsibility to heart. The Group will continue to operate and develop through sustainable principles as we pursue our goals for the future.

3. REPORTING PRINCIPLES

We have taken the following reporting principles into account in development of this report:

- Materiality: We regularly engage our stakeholders to better understand their concerns relating to sustainability issues that affect them. The Board and the management regularly review the sustainability issues that are most significant to our business and operations, and consider the issues discussed in this report to be material to the Group.

- Quantitative: With regard to the quantitative information reported in this report, we disclosed relevant environmental and social data in accordance with the Guide, which allows stakeholders to compare our performance.

- Balance: We aim to keep our report balanced and make fair disclosures on critical aspects of our performance, both in terms of progress made and continuing challenges that we are dealing with.

- Consistency: Since 2017, we have reported in accordance with the Guide, which allows for year-to-year comparison with our previous performance.

4. COMMUNICATION WITH STAKEHOLDERS

The Group understands that maintaining effective and good communication with all stakeholders and listening to their opinions will help boost the long-term value of the Group and protect the interests of stakeholders. As such, we endeavor to get a deep understanding of the concerns of different stakeholders; and build a relationship of mutual trust and mutual benefit with stakeholders to promote sustainable development.

The annual shareholders' meeting of the Group provides an effective platform for the Board of Directors to exchange opinions with shareholders. In addition to the annual shareholders' meeting, the Group, with an aim to maintain close relations with customers, suppliers and other stakeholders, maintains communication with all stakeholders from time to time via visits, teleconferences or meetings (such as the delivery and quality review meetings with suppliers), mails and emails, and follow-up services of marketing staff, with a view to listening to their opinions and demands. The Group's overall performance is also reported to all investors in its annual report. Set out below are the issues of concern to some of our stakeholders.

Stakeholders	Focus areas of ESG	Opinion collection channels	Issues of concern
Employees	Employment, health and safety, development and training	Questionnaires, meetings	Employees generally show concern for compensation, promotion opportunities, and health and safety of the work environment
Suppliers	Supply chain responsibility, product liability, use of resources	Questionnaires, emails, meetings	Suppliers attach importance to delivery dates, product quality and liability issues, as well as contracting and bidding procedures and prices
Customers	Product liability, supply chain management, environment and natural resources	Questionnaires, emails, meetings	Customers care about delivery dates, product quality and liability issues, as well as environmental issues involved in the production process.

5. ENVIRONMENTAL, SOCIAL AND GOVERNANCE PERFORMANCE

5.1. Environmental Protection

Management guidelines and policies

The Group is committed to environmental protection and promotes sustainable development. Our environmental policy upholds the basic philosophy of "The earth is our home; environmental protection depends on everyone; quality and the environment should go hand in hand". We have established and implement an environment and quality management system in keeping with the times and with a focus on pollution prevention. With an aim to reduce energy consumption and waste and increase recycling and reuse, we identify relevant issues to constantly make environmental and quality improvements. We adhere to the bottom line and always comply with relevant laws and regulations concerning the control of environmental and hazardous chemical substances related to our activities, products and services while meeting customer requirements.

The Group strictly complies with all applicable environmental laws and regulations. During the reporting period, there was no case of prosecution against the Group for violation of environmental laws.

5.1.1. Pollution Control

<u>Exhaust Management</u>

Exhaust will inevitably be produced in the production process. The Group endeavors to reduce the impact of exhaust so produced on the surrounding environment. In the past year, we installed air extraction and exhaust devices in the workshops of the factory. With these devices, exhaust is collected through pipelines and then treated centrally by the activated carbon system to ensure that the concentration of the treated exhaust meets the requirements in the Occupational Exposure Limits of Workplace Hazardous Substance (GBZ2-2002).

During the reporting period, the Group emitted approximately 336.59 kg of nitrogen oxide, approximately 2.20 kg of sulfur oxide and approximately 32.82 kg of particulate matter.

Nitrogen oxide emissions: 336.59 kg
Sulfur oxide emissions: 2.20 kg
Particulate emissions: 32.82 kg

Waste management

In order to reduce the load on the landfill area and its associated treatment of waste disposal there, the Group attaches great importance to the management of waste. The Group follows the 3R waste management strategy to minimise waste generation (Reduce) and consider Reuse and Recycle before waste disposal, so as to live up to its commitment to waste management.

The Shenzhen Factory's non-hazardous waste mainly comes from the garbage generated by employees in the Shenzhen Factory's living areas. Accordingly, in order to reduce waste generation, the Shenzhen Factory collects waste and surplus metal materials for production use, classifies the waste and picks out useful resources, and then hands over the waste to an approved recycling company for disposal. For example, corner scraps, waste defective products, packaging wastes and other general solid wastes will be disposed of by the sanitation department or recycled by the manufacturers.

The Group's hazardous waste mainly includes: waste liquid containing cleaning agent generated by ultrasonic cleaning process, lead-containing tin slag generated in the SMT and welding process where tin bars are used as flux, and waste engine oil and oily rag generated during equipment maintenance. In order to reduce the hazardous wastes, the Group regularly reviews the production process to identify the sources of hazardous wastes and work out action plans for hazardous waste reduction. We engage organisations that have professional qualifications for treatment of hazardous wastes to handle the hazardous wastes requiring disposal and ensure that they strictly abide by the Provisional Regulations on the Administration of Hazardous Waste Transfer Records in Guangdong Province.

Total amount of hazardous waste: 1,315.00 kg
Total amount of harmless waste: 63,090.00 kg

5.1.2. *Making Good Use of Resources*

In order to make more effective and prudent use of all resources including energy, water and other natural resources, we have established the "Energy Conservation Policy", the "Water Conservation Policy for Daily Operations" and the "Green Office Policy", and have also provided our staff with more specific advices and measures for the management of energy, water and packaging materials.

Energy saving and consumption reduction

As a socially responsible company, the Group always adheres to the business philosophy of "green operation, energy conservation". In order to further reduce energy consumption, the Shenzhen Factory conducted numerous customerised energy saving reforms in the past. Our previous LED lighting renovation project, after several tests, is found to save approximately 66% of electricity, reducing the Group's electricity expenses by RMB183,200 a year. We also regularly inspect the conditions of equipment and perform sound maintenance to reduce energy waste caused by mechanical aging.

The total power consumption of the Shenzhen Factory in the past year was approximately:

Total power consumption: 3,870,600.00 kWh
Total power consumption intensity: 3,401.23 kWh per employee

Water efficiency

Water is one of our most important natural resources. In order to protect precious water resources, the Group makes every effort to reduce the water resources used in business operations. The Group does not use any water resources in the production process. The water we consume is mainly the domestic water used by employees. Thus, we actively promote the concept of water conservation among employees and strengthen the maintenance, inspection and management of water-consuming equipment to achieve the purpose of water conservation. The Shenzhen Factory carried out an inspection targeting "dripping water pipes" to eliminate leakage of water pipes and reduce waste of water.

The total water consumption of the Shenzhen Factory in the past year was approximately:

Total water consumption: 178,800.00 m^3
Total water consumption intensity: 157.12 m^3 per employee

Management of other resources

In addition to power and water resources, the Group is concerned about the use of other resources, such as packaging plastics and office paper. As to packaging plastics, we endeavor to minimise the amount of plastic packaging materials used in production to avoid unnecessary plastic consumption while reducing the generation of plastic waste. As to office paper, the Group used to use a large amount of paper for printing, mostly single-sided printing, but now we shift from single-sided printing to double-sided printing to improve paper utilization. We also advocate paperless and green office.

5.1.3. *Promoting Green Operations*

The Group integrates environmental responsibility into its daily business operations. Accordingly, the Group promotes green operations and green procurement policy to reduce environmental impact and the consumption of natural resources.

Cleaner production

To live up to the Group's commitment to sustainable development, the Shenzhen Factory has obtained the Cleaner Production Certificate in December 2012. Its cleaner production projects include improving production, maintaining various facilities and processes, replacing materials, saving natural resources, recycling and reusing materials, which are designed to reduce unnecessary consumption of resources including water and energy. With the ongoing improvement of production technologies and management level, there will emerge more advanced, cleaner and safer production technologies and equipment, and there still exist many cleaner production opportunities in other work areas of the Group. As such, the Group will continue to promote cleaner production and research, develop and apply new cleaner production technologies.

Set out below are the major cleaner production projects and the implementation thereof of the Shenzhen Factory in 2019:

- Improving air quality of the furnace room with installation of exhaust hood and room separation;
- Successfully implemented RoHS3 to all production projects;
- Lean production: more than 50 improvement projects. For example:
  - o Extensive use of automated lean technology in the production process and quality process, including, screw machine, soldering machine, increase production capacity by 3-5%; and
  - o Surface-mount technology: the application of Solder Paste Inspection (SPI) and automated inspection scheme for the finished circuit board (PCBA) after SMT. The above two newly added inspections have helped us to enhance production stability and increase efficiency, which had improved by 2-4%.

Environmental education

The Group often advocates the importance of "reducing carbon emissions" at the meetings with stakeholders and introduces the environmental benefits of its products in product promotion publications. The Group also attaches great importance to environmental protection training for its employees. In the first quarter of each year, the HR Department of the Shenzhen Factory will mobilize various departments to put forward their annual training needs, and then prepare a "List of Annual Training Requests" and submit it to the general manager for approval. Once approved, such list will be circulated to the departments concerned and environmental protection training will be carried out for employees in different departments according to the list. We also encourage employees to attend environmental lectures during office hours to enhance their environmental awareness.

Green procurement

We have formulated the Green Procurement Policy which requires giving preference to environment-friendly materials on the basis of meeting our requirements. The Policy also requires suppliers to obtain ISO 14001 environmental management system certification. The Group implements a full set of green procurement measures. The materials, processes and equipment we use must meet the requirements of RoHS, REACH and Halogen Free in order to eliminate the generation of toxic and hazardous substances and reduce the impact on the environment.

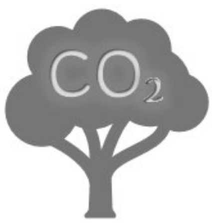
Advocating green office

We have put in place green office measures for office operations, including: attaching a reminder to each power control device; opening windows for ventilation in spring and autumn to reduce the use of air conditioning as much as possible; setting the air conditioning system to keep the office room temperature at 25°C; assigning certain personnel the task of cleaning the floor to reduce dust generation and avoid air pollution after day-to-day operations are finished every day; building an office automation (OA) system to reduce the use of paper for application submitting; and practicing paperless office by using email communication for work, reducing printing of tendering documentation and recycling paper as much as possible to reduce the use of paper. We also conduct internal communications from time to time to strengthen the implementation of these measures.

5.1.4. Tackeling Climate Change

The Group understands that monitoring the consumption of resources is very important for formulating effective management measures and enhancing our overall environmental performance. As such, we identify carbon emission sources, calculate and evaluate carbon emissions on a yearly basis. In addition, the Group actively follows the requirements of the Stock Exchange for disclosure of greenhouse gas emissions to calculate the total amount of greenhouse gas emissions as comprehensively as possible.

The Group is keenly aware that long-distance transportation during business trips will increase energy consumption and carbon emissions. As such, the Shenzhen Factory reduces business trips or avoids meetings requiring long-distance travel as practical as possible to reduce carbon emissions from long-distance travel. As for Hong Kong office, the business trips are generally infrequent due to the work nature.



Total GHG Emissions: 3,698.90 tonnes of CO_2e
Direct (Scope 1) Emissions: 395.70 tonnes of CO_2e
Energy Indirect (Scope 2) Emissions: 3,238.53 tonnes of CO_2e
Other Indirect (Scope 3) Emissions: 64.67 tonnes of CO_2e
Greenhouse gas emission intensity: 3.25 tonnes of carbon dioxide equivalent per employee

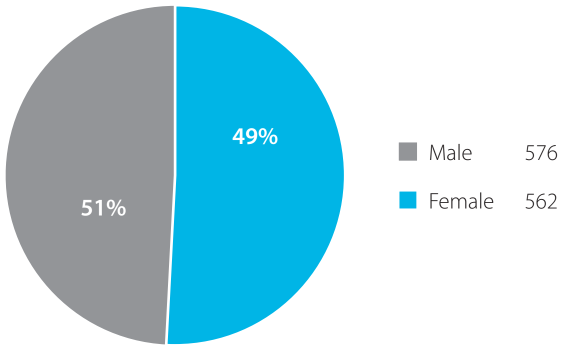
5.2. Caring People

Management guidelines and policies

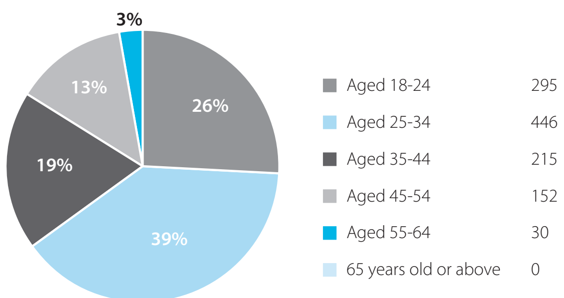
The Group believes that employees are an indispensable part of the sustainable development of an enterprise. We are committed to make unremitting efforts to attract and retain outstanding talents and build a strong and solid human capital. The Group strictly abides by the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China and the Social Insurance Law of the People's Republic of China. During the reporting period, the Group did not have any cases of violation of relevant employment laws and regulations, nor did it receive any complaints related to recruitment.

Overview of the employees of Shenzhen Factory over the past year:

Breakdown of employees in the Shenzhen Factory by gender



Breakdown of employees in the Shenzhen Factory by age



5.2.1. *Equal Employment*

Management guidelines and policies

We have always been aiming for "An Excellent Employer" and committed to providing our employees with a harmonious and safe working environment where each of them will be respected. We have also arranged training courses and provided career development opportunities to our employees as appropriate so that they can pursue excellence at work. Besides, we review and improve relevant policies on a regular basis to ensure that we comply with local laws and industry standards.

Recruitment and dismissal

We have adopted a diversity and non discriminatory policy to ensure that job applicants are screened, recruited and appointed based on the basic principles of fairness, impartiality, equality, competition, meritocracy and non-discrimination while protecting the human rights and personal privacy of employees. In order to ensure fairness in the recruitment process, we have formulated the Personnel and Logistics Management Measures to standardise the recruitment procedures and ensure that job candidates are not treated differently based on gender, place of origin, registered residence, etc. The job candidates shall not be discriminated against due to ethnicity, national origin, race, sex, language and religious belief. The Hong Kong office fully complies with Hong Kong laws and regulations, including the Sex Discrimination Ordinance, the Disability Discrimination Ordinance, the Family Status Discrimination Ordinance and the Race Discrimination Ordinance.

As a responsible employer, the Group has set up a rigorous and prudent dismissal process in accordance with the "Labor Law of the People's Republic of China" and the "Hong Kong Employment Ordinance". We have formulated the Retirement Policy and the Compensation Policy. The Group will handle retirement formalities for employees who have reached the statutory retirement age in accordance with the relevant regulations and will go through any dismissal procedures according to the Labor Law. In the event of a work-related accident, the Group will make reasonable compensation and handle it properly in accordance with relevant laws.

Promotion channels

In terms of promotion, the promotion of an employee depends on his/her job performance, experience, and personal capabilities. In order to give employees clear and specific promotion ladders and criteria, we have developed criteria for performance appraisal and set up an internal performance management system, and conduct employee performance appraisal on a regular basis.

Employee benefits

The Group continually reforms and improves the employee compensation policy and system and fully considers that employee compensation should grow in tandem with the Group's performance, in an effort to ensure that employees are rewarded fairly based on their contribution. We will assess the salary adjustment criteria and scope for each year based on market conditions and the Group's operating situation. In addition, we provide medical benefits, accommodation and meal benefits. In order to protect the personal interests of employees, we allow employees to set up employee welfare committees to strengthen communication between employees and the management. To ensure smooth communication channels between employees and the Group, in addition to the trade union, employees are encouraged to voice their opinions orally, by phone or in writing. Upon receipt of the opinions, we will designate relevant departments to follow up, communicate, coordinate and resolve the issues concerned in a timely manner.

Diverse life

The Group understands that cohesiveness among employees is an important driving force for enterprise development. Establishing a good communication channel network is the cornerstone of the relationships between employees and the Group. To this end, the Group has formulated the Life Balance Policy and built recreation facilities in the Shenzhen Factory to enrich the lives of staff, including karaoke rooms, table tennis, billiards, basketball and badminton facilities and a reading room. Each year, we organise various welfare lottery and cultural and recreational activities according to the production plan and holiday schedule of the year to enrich the lives of employees, increase their work enthusiasm and improve employee cohesion.

The Group strictly abides by the relevant employment laws. During the reporting period, there was no case of prosecution against the Group for violation of employment-related laws.

5.2.2. Occupational Health and Safety

Management guidelines and policies

Employees are our most valuable resources. We endeavor to create the safest and most agreeable working environment and achieve the goal of zero work accident. We take various measures to prevent the occurrence of occupational diseases and industrial casualties among our staff. We have in place a sound mechanism to manage occupational health and safety-related matters, including identifying risks inherent in our operations and conducting regular reviews and assessments, so as to meet regulatory requirements and the development needs of the Group.

Number of work days lost due to work-related injuries and work-related deaths over last three years are as follow:

	2017	2018	**2019**
Work-related deaths	0	0	**0**
Number of work days lost due to work-related injuries	0	0	**0**

Occupational health and safety policy

The Group's policy on occupational health and safety is to build a sound labor safety and health system. The Shenzhen Factory strictly implements the national regulations and standards on labor safety and health. As a responsible employer, the Group also provides employees with adequate training on occupational health and safety and appropriate protective equipment, with a view to enabling them to identify high-risk links in the workplace and work out solutions to lower work-related risks, prevent accidents in the course of work and reduce occupational hazards.

Workplace safety management

All employees of the Group are required to comply with its safety rules which stipulate the responsibilities and safety concerns of different positions in the workplace. We also regularly identify and assess the risk factors in the workplaces and take necessary control measures to eliminate and mitigate risks. When identifying hazards and hazardous substances in equipment, facilities and the working environment, the Group classifies them according to different hazard sources and takes corresponding control measures. The Group has also set up a safety team to organise safety code training and fire-fighting training and drills and arrange health check-ups, thereby strengthening the safety awareness and self-protection capabilities of all employees.

Employee communication

The Group welcomes and values employees' opinions. Employees can express their opinions in different ways. There are suggestion boxes in the plant area for employees to anonymously express their opinions which will be handled by the dedicated personnel from the Personnel Department. We also encourage employees to provide constructive suggestions on the management measures and methods of the Group. The Group will grant certain rewards as appropriate to the personnel whose suggestions are adopted.

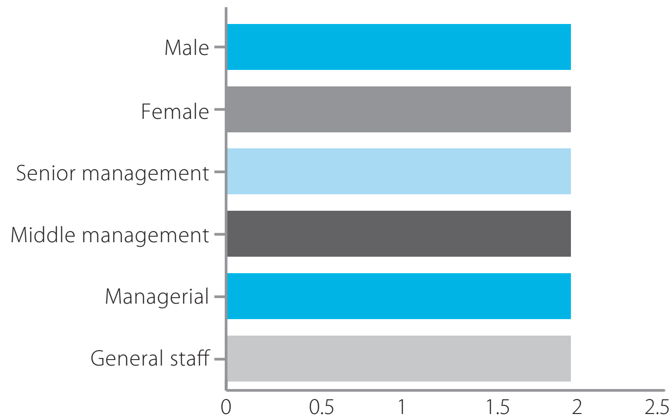
The Group strictly abides by the relevant safety laws. During the reporting period, there was no case of prosecution against the Group for violation of occupational safety-related laws.

5.2.3. Training and Development

Management guidelines and policies

The Group advocates the "people-oriented" management philosophy and has developed the Training Control Program. We firmly believe that continuous training and development of our staff will enhance the value of our team and the professional quality of our staff, which in turn will bring greater productivity to the Group. According to the Training Control Program of the Shenzhen Factory, in the first quarter of each year, the Personnel Department will organise all departments to put forward their annual training needs, and then formulate a list of annual training needs accordingly.

The Shenzhen Factory provides induction training for new employees, including brief introduction of the Group's background, profile, facilities, employee handbook and corporate social responsibility, while arranging experienced employees to provide vocational skills guidance to speed up their understanding of the Group and mastery of relevant technologies.



Average training hours of employees in the Shenzhen Factory	
Male	2.0
Female	2.0
Senior management	2.0
Middle management	2.0
Managerial	2.0
General staff	2.0

Training system

The Group has developed a series of career development plans for its employees. Specifically, the Shenzhen Factory has built up a training system as follows:

1. The factory has set up a vocational training system where on-the-job training of employees will be organised systematically based on the business development needs of the Shenzhen Factory and the personal capabilities of employees to facilitate the development of employees in their positions. Each worker to be engaged in technical work must receive training before taking a job.

2. Employees have the right to participate in training, have the opportunity to receive training and have the responsibilities to provide training to others. In addition to actively participating in various training sessions organised by the Shenzhen Factory and different departments, employees should always focus on improving their expertise, work skills and comprehensive quality through independent study while making specific plans for their own career development and implementing such plans under the guidance of their direct superiors and the departments concerned.

3. Where the Shenzhen Factory pays special training expenses for professional technical training of an employee, the employee shall follow the arrangement of the Shenzhen Factory to engage in relevant technical work and undertake internal training and counseling work for other employees of the Shenzhen Factory.

4. According to its business development needs, the Shenzhen Factory organises executives or technicians to go abroad on a tour of observation and study.

Where employees of the headquarters office in Hong Kong have training needs, they may apply to the department managers for taking external training courses and then have the Group reimburse their training expenses.

5.2.4. Protection of rights and interests

Management guidelines and policies

The Group strictly abides by national laws and regulations and prohibits the employment of child labor. Before interviewing job applicants, we will check their identity documents to verify their identity in order to prevent juveniles from borrowing other people's identity documents to apply for a job. When handling induction procedures for new employees, we will check their identity documents again to verify their identity, and those without an identity document will not be employed.

In addition, the Group strictly abides by national laws and regulations and prohibits all forms of forced labor. We sign labor contracts or internship agreements (for interns) with all employees on an equal and voluntary basis; never withhold employees' resident identity cards, temporary residence permits and other identity certificates; strictly forbid any department or person to physically punish, beat, frisk and insult employees, and to lock a workplace and dormitory to limit the personal freedom of employees; and strictly prohibit any department or person to force employees to work by means of violence, threats or illegal restriction of personal freedom.

We have also set up a mechanism for reporting child labor and forced labor, and monitor the child labor and forced labor issues among suppliers, subcontractors and their employees. We will make every effort and take all necessary measures to ensure that the Group meets international and local labor standards.

During the reporting period, the Group found neither employment of child labor nor violation of forced labor-related regulations.

5.3. Operational Commitment

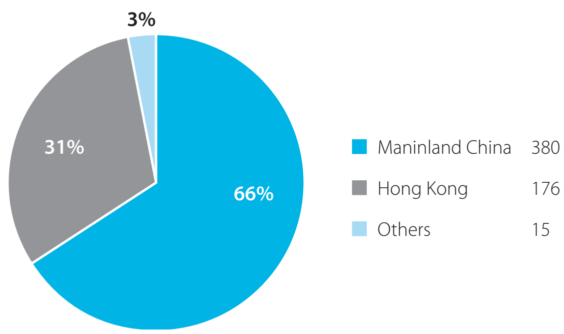
The Group is committed to promoting inclusive, ethical and sustainable procurement practices. Leveraging its strong purchasing power, the Shenzhen Factory is expected to create long-term value for its partners and the communities in which it operates, thus ultimately maximizing the benefits to shareholders, customers and communities.

5.3.1. Supply chain management

Management guidelines and policies

The Group is dedicated to building a mutually beneficial and win-win partnership with suppliers, so as to contribute to the sustainable development of the industry and society. The Shenzhen Factory has developed and implements the Management Procedure for Supplier Evaluation and the Management Procedures for Procurement to manage suppliers and the processes, products and services provided by them, so as to ensure that they will not adversely affect the Group's ability to consistently deliver qualified products and services to customers. Our purchasing department works with relevant departments to determine and implement the criteria for evaluation, selection, performance monitoring and reevaluation of suppliers based on the degree of impact on meeting our requirements, and keeps records of these activities and any necessary measures arising therefrom.

Number of suppliers



The Shenzhen Factory has in place different criteria for selection of different types of suppliers. Generally, the assessment of a supplier is focused on its ability to inspect, measure and test products, its quality system and management system, and whether it meets relevant legal requirements (such as restrictions on hazardous chemical substances). Only those qualified suppliers will be included into the "Qualified Supplier List".

The Group also conducts regular monitoring, auditing and evaluation to assess the performance of suppliers. Our purchasing department is responsible for convening relevant departments to hold a supplier evaluation meeting every six months to decide which suppliers remain qualified. We will grade the evaluation results and give preference to high-grade suppliers.

Information confidentiality

We are convinced that protecting the personal data of customers and the internal business information of the Group is the key to building a mutual trust relationship with customers and shareholders. As such, the Group has developed the Confidentiality and Non-competition Agreement and requires relevant personnel to sign the agreement in writing according to the requirements of different positions. These personnel are obliged to strictly abide by the Group's confidentiality measures and prevent the disclosure of its business secrets and customer information. Without the written consent of the Group or the customers concerned, employees may not disclose or use our customer information, nor may they use our trade secrets for new research and development activities. During the term of the Confidentiality and Non-competition Agreement, the employees concerned are not allowed to work in other companies that produce products which are similar to, and compete with, those of the Group.

Sustainable supply chain

The Group puts great emphasis on the sustainability of value chain. While fulfilling our environmental and social responsibilities, we also expect our suppliers to operate in the same responsible manner. Accordingly, we incorporate sustainability considerations into our procurement and outsourcing process and require suppliers to meet basic standards. For example, all suppliers are required to abide by the sustainability principles, and to ensure that their regular and temporary employees, suppliers and sub-supplier's confirm and comply with the requirements of this policy.

5.3.2. Customer Health and Safety

Management guidelines and policies

The Group's quality policy is designed to "put quality and customers first, make continuous improvements, and pursue excellence". In order to provide reliable and high-quality products, the Group commits itself to establishing, maintaining and improving the ISO9001 quality system, in a mission to provide quality products and services to meet customer requirements. In the course of operations, the Group strictly abides by national laws and regulations and industry quality standards and constantly improves quality management to protect the basic rights and interests of customers.

Quality management system

The Group has passed the latest quality management system certification. We uphold the philosophy of continuous improvement and keeping pace with the times and apply the latest internationally recognised quality standards as the basis for providing optimal services. The Group's quality policy and objectives have been understood and implemented by all staff through training and publicity. In addition, we have formulated and implement the Procedures for Management Review and conduct management review at least once a year to ensure that our quality control system is appropriate, adequate and effective, and aligned with our strategy.

Product quality and safety

In order to ensure that its products meet the reasonable expectations of customers, the Group has formulated and implements the Management Procedures for Review of Orders to ensure that the reviewed products and services meet the requirements of laws and regulations and the quality requirements of customers and the Group. Our quality control department is responsible for checking products and services at appropriate stages to see if they meet relevant requirements. In order to ensure that our products meet industry and national safety standards, we conduct product testing with specific and effective methods to make sure that our products meet quality and technical requirements and to correct any serious problems in a timely manner. We only deliver products meeting quality and technical requirements to customers.

After-sale service

Customer feedback is the biggest contributor to driving the Group forward, and hence we maintain good communication with our customers to understand their requirements for improvement of our products and services. The Group conducts surveys by visiting customers and issuing the "Customer Satisfaction Survey Form" to them to learn about their requirements. The Marketing Department of the Group is responsible for regularly reviewing customers' opinions on the products or services provided and developing measures to improve customer satisfaction. When necessary, the Group will provide customers with after-sales service for products. To this end, we have formulated and implement the Procedures for Maintenance and Repair Service Management.

Fair publicity policy

The Group understands the importance of advertising and sales pitches. As such, we have formulated the "Fair Publicity Policy" to regulate all our marketing staff who are required to provide customers with accurate and true information in the course of marketing, so as to ensure the effectiveness of marketing and avoid relevant legal risks in the process. The Shenzhen Factory provides service and/or product awareness training for relevant employees, such as sales staff and customer service staff, to ensure that they provide accurate information in the sales and service process.

Respect for intellectual property

The Group endeavors to protect intellectual property rights and refuse to provide products or services that infringe copyright or intellectual property rights. The Group undertakes to use only genuine products. Our purchasing managers will review the goods to be purchased to prevent the Group from purchasing illegal products. In terms of production, our engineering managers are responsible for reviewing every design to avoid using unauthorised photos and designs from third parties.

5.3.3. Corporate Governance

Management guidelines and policies

In order to build a corporate ethical culture and develop a set of common practices, the Group has established stringent policies and procedures for preventing corruption and money laundering in accordance with relevant laws, regulations and guidelines promulgated by the regulatory authorities. The Group requires employees to abide by the code of business ethics and to refrain from corruption and bribery during the term of their employment contract. In addition, in order to enhance employees' awareness of internal justice, the Group has formulated a whistleblowing policy as an effective internal control mechanism to provide employees with whistleblowing channels and guidelines. Any employee who violates discipline will be punished based on the seriousness and impact of the consequences in accordance with the internal rules of the Group. And anyone who violates the law will be handed over to the judicial authority.

5.4. Giving Back to Society

The Group is well aware that our responsibility is not only to contribute directly to the economy, but also to generate positive impact on the society as a whole through our business operations and public welfare projects. The Group proactively contacts community groups that match the Group’s corporate responsibility to learn about community needs. Moreover, the Shenzhen Factory has set up an emergency assistance mechanism to carry out emergency disaster relief activities, such as establishing a disaster relief fund.

Given the recent outbreak of COVID-19 in Mainland China and Hong Kong, the Group has donated various sanitizing equipment including electrostatic disinfectant sprayer and photolysis air purifiers to various organisations in Mainland China and Hong Kong to help support communities and frontliners in the fight against the spread of the virus. We have also implemented work-from-home guidance for our staff and other measures to combat the spread of the virus.

5.5. Awards and Recognitions

To honor its corporate social responsibility and build an inclusive society, the Group has participated in the Caring Company Scheme organised by The Hong Kong Council of Social Service (HKCSS) and was awarded the Caring Company logo.

During the reporting period, the Group received a thank you letter from the Board of Directors of Pok Oi Hospital for recognition of its participation in the “2019 Shanghai Commercial Pok Oi Cycling for Millions” held on 10 March 2019. The event was organised by Pok Oi Hospital in Hong Kong with an aim to promote cycling, advocate green living and raise funds for Pok Oi Hospital.

SUMMARY OF PERFORMANCE INDEX (SHENZHEN FACTORY)

ENVIRONMENT		
Polluting emissions	**Unit**	
Exhaust emissions		
Nitrogen oxide emissions	kg	336.59
Sulfur oxide emissions	kg	2.20
Particulate emissions	kg	32.82
Solid waste		
Hazardous waste	kg	1,315.00
Hazardous waste Intensity	kg/per employee	1.16
Harmless waste	kg	63,090.00
Harmless waste Intensity	kg/per employee	55.44
Greenhouse gas emissions and Intensity		
Total greenhouse gas emissions	tCO_2-e	3,698.90
Direct emission	tCO_2-e	395.70
Energy indirect emissions	tCO_2-e	3,238.53
Other indirect emissions	tCO_2-e	64.67
Greenhouse gas emission intensity	tCO_2-e/per employee	3.25
Energy use		
Power purchased	kWh	3,870,600.00
Power intensity	kWh/per employee	3,401.23
Renewable energy (solar energy)	kWh	65,750.00
Renewable energy use intensity	kWh/per employee	57.78
Gasoline (flow source)	litre	65,349.00
Gasoline use intensity	litre/per employee	57.42
Diesel (fixed source)	litre	77,013.00
Diesel use intensity	litre/per employee	67.67
Water use	m^3	178,800.00
Water use intensity	m^3/per employee	157.12
Amount of packaging materials used		
Plastic	tonne	802.44
Paper	tonne	1,232.61
Metal	tonne	212.09
Lumber	tonne	53.01

SOCIETY

Employees	**Unit**	
Total number of employees	person	1,138
Breakdown of employees by age		
Aged 18-24	person	295
Aged 25-34	person	446
Aged 35-44	person	215
Aged 45-54	person	152
Aged 55-64	person	30
Aged 65 or more	person	–
Breakdown of employees by gender		
Male	person	576
Female	person	562
Breakdown of employees by employment type		
Full-time	person	1,138
Breakdown of employees by function		
Senior management	person	7
Middle management	person	5
Executives	person	23
General staff	person	1,103
Number of employee turnovers		
Turnover rate (monthly average)	Percentage (%)	2.20%
Turnover rate by age		
Aged 18-24	percentage (%)	4.29%
Aged 25-34	percentage (%)	3.18%
Aged 35-44	percentage (%)	1.16%
Aged 45-54	percentage (%)	0.33%
Aged 55-64	percentage (%)	0.00%
Aged 65 or more	percentage (%)	0.00%
Turnover rate by gender		
Male	percentage (%)	3.49%
Female	percentage (%)	1.73%

SOCIETY		
Health and safety		
Work-related deaths	persons	0
Number of work days lost due to work-related injuries	days	0
Training and development		
Total training hours	hours	2,276.00
Average training hours		
Male	hours	2.00
Female	hours	2.00
Senior management	hours	2.00
Middle management	hours	2.00
Executives	hours	2.00
General staff	hours	2.00
Percentage of trained employees by category		
Male	percentage (%)	100%
Female	percentage (%)	100%
Senior management	percentage (%)	100%
Middle management	percentage (%)	100%
Executives	percentage (%)	100%
General staff	percentage (%)	100%
Number of suppliers		
Mainland China	suppliers	380
Hong Kong	suppliers	176
Others	suppliers	15
Product responsibility		
Percentage of products that must be recalled for health and safety reasons	percentage (%)	0
Number of complaint cases about products and services	case	0
Anti-corruption		
Number of concluded corruption cases brought against the Group or its employees during the reporting period	case	0

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company and recognises the importance of good corporate governance to the Company's healthy development. The Company's corporate governance practices are based on the principles and code provisions (the "Code Provisions") set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange.

During the year ended 31 December 2019, the Company has complied with the Code Provisions of the CG Code, except for the limited deviation on the grounds and causes as explained below. The Board will review and update the current practices regularly to ensure compliance with the latest practices in corporate governance so as to protect and maximise the interests of shareholders.

Code Provision A.2.1

Under Code Provision A.2.1, the roles of Chairman and Chief Executive should be separated and should not be performed by the same individual. The Company does not have a separate Chairman and Chief Executive and Mr. Lam Yin Kee currently holds both positions. The Board believes that vesting the roles of both Chairman and Chief Executive in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies. However, the Board will review the roles of Mr. Lam Yin Kee acting as the Chairman and Chief Executive regularly, and may segregate the roles to two Directors, if the Board believes that it is for the best interest of the Company and the shareholders.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding Directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors of the Company, all Directors of the Company confirmed that they had complied with the required standards as set out in the Model Code throughout the year ended 31 December 2019.

In addition, the Board also established written guidelines on no less exacting terms than the Model Code for relevant senior management of the Company in respect of their dealings in the securities of the Company.

THE BOARD OF DIRECTORS AND BOARD MEETINGS

The Board's primary responsibilities are to formulate the Group's long-term corporate strategy, to oversee the management of the Group and to evaluate the performance of the Group. The Board is also responsible for the approval of annual and interim results, risk management, major acquisitions, and other significant operational and financial matters. Matters not specifically reserved to the Board and necessarily relate to the daily operations of the Group are delegated to the management under the supervision of the respective Directors and the leadership of the Chairman.

The executive duties of Mr. Meng Fei, being an executive Director of the Company, have been suspended since 28 March 2019. As at the date of this report, the executive duties of Mr. Meng Fei continued to be suspended. Other than this, there were no other changes in the board of directors of the Company during the year. The Board currently comprises six executive Directors, one non-executive Director and four independent non-executive Directors as follows:

Executive Directors:	Mr. Lam Yin Kee *(Chairman and Chief Executive)*
	Ms. Yeung Po Wah
	Ms. Liu Jing
	Mr. Lam Chee Tai, Eric
	Mr. So Kin Hung
	Mr. Meng Fei *(executive duties suspended)*
Non-executive Director:	Mr. Fan, William Chung Yue
Independent non-executive Directors:	Mr. Pang Kwok Wah
	Mr. Yau Ming Kim, Robert
	Mr. Yen Yuen Ho, Tony
	Mr. Lin Kam Sui

Mr. Lam Yin Kee is the Chairman and Chief Executive of the Group. Ms. Yeung Po Wah is an executive Director of the Group and the spouse of Mr. Lam Yin Kee. Mr. Lam Chee Tai, Eric is an executive Director of the Group and the son of Mr. Lam Yin Kee and Ms. Yeung Po Wah. Apart from these, there is no other direct family relationship amongst the members of the Board.

The background and qualification of the Chairman of the Company and the other Directors are set out on pages 11 to 13 of this annual report. All Directors have sufficient experience to hold their positions so as to carry out their duties effectively and efficiently, and all of them have given sufficient time and attention to the affairs of the Group. The non-executive Director and the four independent non-executive Directors are person of high caliber with academic and professional qualifications in the fields of accounting, finance, law, worldwide trade affairs and business management. They bring a broad range of financial, regulatory and commercial experience and skills to the Board, which contribute to the effective strategic management of the Group.

Each of the non-executive Director and the independent non-executive Directors has been appointed with a formal letter of appointment setting out the terms and conditions of their respective appointment. Mr. Fan, William Chung Yue is appointed for a term of one year commencing from 17 June 2005, and such appointment shall continue thereafter from year to year until terminated by either party with one month's written notice served to the other party. Mr. Yau Ming Kim, Robert was appointed as an independent non-executive Director of the Company from 1 September 2009 and was re-elected at the annual general meeting of the Company held on 28 May 2010. The appointment of Mr. Yau Ming Kim, Robert, shall continue thereafter from year to year until terminated by either party with one month's notice in writing. Mr. Pang Kwong Wah was appointed as an independent non-executive Director of the Company from 21 June 2013 and was re-elected at the annual general meeting of the Company held on 29 May 2014. The appointment of Mr. Pang Kwong Wah shall continue thereafter from year to year until terminated by either party with one month's notice in writing. Mr. Yen Yuen Ho, Tony was appointed as an independent non-executive Director of the Company for a term of 3 years from 12 August 2016, and was re-elected at the annual general meeting of the Company held on 1 June 2017. The appointment of Mr. Yen Yuen Ho, Tony shall continue thereafter from year to year until terminated by either party with one month's notice in writing. Mr. Lin Kam Sui was appointed as an independent non-executive Director of the Company for a term of 3 years from 1 June 2017, and was re-elected at the annual general meeting of the Company held on 7 June 2018. The appointment of Mr. Lin Kam Sui shall continue thereafter from year to year until terminated by either party with one month's notice in writing.

The Board considers that the independent non-executive Directors can make independent judgment effectively and fulfill the independence guidelines set out in Rule 3.13 of the Listing Rules. Each of the independent non-executive Directors has given a written confirmation to the Company confirming that he has met the criteria set out in Rule 3.13 of the Listing Rules regarding the guidelines for the assessment of independence of Directors in respect of the year ended 31 December 2019.

The Board schedules to hold at least four full board meetings a year at approximately quarterly intervals. During the year ended 31 December 2019, six full board meetings were held and the attendance of the Board of Directors is set out as follows:

	Number of meetings attended during the year ended 31 December 2019	
	Board meetings	**AGM/EGM ***
Executive Directors		
Mr. Lam Yin Kee	6/6	2/2
Ms. Yeung Po Wah	6/6	2/2
Ms. Liu Jing	1/6	0/2
Mr. Lam Chee Tai, Eric	4/6	2/2
Mr. So Kin Hung	4/6	2/2
Mr. Meng Fei **	0/1	0/1
Non-executive Director		
Mr. Fan, William Chung Yue	4/6	0/2
Independent non-executive Directors		
Mr. Pang Kwong Wah	6/6	2/2
Mr. Yau Ming Kim, Robert	4/6	2/2
Mr. Yen Yuen Ho, Tony	5/6	2/2
Mr. Lin Kam Sui	5/6	2/2

* During the year ended 31 December 2019, the 2019 AGM was held on 6 June 2019 and an extraordinary general meeting was held on 20 March 2019.

** At the board meeting held on 28 March 2019, the Board has resolved to suspend the executive duties of Mr. Meng Fei from 28 March 2019. The executive duties of Mr. Meng Fei continued to be suspended as at the date of this report. For details, please refer to the announcements of the Company dated 28 March 2019 and 30 July 2019 respectively. During the year, Mr. Meng Fei was entitled to attend the extraordinary general meeting held on 20 March 2019 and one of the board meetings held.

Every Board member has a duty to act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders. Each Director is required to make disclosure of his/her interests or potential conflict of interests, if any, in any proposed transactions or issues discussed by the Directors at the Board and Board Committees' meetings. Any Director shall not vote on any resolution of the Board and Board Committees approving any contract or arrangement or any other proposal in which he/she (or his/her associates) is materially interested nor shall he/she be counted in the quorum present at the meeting.

Apart from the above regular meetings of the year, the Board will meet on other occasions when a board-level decision on a particular matter is required. The Chairman of the Board also held a meeting with the non-executive Directors (including independent non-executive Directors) of the Company during the year without the executive Directors present. Directors shall have full access to information on the Group and are able to obtain independent professional advice whenever deemed necessary by the Directors. No request was made by any Director for such independent professional advice in 2019. The Company Secretary shall prepare minutes and keep record of matters discussed and decisions resolved at all Board meetings, which will be available for inspection by Directors upon request.

The Company has arranged for appropriate liability insurance to indemnify its directors and officers for their liabilities arising out of corporate affairs. The insurance coverage is reviewed annually. During the year, no claim was made against the Directors and officers of the Company.

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the functions set out in the Code Provision D.3.1 of the CG Code. The Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code and disclosure in the corporate governance report. The Board is also satisfied that all Directors have contributed sufficient time in performance of their responsibilities as directors of the Company.

The Board held meetings from time to time whenever necessary. At least 14 days notice of regular Board meetings is given to all directors and they can include matters for discussion in the agenda as they think fit. The agenda together with Board papers are sent to all directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the directors to review the documents. Minutes of every Board meeting are circulated to all directors for their perusal and comments. Minutes are open for inspection at any reasonable time on reasonable notice by any director. The Board also ensures that it is supplied in a timely manner with the agenda and all necessary information in a form and of a quality appropriate to enable it to discharge its duties. Every Board member has full access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Upon appointment to the Board, each newly appointed Director receives a comprehensive package covering the Group's business and the general, statutory and regulatory obligations of being a director of a listed company to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements. The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and senior executives to enroll in a wide range of professional development courses or seminars relating to the Listing Rules, companies ordinance and corporate governance practices organised by professional bodies so that they can continuously update their relevant knowledge and skills. The company secretary also organises and arranges seminars on the latest development of applicable laws, rules and regulations for the Directors to assist them in discharging their duties.

During the year ended 31 December 2019, the Company engaged a professional training institution to provide all Directors with relevant training on directors' responsibilities and information disclosure. All Directors had complied with the requirements set out in the Code Provision A.6.5 and had provided their training records as follows:

	Type of training	
	Read materials	**Attending seminars/ workshops**
Executive Directors:		
Mr. Lam Yin Kee		
Ms. Yeung Po Wah	✓	✓
Ms. Liu Jing	✓	✓
Mr. Lam Chee Tai, Eric	✓	✓
Mr. So Kin Hung	✓	✓
Mr. Meng Fei	✓	✓
Non-executive Director:		
Mr. Fan, William Chung Yue	✓	✓
Independent non-executive Directors:		
Mr. Pang Kwong Wah	✓	✓
Mr. Yau Ming Kim, Robert	✓	✓
Mr. Yen Yuen Ho, Tony	✓	✓
Mr. lin Kam Sui	✓	✓

All the directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

In accordance with the Company's Articles of Association, at each annual general meeting one-third of the Directors for the time being (or, if the number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation.

Ms. Yeung Po Wah, Mr. So Kin Hung, Mr. Yau Ming Kim, Robert and Mr. Yen Yuen Ho, Tony had been re-appointed at the last Annual General Meeting held on 6 June 2019. Pursuant to Articles 86(3) and 87 of the Company's Articles of Association, Mr. Lam Yin Kee, Ms. Liu Jing, Mr. Meng Fei and Mr. Lin Kam Sui shall retire at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

All directors (including executive, non-executive and independent non-executive directors) are subject to election for appointment by shareholders at the annual general meeting at lease once every three years. None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within three years without payment of compensation (other than statutory compensation).

The notice period for the termination of the service contracts with executive Directors by either party is not less than three months. The notice period for the termination of appointment of non-executive Directors and independent non-executive Directors by either party is not less than one month.

NOMINATION COMMITTEE

The Company had set up a nomination committee (the "Nomination Committee") on 1 April 2012 with written terms of reference. The Nomination Committee has a minimum of five members, comprising a majority of independent non-executive Directors. The Nomination Committee is chaired by Mr. Lam Yin Kee (the Chairman of the Board) and other current members include Ms. Yeung Po Wah, Mr. Pang Kwong Wah, Mr. Yau Ming Kim, Robert and Mr. Yen Yuen Ho, Tony.

The terms of reference of the Nomination Committee are posted on the Company's website and the Stock Exchange's website. The primarily roles and functions of the Nomination Committee include reviewing the structure, size and composition of the Board at least once every year, making recommendations on any proposed changes to the Board to complement the Group's corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting individuals nominated for directorship (if necessary), assessing the independence of the independent non-executive directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive officer.

The Company acknowledges that the diversification of the members of the Board has positive effects on enhancing the Group's performance, and has adopted a board diversity policy with effect from 1 September 2013. The Company sees the diversification of the members of the Board as an important supporting factor for the Group to achieve its strategic goal and maintain sustainable growth. In deciding the composition of the Board, the Company will consider the Board diversity from various perspectives, including but not limited to sex, age, cultural and academic background, race, professional experience, skills, knowledge and terms of services. All of our Directors are appointed according to the principle of meritocracy while all candidates are being selected objectively, and the benefit of Board diversity will also be taken into full consideration. The nomination committee will review the diversity of the composition of the Board on regular basis, and will monitor the implementation of this policy, so as to ensure this policy has been effectively implemented.

During the year, the Nomination Committee has held one meeting and has, among other matters, (i) reviewed the structure, size and diversity of the Board; (ii) assessed the independence of the INEDs; and (iii) reviewed the Board Diversity Policy.

Name of committee member	Number of meeting attended
Mr. Lam Yin Kee	1/1
Ms. Yeung Po Wah	1/1
Mr. Pang Kwong Wah	1/1
Mr. Yau Ming Kim, Robert	0/1
Mr. Yen Yuen Ho, Tony	1/1

The Board adopted a nomination policy that the Nomination Committee will evaluate, select and recommend candidate(s) for directorship(s) to the Board by giving due consideration to the criteria, including but not limited to Board diversity, qualifications, experience, independence, reputation for integrity and potential contributions that the individual(s) can bring to the Board before making recommendation to the Board. The Nomination Committee may consult any source it deems appropriate in identifying or selecting suitable candidates, such as referrals from existing Directors, advertising, recommendations from a third party agency firm, and may evaluate the suitability of the candidate(s) by interviews, background checks etc.

REMUNERATION COMMITTEE

The Company has set up a remuneration committee (the "Remuneration Committee") on 22 June 2005 with written terms of reference in compliance with the Listing Rules. The Remuneration Committee has a minimum of five members, comprising a majority of independent non-executive Directors. The Chairman of the Remuneration Committee is Mr. Pang Kwong Wah and other current members include Mr. Lam Yin Kee, Ms. Yeung Po Wah, Mr. Yau Ming Kim, Robert and Mr. Yen Yuen Ho, Tony. The Remuneration Committee schedules to meet at least once every year and the quorum necessary for meeting is two.

The terms of reference of the Remuneration Committee are posted on the Company's website and the Stock Exchange's website. The primarily duties of the Remuneration Committee include:

(a) to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(b) to have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment) and make recommendations to the Board of the remuneration of non-executive Directors. The Remuneration Committee shall consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

(c) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(d) to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

(e) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

(f) to ensure that no Director or any of his associates is involved in deciding his own remuneration;

(g) to advise shareholders on how to vote with respect to any service contracts of Directors that required shareholders' approval under Rule 13.68 of the Listing Rules; and

(h) to consider other topics, as defined by the Board.

The Remuneration Committee had held one meeting in 2019, and has discussed and reviewed the remuneration policy for all directors and senior management of the Group; the bonus payment policy and the pay trend for salary adjustment.

Name of committee member	Number of meeting attended
Mr. Lam Yin Kee	1/1
Ms. Yeung Po Wah	1/1
Mr. Pang Kwong Wah	1/1
Mr. Yau Ming Kim, Robert	0/1
Mr. Yen Yuen Ho, Tony	1/1

The emoluments payable to Directors will depend on their respective contractual terms under employment contracts. Details of the emoluments of Directors during the year ended 31 December 2019 are set out in note 9 to the consolidated financial statements of this annual report. The emoluments paid to the highest paid individuals, who were not directors of the Company, as set out in note 10 to the consolidated financial statements of this annual report during the year ended 31 December 2019 were within the following bands:

	Number of individuals
HK$1,500,001 to HK$2,000,000	3

The Company has adopted a share option scheme at the annual general meeting held on 7 June 2016, which serves as an incentive to attract, retain and motivate talented eligible staff, including Directors. Details of the share option scheme are set out in the Report of the Directors on pages 48 and 49 of this annual report.

The share option scheme has a term of 10 years and will be expired on 6 June 2026.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") on 22 June 2005 with written terms of reference in compliance with the Listing Rules. The Audit Committee comprises members of independent non-executive Directors only.

Mr. Pang Kwong Wah has been the chairman of the Audit Committee since 20 June 2013, the other two current members are Mr. Yau Ming Kim, Robert and Mr. Yen Yuen Ho, Tony. Mr. Pang Kwong Wah has appropriate professional qualifications as required under Rule 3.10(2) of the Listing Rules.

The Audit Committee meets at least twice every year and the quorum necessary for meeting is two. Two meetings were held during the year under review. Details of the attendance of the Audit Committee meetings are as follows:

Name of committee member	Number of meetings attended
Mr. Pang Kwong Wah	2/2
Mr. Yau Ming Kim, Robert	2/2
Mr. Yen Yuen Ho, Tony	1/2

The terms of reference of the Audit Committee are posted on the Company's website and the Stock Exchange's website. The primarily duties of the Audit Committee are as follows:

Relationship with the Company's independent auditor

(a) to be primarily responsible for making recommendation to the Board on the appointment, re-appointment and removal of the independent auditor, and to approve the remuneration and terms of engagement of the independent auditor, and any questions of resignation or dismissal of that auditor;

(b) to review and monitor the independent auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the independent auditor the nature and scope of the audit and reporting obligations before the audit commences;

(c) to develop and implement policy on the engagement of the independent auditor to supply non-audit services. The Audit Committee shall ensure that the provision by the independent auditor of non-audit services does not impair the independent auditor's independence or objectivity;

Review of financial information of the Company

(d) to monitor integrity of financial statements of the Company and the Company's annual reports and accounts, interim reports and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained therein, before submission to the Board;

(e) In regard to (d) above:

(i) members of the Audit Committee should liaise with the Company's Board, senior management and the person appointed as the Company's qualified accountant. The Audit Committee must meet, at least twice a year, with the Company's independent auditor;

(ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or independent auditor; and

(iii) the Audit Committee should discuss problems and reservation arising from the financial statements, annual reports and accounts, interim reports and quarterly reports (if applicable) and any other matters the independent auditor may wish to discuss (in the absence of management of the Company where necessary);

Oversight of the Company's financial reporting system, risk management and internal control procedures

(f) to review the Company's financial controls, risk management and internal control systems, and its statement in relation thereto prior to endorsement by the Board;

(g) to discuss with the management the risk management and internal control systems and to ensure that management has discharged its duty to have an effective risk management and internal control system;

(h) to consider any major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(i) where an internal audit function exists, to review the internal audit programme, to ensure co-ordination between the internal and independent auditor, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

(j) to review the Company and its subsidiaries' financial and accounting policies and practices;

(k) to review the independent auditor's management letter, any material queries raised by the independent auditor to management about accounting records, financial accounts or systems of control and management's response;

(l) to ensure that the Board will provide a timely response to the issues raised in the independent auditor's management letter;

(m) to review arrangements by which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management and internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action;

(n) to act as the key representative body for overseeing the Company's relations with the independent auditor;

(o) to report to the Board on the matters set out in this term of reference; and

(p) to consider other topics, as defined by the Board.

The Audit Committee also ensures that the directors of the Company have conducted an annual review of the adequacy of resources, qualifications and experience of staff for the Company's accounting and financial reporting function, and training programmes and budget.

The Group's interim results and annual results for the year ended 31 December 2019 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with applicable accounting standards and requirements and that adequate disclosures have been made.

During the year ended 31 December 2019, the Audit Committee has met with the independent auditor with no executive Directors present.

EXECUTIVE COMMITTEE

The Company had set up an executive committee (the "Executive Committee") with written terms of reference effective from 12 November 2012. The Executive Committee has a minimum of three members. Mr. Lam Yin Kee is the chairman of the Executive Committee and other current members included Ms. Yeung Po Wah and the Company Secretary. The primarily roles and functions of the Executive Committee are to review, evaluate and make recommendations to the Board regarding any investment opportunities, payments or guarantees in excess of HK$20,000,000.

INDEPENDENT AUDITOR

The Group's independent auditor for the year ended 31 December 2019 is Ernst & Young ("EY"). EY is responsible for auditing and forming an independent opinion on the Group's annual consolidated financial statements.

The fees paid and payable by the Group to EY in respect of audit and non-audit services (mainly consist of review of interim financial information) for the year ended 31 December 2019 are HK$2,090,000 and HK$310,000 respectively.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2019, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

The Directors' responsibilities for the financial statements and the responsibilities of the independent auditor to the shareholders are set out on in the Independent Auditor's Report on pages 60 and 61 of this annual report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

INTERNAL CONTROLS AND RISK MANAGEMENT

Internal control systems have been designed to allow Directors to monitor the Group's overall financial position, safeguard its assets, provide reasonable assurance against fraud and errors, and to manage the risks in failing to achieve the Group's objectives. Executive Directors monitor the business activities closely. The Group from time to time updates and improves the internal controls.

The Group has conducted an annual review of its internal control systems to ensure that they are effective and adequate. The Company convenes management meeting periodically to discuss financial, operational and risk management control. The Audit Committee also reviews the internal control system and evaluates its adequacy, effectiveness and compliance on a regular basis. The Board is satisfied that such systems are effective and appropriate actions have been taken.

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives and ensuring that the Group establishes and maintains appropriate and effective risk management system. The Board oversees management in the design, implementation and monitoring of the risk management system.

DIVIDEND POLICY

The Board may declare dividends after taking into account the Group's operations, earnings, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to the Company's constitutional documents and the applicable laws, including the approval of the shareholders of the Company. Future declarations of dividends may or may not be reflected from the Company's historical declarations of dividends and will be at the absolute discretion of the Board.

COMPANY SECRETARY

The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and that the activities of the Board are carried out efficiently and effectively. The Company Secretary assists the Chairman to prepare agendas and Board papers for meetings and disseminates such documents to the Directors and board committees in a timely manner. The Company Secretary also advises the Directors on their obligations in respect of disclosure of interests in securities, connected transactions and inside information and ensures that the standards and disclosures required by the Listing Rules are observed.

With respect to the secretarial function of the Group, the Company Secretary maintains formal minutes of the Board meetings and other Board committee meetings. During the year, Mr. Leung Fuk Cheung, the Company Secretary of the Company, has undertaken no less than 15 hours of professional training to update his skills and knowledge.

INVESTOR RELATIONS

The Company has disclosed all necessary information to the shareholders in compliance with the Listing Rules and uses a number of formal communication channels to account to shareholders and investors for the Company. These include (i) the publication of interim and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchange views with the Board; (iii) meetings are held with media and investors periodically; (iv) the Company replies to enquiries from shareholders timely; (v) the Company's share registrar in Hong Kong serves the shareholders regarding all share registration matters; and (vi) the Company will publish voluntary announcement to keep the shareholders and potential investors of the Company informed of the latest business development of the Company and its subsidiaries as and when necessary.

The Company's annual general meeting provides a good opportunity for communications between the Board and its shareholders. Shareholders are encouraged to attend the annual general meeting. Notice of the annual general meeting and related papers are sent to shareholders at least 20 clear business days before the meeting and the said notice is also published on the Stock Exchange's website and the Company's website. The Chairman and Directors will answer questions on the Group's business at the meeting.

SHAREHOLDERS' RIGHTS

Putting forward proposals at general meetings

The annual general meeting and other general meetings of the Company are primary platform for communication between the Company and its shareholders. The Company shall provide shareholders with relevant information on the resolution(s) proposed at a general meeting in a timely manner in accordance with the Listing Rules. The information provided shall be reasonably necessary to enable shareholders to make an informed decision on the proposed resolution(s).

There are no provisions in the Company's articles of association or the Cayman Islands Companies Law for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the below paragraph.

As regards proposing a person for election as a director of the Company, please refer to the procedures posted on the Company's website.

Convening an extraordinary general meeting by shareholders

Pursuant to the articles of association of the Company, any one or more member(s) of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company by mail at Unit 408, 4/F, Citicorp Centre, 18 Whitfield Road, Hong Kong to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting forward enquiries to the Board

The Company has disclosed all necessary information to the shareholders in compliance with Listing Rules. Updated and key information of the Group is also available on the Company's website at http://www.irasia.com/listco/hk/alltronics/index.htm. The Company also replied the enquiries from shareholders timely. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries.

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company.

Note: The Company will not normally deal with verbal or anonymous enquiries.

Contact details

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

Unit 408, 4/F, Citicorp Centre, 18 Whitfield Road, Hong Kong
Fax: (852) 2977 5633
Email: roger.leung@alltronics.com.hk

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

CONSTITUTIONAL DOCUMENTS

There are no changes in the Company's constitutional documents during the year.

The Board of Directors (the "Board") is pleased to present its annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company acts as an investment holding company and provides corporate management services to its group companies. The principal activities of the subsidiaries as set out in note 1 to the consolidated financial statements are primarily the manufacture and trading of electronic products, plastic moulds, plastic and other components for electronic products, the trading of biodiesel products and provision of energy efficient gas stoves, and the provision of energy saving business solutions. On 15 April 2019, the transaction for the disposal of the Group's investment properties business was completed and the results of this business segment up to 15 April 2019 have been disclosed as a discontinued operation in the consolidated financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the consolidated financial statements.

BUSINESS REVIEW

Details of the activities during the year as required by Schedule 5 to the new Hong Kong Companies Ordinance (Cap. 622), including a review of the Group's business, an analysis of the Group's performance during the year using financial key performance indicators, a description of the principal risks and uncertainties facing the Group and an indication of the future development in the Group's business, are set out in the sections "Chairman's Statement" on pages 3 to 4 and "Management Discussion and Analysis" on pages 5 to 10 of this annual report, and the notes to the consolidated financial statements.

Particulars of important events affecting the Group that have occurred since the end of the reporting period can also be found in the abovementioned sections and the notes to the consolidated financial statements. The discussions on the Group's compliance with the relevant laws and regulations are set out on page 46 of this annual report. An account of the Company's relationship with its key stakeholders is included in the "Relationship with Employees, Customers and Suppliers" and "Substantial Shareholders' Interests and/or Short Positions in the Shares and Underlying Shares of the Company" on pages 47 and 52 of this annual report respectively.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Group has formulated some policies in accordance with international environmental standards and has adopted environmentally-friendly production by improving energy efficiency while reducing energy consumption and pollutant emissions. Production factories of the Group have passed the certification of ISO 9001 quality control system and ISO 14001 environmental management system.

Details of the environmental, social and governance of the Group are set out in the "Environmental, Social and Governance Report" on pages 14 to 31 of this annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group recognises the importance of compliance with the requirements of relevant laws and regulations. During the year, as far as the Board and management are aware of, there was no material breach or non-compliance with any applicable laws and regulations by the Group that has a significant impact on the businesses and operations of the Group.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands the importance of maintaining a good relationship with its employees, customers and suppliers to meet its immediate and long-term business goals. During the year, there were no material and significant disputes between the Group and its employees, customers and suppliers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of profit or loss on page 62 of this annual report.

During the year, the Company has not declared any dividend.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$383,000.

SHARES ISSUED DURING THE YEAR

Details of the movements in the share capital of the Company during the year ended 31 December 2019 are set out in note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, share premium is distributable to shareholders, subject to the condition that immediately following the date on which the distribution or dividend is proposed to be made, the Company is able to pay its debts as they fall due in the ordinary course of business. Distributable reserves of the Company as at 31 December 2019, calculated according to the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK$320,451,000 (2018: HK$333,072,000).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there was no restriction against such rights under the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years ended 31 December is set out on page 154 of this annual report.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year ended 31 December 2019 and the Company has not redeemed any of its shares during the year.

SHARE OPTIONS

Pursuant to an ordinary resolution of the shareholders of the Company passed at the Annual General Meeting held on 7 June 2016, a share option scheme (the "2016 Share Option Scheme") was approved and adopted. The purpose of the 2016 Share Option Scheme is to enable the Group to grant options to selected participants as incentive or rewards for their contributions or potential contributions to the Group.

For the purpose of the 2016 Share Option Scheme, participants include (i) any executive, non-executive or independent non-executive Director of the Group; (ii) any employee (whether full time or part time) of the Group; and (iii) any supplier and/or sub-contractor of the Group.

The total number of shares which may be allotted and issued upon exercise of all options to be granted under the 2016 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10 per cent. (the "General Scheme Limit") of the total number of shares on 7 June 2016, the date on which the 2016 Share Option Scheme was adopted.

The Company may seek approval of the shareholders in general meeting to refresh the General Scheme Limit such that the total number of shares which may be allotted and issued upon exercise of all options to be granted under the 2016 Share Option Scheme and any other share option schemes of the Company shall not exceed 10 per cent. of the issued share capital of the Company at the date of approval to refresh such limit.

Notwithstanding the above, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2016 Share Option Scheme and any other share option schemes of the Company shall not exceed 30 per cent. of the total number of shares of the Company in issue from time to time. No option may be granted under the 2016 Share Option Scheme and any other share option schemes of the Company if this will result in the aforesaid 30 per cent. limit being exceeded.

Unless with the approval of the shareholders in general meeting, the maximum number of shares issued and to be issued upon the exercise of the options granted to each participant (including both exercised and outstanding options) under the 2016 Share Option Scheme and other share option schemes of the Company in any twelve–month period shall not exceed 1 per cent. of the shares in issue.

An option must be exercised in accordance with the terms of the 2016 Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of the offer for the grant of the option is made, but shall end in any event not later than 10 years from the date on which the offer for the grant of the option is made, subject to the provisions for early termination thereof. The amount payable on acceptance of the grant of an option is HK$1.

Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is neither any performance target that needs to be achieved by a grantee before an option can be exercised nor any minimum period for which an option must be held before it can be exercised.

The subscription price in respect of each share issued under the 2016 Share Option Scheme shall be a price solely determined by the Directors but shall not be less than the highest of:

(i) the nominal value of a share;

(ii) the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date upon which the relevant option is accepted and deemed to be granted (the "Commencement Date"), which must be a business day;

(iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the Commencement Date.

The 2016 Share Option Scheme shall be valid and effective for a period of 10 years commencing from 7 June 2016, being the date on which the 2016 Share Option Scheme was adopted.

During the two years ended 31 December 2019 and 2018, there were no share options granted, exercised, cancelled or lapsed. As at 31 December 2019 and 2018, there were no outstanding share options issued under any share option scheme.

As at the date of this report, the total number of shares of the Company available for issue under the 2016 Share Option Scheme was 44,962,020, which represented approximately 4.8% of the issued share capital of the Company as at the date of this report.

DIRECTORS OF THE COMPANY

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

Executive Directors
Mr. Lam Yin Kee *(Chairman and Chief Executive)*
Ms. Yeung Po Wah
Ms. Liu Jing
Mr. Lam Chee Tai, Eric
Mr. So Kin Hung
Mr. Meng Fei *(executive duties suspended since 28 March 2019)*

Non-Executive Director
Mr. Fan, William Chung Yue

Independent Non-Executive Directors
Mr. Pang Kwong Wah
Mr. Yau Ming Kim, Robert
Mr. Yen Yuen Ho, Tony
Mr. Mr. Lin Kam Sui

In accordance with Articles 86(3) and 87 of the Company's Articles of Association, Mr. Lam Yin Kee, Ms. Liu Jing, Mr. Meng Fei and Mr. Lin Kam Sui shall retire at the forthcoming annual general meeting. All retiring directors, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Lam Yin Kee and Ms. Yeung Po Wah has entered into a service contract with the Company. Particulars of these contracts, except as indicated, are in all material respects identical and are summarised as follows:

(i) each service contract is of an initial term of three years commencing on 15 July 2005 and shall continue thereafter until terminated in accordance with the terms of the contracts. Under the contract, either party may terminate the contract at any time by giving to the other not less than three months' prior notice in writing;

(ii) the current monthly salary for each of Mr. Lam Yin Kee and Ms. Yeung Po Wah are HK$463,959 and HK$127,530 respectively, subject to discretionary bonus of not more than 10% of the Group's profit in aggregate; and

(iii) the Group provides directors' accommodation to Mr. Lam Yin Kee at a current monthly rental of HK$160,000.

Ms. Liu Jing was appointed for an initial term of three years commencing from 5 March 2016 and such appointment shall continue thereafter from year to year until terminated by either party with three month's notice in writing. The current monthly salary for Ms. Liu Jing is HK$55,125.

Mr. Meng Fei was appointed for an initial term of three years commencing from 1 June 2017 and such appointment shall continue thereafter from year to year until terminated by either party with three month's notice in writing. The current monthly salary for Mr. Meng fei is HK$52,500. Salary payment to Mr. Meng has been suspended from May 2019.

There are no service contracts between the Company and Mr. Lam Chee Tai, Eric and Mr. So Kin Hung in relation to their roles as executive Directors of the Company. The current monthly salary for Mr. Lam Chee Tai, Eric and Mr. So Kin Hung are HK$158,752 and HK$119,448 respectively.

Mr. Fan, William Chung Yue was appointed for an initial term of one year commencing from 17 June 2005 and such appointment shall continue thereafter from year to year until terminated by either party with one month's notice in writing. Mr. Yau Ming Kim, Robert was appointed as an independent non-executive Director of the Company from 1 September 2009. The appointment of Mr. Yau Ming Kim, Robert shall continue thereafter from year to year until terminated by either party with one month's notice in writing. Mr. Pang Kwong Wah was appointed as an independent non-executive Director of the Company from 21 June 2013. The appointment of Mr. Pang Kwong Wah shall continue thereafter from year to year until terminated by either party with one month's notice in writing. Mr. Yen Yuen Ho, Tony was appointed as an independent non-executive Director of the Company from 12 August 2016. The appointment of Mr. Yen Yuen Ho, Tony shall continue thereafter from year to year until terminated by either party with one month's notice in writing. Mr. Lin Kam Sui was appointed as an independent non-executive Director of the Company from 1 June 2017. The appointment of Mr. Lin Kam Sui shall continue thereafter from year to year until terminated by either party with one month's notice in writing.

Save as disclosed above, none of the Directors has entered into or has proposed to enter into any service contract with the Company or any member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE GROUP'S BUSINESS

Save as disclosed in this annual report, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries or its parent company was a party and in which a Director of the Company or the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 11 to 13 of this annual report.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2019, the interests and short positions of each Director and Chief Executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules were as follows:

(a) Ordinary shares of HK$0.01 each of the Company as at 31 December 2019

		Number of shares held				
		Personal interests	**Family interests**	**Corporate interests**	**Total**	**% of the issued share capital of the Company**
Mr. Lam Yin Kee	Long positions	6,082,922	–	439,740,000 *(Note 1)*	445,822,922	47.12
Ms. Yeung Po Wah	Long positions	–	445,822,922	–	445,822,922	47.12
Ms. Liu Jing	Long positions	95,509,600	–	–	95,509,600	10.09
Mr. Lam Chee Tai, Eric	Long positions	3,018,708	–	–	3,018,708	0.32

Notes:

1. 439,740,000 shares are owned by Profit International Holdings Limited, a company incorporated in the British Virgin Islands and is owned as to 95% by Mr. Lam Yin Kee and 5% by Ms. Yeung Po Wah. Ms. Yeung Po Wah is an executive Director of the Company and the spouse of Mr. Lam Yin Kee.

2. Mr. Lam Yin Kee and Ms. Yeung Po Wah are directors and beneficial owners of Profit International Holdings Limited.

3. Mr. Lam Chee Tai, Eric is the son of Mr. Lam Yin Kee and Ms. Yeung Po Wah.

(b) Share options of the Company as at 31 December 2019

None of the Directors and Chief Executives has held any share options as at 31 December 2019.

(c) Interests in an associated corporation, Profit International Holdings Limited (ordinary shares of US$1 each) as at 31 December 2019

		Number of shares held				
		Personal interests	Family interests	Corporate interests	Total	% of the issued share capital of the associated corporation
Mr. Lam Yin Kee	Long positions	950	–	–	950	95.0
Ms. Yeung Po Wah	Long positions	50	–	–	50	5.0

Save as disclosed above, at no time during the year, the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company, its specified undertakings and its associated corporations required to be disclosed pursuant to the SFO and the Hong Kong Companies Ordinance (Cap. 622).

Other than those interests and short positions disclosed above, the Directors and Chief Executives also hold shares of certain subsidiaries solely for the purpose of ensuring that the relevant subsidiary has more than one member.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO shows that as at 31 December 2019, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

		Number of shares held			
Name		Personal interests	Nature of interest	Total	% of the issued share capital of the Company
Profit International Holdings Limited	Long positions	439,740,000	Beneficially owned	439,740,000	46.48
Ms. Liu Jing	Long positions	95,509,600	Beneficially owned	95,509,600	10.09
Lijiang Investment Holdings Limited *(Note 1)*	Long positions	94,591,636	Beneficially owned	94,591,636	10.00

Name		Number of shares held: Personal interests	Nature of interest	Total	% of the issued share capital of the Company
China Huarong International Holdings Limited ("Huarong International") *(Note 1)*	Long positions	94,591,636	Interest of a controlled corporation	94,591,636	10.00
Huarong Real Estate Co., Ltd. (Huarong Real Estate") *(Note 1)*	Long positions	94,591,636	Interest of a controlled corporation	94,591,636	10.00
China Huarong Asset Management Co., Ltd. ("China Huarong") *(Note 1)*	Long positions	94,591,636	Interest of a controlled corporation	94,591,636	10.00
The Ministry of Finance of the People's Republic of China *(Note 1)*	Long positions	94,591,636	Interest of a controlled corporation	94,591,636	10.00

Note:

(1) 94,591,636 shares of the Company were beneficially owned by Lijiang Investment Holdings Limited which is wholly-owned by Huarong International. Huarong International is owned as to 88.1% by Huarong Real Estate, which is a wholly-owned subsidiary of China Huarong. The Ministry of Finance of the People's Republic of China has approximately 67.75% interests in the share capital of China Huarong. Therefore, Huarong International, Huarong Real Estate, China Huarong and The Ministry of Finance of the People's Republic of China are deemed to be interested in 94,591,636 shares of the Company in aggregate.

Save as disclosed above and so far as the Directors and Chief Executives of the Company are aware of, as at 31 December 2019, there were no other person, other than the Directors or Chief Executives of the Company, who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company in accordance with the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

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.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	2.6%
– five largest suppliers combined	11.6%
Sales	
– the largest customer	36.3%
– five largest customers combined	61.9%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in the major suppliers or customers noted above.

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 33 to the consolidated financial statements also constituted connected transactions under the Listing Rules, and are required to be disclosed in accordance with Chapter 14A of the Listing Rules. The following transactions between certain connected parties (as defined in the Listing Rules) and the Group have been entered into for which relevant announcements, if necessary, had been made by the Company in accordance with the requirements of the Listing Rules.

(1) Loans from an executive Director and a substantial shareholder

On 2 January 2019, Ms. Yeung Po Wah, being an executive Director and a substantial shareholder of the Company, entered into a loan agreement (the "Loan Agreement I") with Alltronics Tech. Mftg. Limited ("ATM"), being an indirect wholly-owned subsidiary of the Company. Pursuant to the Loan Agreement I, Ms. Yeung Po Wah has provided a loan of HK$20,000,000 (the "Loan I") to ATM for the period from 2 January 2019 to 1 June 2019. The Loan I was unsecured and carried interest at 6% per annum. The Loan I has been fully repaid with interest by ATM on 1 June 2019.

On 2 July 2019, Ms. Yeung Po Wah entered into another loan agreement (the "Loan Agreement II") with ATM. Pursuant to the Loan Agreement II, Ms. Yeung Po Wah has provided a loan of HK$10,000,000 (the "Loan II") to ATM for the period from 2 July 2019 to 1 December 2019. The Loan II was unsecured and carried interest at 6% per annum. The Loan II has been fully repaid with interest by ATM on 1 December 2019.

The Loan Agreement I and the Loan Agreement II constitute connected transactions of the Company under Chapter 14A of the Listing rules. As the Loan I and Loan II were provided for the benefits of the Group on normal commercial terms and no security over assets of the Group is granted in respect of these loans, the Loan Agreement I and Loan Agreement II are exempted from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

(2) Disposal of subsidiaries

During the year, the Group has disposed of the entire issued share capital of Bonroy Limited to Yingtai Holdings Limited (as "Purchaser") at a consideration of RMB100,000,000. Before disposal, Bonroy Limited was a wholly-owned subsidiary of the Group and together with its subsidiaries, were engaging in the business of holding investment properties for rental income. At the time of disposal, the Group has provided loans to a subsidiary of Bonroy Limited. The repayment of the consideration and the loans were irrevocably guaranteed by Luohe Yinge Industrial Group Company Limited (as "Guarantor") which is also a related party. The Purchaser and the Guarantor have the same controlling shareholder who is a family member of Mr. Meng Fei, being an executive Director of the Company whose executive duties were suspended since 28 March 2019. The disposal transaction constitutes a connected transaction of the Company pursuant to the Listing Rules. Details of the disposal transaction are set out in the circular dated 27 February 2019 issued by the Company, and notes 31 and 33 to the consolidated financial statements.

CONTINUING CONNECTED TRANSACTION

The Group has rented a quarter as directors' accommodation from Profit Home Investments Limited ("Profit Home") at a monthly rental of HK$150,000 for a period of two years from 1 April 2017 to 31 March 2019. On 31 March 2019, the Group entered into a renewal tenancy agreement with Profit Home for a period of two years commencing from 1 April 2019 to 31 March 2021, at a monthly rental of HK$160,000. Ms. Yeung Po Wah and Mr. Lam Chee Tai, Eric hold 60% and 20% of shareholding respectively and are directors of Profit Home. Ms. Yeung Po Wah is an executive Director of the Company and the spouse of Mr. Lam Yin Kee. Mr. Lam Chee Tai, Eric is an executive Director of the Company and the son of Mr. Lam Yin Kee and Ms. Yeung Po Wah. Therefore, the lease for renting the quarter constitutes a continuing connected transaction of the Group under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios calculated in relation to the above connected transaction is less than 5% and the total annual consideration payable is less than HK$3,000,000, the transaction qualifies as a de minimis transaction pursuant to Rule 14A.76(1) of the Listing Rules and is therefore exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The aforesaid continuing connected transaction has been reviewed by the independent non-executive Directors of the Company. The independent non-executive Directors confirmed that the aforesaid connected transaction was entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreement governing it on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's independent auditor was engaged to report on the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The independent auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transaction as disclosed above in accordance with paragraph 14A.56 of the Listing Rules. A copy of the independent auditor's letter has been provided by the Company to the Stock Exchange.

CORPORATE GOVERNANCE

During the year ended 31 December 2019, the Company complied with all the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules except for the following:

Code Provision A.2.1

Mr. Lam Yin Kee is the Chairman and the Chief Executive of the Company but the daily operation and management of the Company are monitored by the executive Directors as well as the senior management to ensure the balance of power and authority.

Further information is set out in the "Corporate Governance Report" on pages 32 to 45 of this annual report.

EMOLUMENT POLICY

The remuneration committee of the Company (the "Remuneration Committee") was established for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group having regard to the Group's operating results, individual performance and comparable market standard and practices. The Group's emolument policy is designed to attract, retain and motivate talented individuals to contribute to the success of its business. The emolument policy of the employees of the Group is formulated and reviewed by the Remuneration Committee on the basis of their merit, qualifications and competence. The Company has adopted a share option scheme as an incentive to the Directors and eligible employees, details of which are set out in the section headed "Share Options" above.

DIVIDEND POLICY

The Board may declare dividends after taking into account the Group's operations, earnings, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to the Company's constitutional documents and the applicable laws, including the approval of the shareholders of the Company. Future declarations of dividends may or may not be reflected from the Company's historical declarations of dividends and will be at the absolute discretion of the Board.

PERMITTED INDEMNITY PROVISIONS

During the year under review and up to the date of this report, the Company's Articles of Association provide that the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty in their offices, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any Director.

During the year under review and up to the date of this report, the Company has taken out and maintained appropriate insurance to cover potential legal actions against its Directors.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group or existed during the year ended 31 December 2019.

SUFFICIENCY OF PUBLIC FLOAT

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

INDEPENDENT AUDITOR

The consolidated financial statements for the year ended 31 December 2019 have been audited by Ernst & Young, Certified Public Accountants who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

Lam Yin Kee
Chairman
Hong Kong, 30 March 2020

TO THE MEMBERS OF ALLTRONICS HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Alltronics Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 62 to 153, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS OF OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Inventory provision	
As at 31 December 2019, the total inventories and the related provision for obsolete inventories amounted to HK$301.38 million and HK$24.49 million, respectively, which were material to the financial statements. The inventories of the Group were mainly finished electronic products, plastic moulds, plastic and other components for electronic products which might become obsolete because of rapid technological advancement. Management's assessment on the provision for obsolete inventories is based on assumptions, including assumptions on the forecasted inventory usage and estimated selling prices, which are affected by expected future market and sales orders. The accounting policies for and disclosures of inventory provision are included in notes 3, 4 and 21 to the consolidated financial statements.	We evaluated, amongst others, the analyses and assessments of the sales forecasts and sales prices prepared by management based on the existing contracts with the major customers. We also evaluated the expected future usage of inventories focusing on slow-moving and obsolete inventories. We tested a sample of inventory items to assess the cost basis and net realisable value of inventories. We also reviewed the basis for the inventory provision, the consistency in applying the provisioning policy and the rationale for the recording of any specific provisions.
Impairment assessment of goodwill	
As at 31 December 2019, the Group's goodwill relating to previous acquisitions amounted to HK$11.67 million, which was material to the consolidated financial statements. Management is required to perform goodwill impairment assessment on an annual basis under HKFRSs. The assessment procedures were significant to our audit because the process was complex and involved management judgements, and was based on assumptions such as the expected average gross margin, annual growth rates, expected market share, revenue and margin development that were affected by expected future market and economic conditions. The accounting policies for and disclosures of goodwill are included in notes 3, 4 and 17 to the consolidated financial statements.	We examined the Group's cash flows forecast of the relevant cash-generating unit ("CGU") by reviewing the accuracy of previous forecasts and the historic evidence supporting the underlying assumptions. Future cash flow assumptions such as the expected average gross margin, annual growth rates and expected market share were evaluated through comparison of historical performance, seeking corroborative evidence and enquiry with management in respect of key growth and assumptions. We involved our internal specialists in assessing the key parameters such as the discount rate and long term growth rate and performing an independent assessment on general market indicators. Further, we assessed the sufficiency of the sensitivity analysis performed by management and performed other sensitivity analysis focusing on the key assumptions.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Law Kwok Kee.

Ernst & Young
Certified Public Accountants

Hong Kong
30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CONTINUING OPERATIONS			
REVENUE	*6*	**1,260,847**	1,284,813
Cost of sales		**(1,077,272)**	(1,098,871)
Gross profit		**183,575**	185,942
Distribution costs		**(12,955)**	(18,648)
Administrative expenses		**(93,206)**	(96,921)
Other operating income, net		**4,478**	8,707
Share of profits and losses of associates		**(6,077)**	(1,750)
(Loss)/gain on deemed disposal of partial interests in an associate	*7*	**(397)**	17,963
Realised gain on disposal of partial interests in an associate	*7*	**–**	18,406
Impairment losses on financial assets, net	*7*	**(382,624)**	(328)
Finance income	*7*	**4,442**	3,728
Finance costs	*8*	**(17,266)**	(15,618)
(LOSS)/PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	*7*	**(320,030)**	101,481
Income tax expense	*11*	**(13,422)**	(22,561)
(LOSS)/PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**(333,452)**	78,920
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	*12*	**73,435**	28,813
(LOSS)/PROFIT FOR THE YEAR		**(260,017)**	107,733
Attributable to:			
Owners of the parent		**(262,040)**	104,241
Non-controlling interests		**2,023**	3,492
		(260,017)	107,733

	Note	**2019**	2018
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*14*		
Basic			
– For (loss)/profit for the year (HK cents)		**(27.70)**	11.02
– For (loss)/profit from continuing operations (HK cents)		**(35.46)**	7.97
Diluted			
– For (loss)/profit for the year (HK cents)		**(27.70)**	11.02
– For (loss)/profit from continuing operations (HK cents)		**(35.46)**	7.97

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
(LOSS)/PROFIT FOR THE YEAR	**(260,017)**	107,733
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(963)**	(29,507)
Reclassification adjustments for a foreign operation disposed of during the year	**11,438**	–
	10,475	(29,507)
Share of other comprehensive loss of an associate	**(682)**	–
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	**9,793**	(29,507)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Equity investment designated at fair value through other comprehensive income:	**(411)**	–
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	**(411)**	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**9,382**	(29,507)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(250,635)**	78,226
Attributable to:		
Owners of the parent	**(252,517)**	74,222
Non-controlling interests	**1,882**	4,004
	(250,635)	78,226

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*15*	**224,026**	238,660
Prepaid land lease payments	*16(a)*	**–**	1,570
Right-of-use assets	*16(b)*	**19,795**	–
Goodwill	*17*	**11,672**	11,672
Investments in associates	*18*	**40,060**	47,216
Prepayments, other receivables and other assets	*23*	**2,058**	13,110
Long term receivables	*19*	**624**	8,367
Equity investment designated at fair value through other comprehensive income	*20*	**1,831**	2,273
Deferred tax assets	*28*	**9,515**	2,006
Total non-current assets		**309,581**	324,874
CURRENT ASSETS			
Inventories	*21*	**276,890**	306,213
Trade receivables	*22*	**210,364**	246,469
Long term receivables – current portion	*19*	**20,253**	23,322
Prepayments, other receivables and other assets	*23*	**52,389**	302,939
Pledged deposits	*24*	**5,259**	6,569
Cash and cash equivalents	*24*	**61,381**	64,820
		626,536	950,332
Assets of a disposal group classified as held for sale	*12*	**–**	2,647,636
Total current assets		**626,536**	3,597,968
CURRENT LIABILITIES			
Trade and bills payables	*25*	**232,331**	246,440
Other payables and accruals	*26*	**73,672**	63,614
Deferred revenue		**1,463**	2,004
Tax payable		**23,029**	8,767
Interest-bearing bank and other borrowings	*27*	**254,199**	398,044
Lease liabilities	*16(c)*	**9,679**	–
		594,373	718,869
Liabilities directly associated with the assets classified as held for sale	*12*	**–**	2,621,453
Total current liabilities		**594,373**	3,340,322
NET CURRENT ASSETS		**32,163**	257,646
TOTAL ASSETS LESS CURRENT LIABILITIES		**341,744**	582,520

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT LIABILITIES			
Lease liabilities	*16(c)*	**8,804**	–
Deferred revenue		**958**	1,951
Deferred tax liabilities	*28*	**2,837**	789
Total non-current liabilities		**12,599**	2,740
Net assets		**329,145**	579,780
EQUITY			
Equity attributable to owners of the parent			
Share capital	*29*	**9,461**	9,461
Reserves	*30*	**311,674**	564,191
		321,135	573,652
Non-controlling interests		**8,010**	6,128
Total equity		**329,145**	579,780

Lam Yin Kee
Director

Yeung Po Wah
Director

	Attributable to owners of the parent									
	Share capital HK$'000 *(note 29)*	Share premium HK$'000 *(note 29)*	Capital reserve HK$'000	Statutory reserve HK$'000	Exchange reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018	9,461	277,388	5,799	22,498	2,297	42	229,251	546,736	2,124	548,860
Profit for the year	–	–	–	–	–	–	104,241	104,241	3,492	107,733
Other comprehensive income/(loss) for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	(30,019)	–	–	(30,019)	512	(29,507)
Total comprehensive income/(loss) for the year	–	–	–	–	(30,019)	–	104,241	74,222	4,004	78,226
Transfer from retained profits	–	–	–	2,069	–	–	(2,069)	–	–	–
Final 2017 dividend paid	–	–	–	–	–	–	(47,306)	(47,306)	–	(47,306)
At 31 December 2018	9,461	277,388*	5,799*	24,567*	(27,722)*	42*	284,117*	573,652	6,128	579,780

	Attributable to owners of the parent										
	Share capital HK$'000 *(note 29)*	**Share premium HK$'000** *(note 29)*	**Capital reserve HK$'000**	**Fair value reserve of financial assets at fair value through other comprehensive income HK$'000**	**Statutory reserve HK$'000**	**Exchange reserve HK$'000**	**Capital redemption reserve HK$'000**	**Retained profits HK$'000**	**Total HK$'000**	**Non-controlling interests HK$'000**	**Total equity HK$'000**
At 1 January 2019	**9,461**	**277,388**	**5,799**	**-**	**24,567**	**(27,722)**	**42**	**284,117**	**573,652**	**6,128**	**579,780**
(Loss)/profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(262,040)**	**(262,040)**	**2,023**	**(260,017)**
Other comprehensive income/(loss) for the year:											
Changes in fair value of an equity investment at fair value through other comprehensive income, net of tax	**-**	**-**	**-**	**(411)**	**-**	**-**	**-**	**-**	**(411)**	**-**	**(411)**
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**-**	**-**	**(822)**	**-**	**-**	**(822)**	**(141)**	**(963)**
Share of other comprehensive loss of an associate	**-**	**-**	**-**	**-**	**-**	**(682)**	**-**	**-**	**(682)**	**-**	**(682)**
Disposal of a subsidiary	**-**	**-**	**-**	**-**	**-**	**11,438**	**-**	**-**	**11,438**	**-**	**11,438**
Total comprehensive income/(loss) for the year	**-**	**-**	**-**	**(411)**	**-**	**9,934**	**-**	**(262,040)**	**(252,517)**	**1,882**	**(250,635)**
Transfer from retained profits	**-**	**-**	**-**	**-**	**1,055**	**-**	**-**	**(1,055)**	**-**	**-**	**-**
At 31 December 2019	**9,461**	**277,388***	**5,799***	**(411)***	**25,622***	**(17,788)***	**42***	**21,022***	**321,135**	**8,010**	**329,145**

* These reserve accounts comprise the consolidated reserves of HK$311,674,000 (2018: HK$564,191,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax:			
From continuing operations		**(320,030)**	101,481
From a discontinued operation	*12*	**82,246**	94,712
Adjustments for:			
Finance costs	*8, 12*	**53,417**	132,799
Interest income	*7*	**(4,442)**	(3,728)
Depreciation	*7*	**20,469**	18,949
Depreciation of right-of-use assets/recognition of prepaid land lease payments	*7*	**20,487**	50
Share of profits and losses of associates		**6,077**	1,750
Loss/(gain) on deemed disposal of partial interests in an associate	*7*	**397**	(17,963)
Realised gain on disposal of partial interests in an associate	*7*	**–**	(18,406)
Amortisation of prepayments	*7*	**4,768**	4,038
Write-down of prepayments	*7*	**5,270**	–
Gain on changes in fair value of investment properties	*12*	**(8,601)**	(89,550)
Gain on disposal of a subsidiary	*31*	**(44,896)**	–
Loss on disposal of right-of-use assets	*16(d)*	**336**	–
Impairment of consideration receivable from the purchaser of a disposal group	*7*	**113,740**	–
Impairment of other receivables from a former subsidiary group	*7*	**255,439**	–
Impairment of other receivable from the purchaser of a disposal group	*7*	**5,985**	–
Gain on disposal of items of property, plant and equipment	*7*	**(18)**	(36)
Write-down/(write-back) of inventories to net realisable value	*7*	**16,224**	(8,945)
		206,868	215,151
Decrease/(increase) in inventories		**9,797**	(50,927)
Increase in trade receivables		**(298)**	(241,618)
Decrease in long term receivables		**3,069**	9,202
(Increase)/decrease in prepayments, other receivables and other assets		**(9,626)**	21,813
Decrease in deferred revenue		**(1,534)**	(2,914)
Decrease in trade and bills payables		**(12,671)**	(11,425)
(Decrease)/increase in trust receipt loans		**(1,049)**	213
Increase in other payables and accruals		**16,970**	103,982
Cash generated from operations		**211,526**	43,477
Interest received		**4,442**	3,728
Interest paid		**(53,417)**	(132,799)
Tax paid		**(11,617)**	(23,035)
Net cash flows from/(used in) operating activities		**150,934**	(108,629)

	Notes	2019 HK$'000	2018 HK$'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and intangible assets		**(8,071)**	(24,165)
Decrease in investments in associates		**–**	24,727
Decrease in long term receivables		**7,743**	9,437
Disposal of a subsidiary	*31*	**(26)**	–
Purchase of an equity investment designated at fair value through other comprehensive income		**–**	(2,273)
Proceeds from disposal of items of property, plant and equipment		**660**	3,925
Net cash flows from investing activities		**306**	11,651
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other borrowings		**109,577**	248,721
Repayments of bank loans and other borrowings		**(248,482)**	(198,044)
Dividend paid		**–**	(47,306)
Principal portion of lease payments/finance lease rental payments		**(19,690)**	(408)
Decrease in pledged deposits		**1,310**	2,151
Net cash flows (used in)/from financing activities		**(157,285)**	5,114
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(6,045)**	(91,864)
Cash and cash equivalents at beginning of year		**37,937**	152,930
Effect of foreign exchange rate changes, net		**5,425**	(23,129)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**37,317**	37,937
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	*24*	**61,381**	64,820
Bank overdrafts	*27*	**(24,064)**	(27,532)
Cash and short term deposits attributable to a discontinued operation	*12*	**–**	649
Cash and cash equivalents as stated in the consolidated statement of cash flows		**37,317**	37,937

1. CORPORATE AND GROUP INFORMATION

Alltronics Holdings Limited (the "Company") was incorporated in the Cayman Islands on 24 July 2003 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries are the manufacture and trading of electronic products, plastic moulds, plastic and other components for electronic products, the trading of biodiesel products and the provision of energy efficient gas stoves, and the provision of energy saving business solutions. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 15 July 2005.

The Group is controlled by Profit International Holdings Limited (incorporated in the British Virgin Islands), which owns 46.48% of the Company's issued shares as at 31 December 2019 (At 31 December 2018: 46.48%). In the opinion of the Directors, the Company's ultimate holding company is Profit International Holdings Limited and the ultimate controlling party is Mr. Lam Yin Kee.

Information about subsidiaries

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

Name	Place of incorporation/ registration and business operation	Issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct (%)	Indirect (%)	
Allcomm (H.K.) Limited	Hong Kong	2 ordinary shares totalling HK$2	–	100	Investment holding and trading of electronic products
Alltronics (BVI) Limited	The British Virgin Islands	100 ordinary shares of US$1 each	100	–	Investment holding in Hong Kong
Alltronics Energy Saving (Shenzhen) Limited**	PRC	Registered capital of HK$60,000,000	–	100	Provision of energy saving business solutions to customers
Alltronics Industries Limited	Hong Kong	1 ordinary share of HK$1	100	–	Investment holding in Hong Kong
Alltronics Project Limited	Hong Kong	100 ordinary shares totalling HK$100	100	–	Investment holding and energy saving business in Hong Kong

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business operation	Issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct (%)	Indirect (%)	
Alltronics Resources Limited	The British Virgin Islands	100 ordinary shares of US$1 each	100	–	Investment holding in Hong Kong
Alltronics Tech. Mftg. Limited	Hong Kong	500,000 ordinary shares totalling HK$500,000	–	100	Research and development, manufacture and trading of electronic products
Dynamic Progress International Limited	Hong Kong	10,000 ordinary shares totalling HK$10,000	–	51	Trading of biodiesel products and provision of energy efficient gas stoves
Shenzhen Allcomm Electronic Co. Ltd.**	The People's Republic of China ("PRC")	Registered capital of US$2,500,000	–	100	Manufacture of electronic products
Sino Growth Holdings Limited	The British Virgin Islands	1 ordinary shares of US$1	100	–	Investment holding
Southchina Engineering and Manufacturing Limited	Hong Kong	1,000,000 ordinary shares totalling HK$1,000,000	–	51	Trading of plastic moulds, plastic and electronic accessories
WT Technology Development Company Limited	Hong Kong	10,000 ordinary shares totalling HK$10,000	–	100	Investment holding in Hong Kong

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business operation	Issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct (%)	Indirect (%)	
南華匯盈科技發展(深圳)有限公司*/**	PRC	Registered capital of HK$12,000,000	–	51	Manufacture of plastic moulds, plastic and electronic accessories
宜春華訊電子製品有限公司**	PRC	Registered capital of RMB20,000,000	–	100	Manufacture of transformers, solenoids and other components for electronic products in the PRC

* These companies are subsidiaries of non-wholly-owned subsidiaries of the Company and, accordingly, are accounted for as subsidiaries by virtue of the Company's control over them.

** These companies are registered as wholly-foreign-owned enterprises under PRC law.

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a 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 obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of offices, warehouses, quarters, land, motor vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets and leases with a lease term of 12 months or less ("short-term leases"). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation of the right-of-use assets and interest accrued on the outstanding lease liabilities as finance costs.

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of HK$723,000 that were reclassified from property, plant and equipment.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

As a lessee – Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities measured under HKAS 17.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) HK$'000
Assets	
Increase in right-of-use assets	45,922
Decrease in property, plant and equipment	(723)
Decrease in prepaid land lease payments	(1,570)
Increase in total assets	43,629
Liabilities	
Decrease in interest-bearing bank and other borrowings	(423)
Increase in lease liabilities - current portion	18,787
Increase in lease liabilities - non-current portion	25,265
Increase in total liabilities	43,629

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	HK$'000
Operating lease commitments as at 31 December 2018	44,026
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(1,023)
Commitments relating to leases of low-value assets	(248)
Add: Payments for optional extension periods not recognised as at 31 December 2018	5,281
	48,036
Weighted average incremental borrowing rate as at 1 January 2019	4.54%
Discounted operating lease commitments at 1 January 2019	43,629
Add: Finance lease liabilities recognised as at 31 December 2018	423
Lease liabilities as at 1 January 2019	44,052

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates or joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on financial position or performance of the Group.

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

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

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

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

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

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

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

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

Fair value measurement

The Group measures its investment properties at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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

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

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

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

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

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

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

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

Buildings	2%–20% or over the lease terms, whichever is shorter
Leasehold improvements	16.67%–20% or over the lease terms, whichever is shorter
Plant and machinery	9%–20%
Motor vehicles	9%–20%
Office equipment	8%–20%
Furniture and fixtures	9%–20%

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset (2018: leasehold property under an operating lease) which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (applicable from 1 January 2019)

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

Group as a lessee

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

(a) Right-of-use assets

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

Leasehold land	50 years
Land and buildings	2 to 10 years
Motor vehicles	4 to 5 years

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

(b) Lease liabilities

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (applicable from 1 January 2019) (Continued)

Group as a lessee (Continued)

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

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

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

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

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

Financial assets at fair value through profit or loss

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

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

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss.

Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

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

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

Impairment of financial assets

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

General approach

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1	–	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	–	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	–	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

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

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, and interest-bearing bank and other borrowings.

Subsequent measurement

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

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

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

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

Government grants

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

Revenue recognition

Revenue from contracts with customers

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

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

(a) Sale of electronic products

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

Some contracts for the sale of electronic products provide customers with rights of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

(b) Rental income

Rental income is recognised on the straight-line basis over the lease terms.

(c) Maintenance service income

Maintenance service income is recognised on a straight-line basis over the terms of the maintenance contracts.

Other income

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

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee retirement benefits

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

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

Borrowing costs

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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

Foreign currencies

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

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

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Property lease classification – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all the fair value of the commercial property, that it retains substantially all the significant risks and rewards incidental to ownership of these properties which are leased out and accounts for the contracts as operating leases.

Income taxes

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

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was HK$11,672,000 (2018: HK$11,672,000). Further details are given in note 17 to the financial statements.

Provision for expected credit losses on trade receivables and other receivables

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Provision for expected credit losses on trade receivables and other receivables (Continued)

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and other receivables is disclosed in note 22 and note 23 to the financial statements, respectively.

Leases – Estimating the incremental borrowing rate

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

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the dates of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amount of investment properties at 15 April 2019, being the completion date of disposal of Bonroy Limited and its subsidiaries (the "Bonroy Group"), was HK$2,384,498,000 (At 31 December 2018: HK$2,314,214,000) (notes 12 & 31).

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a discounted cashflow model as detailed in note 35 to the financial statements. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2019 was HK$1,831,000 (2018: HK$2,273,000). Further details are included in note 20 to the financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Provision for inventories

The Group makes provision for inventories based on consideration of obsolescence of raw materials and the net realisable value of finished goods. The identification of inventory obsolescence and estimated selling price in the ordinary course of business require the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and provision in the year in which such estimate is changed. Further details are given in note 21 to the financial statements.

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end based on changes in circumstances. The carrying amounts of property, plant and equipment at 31 December 2019 and 2018 were HK$224,026,000 and HK$238,660,000, respectively. Further details are given in note 15 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 28 to the financial statements.

Impairment of non-financial assets (other than goodwill)

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

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) the electronic products segment – the manufacture and trading of electronic products, plastic moulds, plastic and other components for electronic products;

(b) the biodiesel products segment – the trading of biodiesel products and provision of energy efficient gas stoves in Hong Kong; and

(c) the energy saving business segment – the provision of energy saving business solutions to customers.

On 15 April 2019, the Group has completed the disposal of its entire investment properties business which is regarded as a discontinued operation in these consolidated financial statements. The segment information of the discontinued operation is set out in note 12.

Management assesses the performance of the operating segments based on a measure of operating profit/loss (before interest and tax and unallocated operating costs).

All sales between segments are eliminated on consolidation. All segment revenue reported is derived from external parties.

Segment assets exclude cash and cash equivalents, prepayments and deposits and tax recoverable as these assets are managed on a group basis.

Segment liabilities exclude accruals and other payables as these liabilities are managed on a group basis.

5. OPERATING SEGMENT INFORMATION (Continued)

	Electronic products HK$'000	Biodiesel products HK$'000	Energy saving business HK$'000	Total HK$'000
Year ended 31 December 2019				
Segment revenue *(note 6)*				
Sales to external customers	1,255,843	3,431	39	1,259,313
Revenue from services	–	–	1,534	1,534
Revenue from continuing operations	1,255,843	3,431	1,573	1,260,847
Segment results				
Operating profit/(loss) before interest and tax	100,437	(1,224)	(18,764)	80,449
Share of profits and losses of associates	(6,077)	–	–	(6,077)
Loss on deemed disposal of partial interests in an associate	(397)	–	–	(397)
Finance costs (other than lease liabilities)	(15,897)	–	–	(15,897)
Finance income	1,648	–	2,794	4,442
Income tax expense	(21,018)	–	7,596	(13,422)
	58,696	(1,224)	(8,374)	49,098
Unallocated operating costs				(382,550)
Loss for the year from continuing operations				(333,452)
Segment assets	881,923	2,914	40,561	925,398
Unallocated:				
Cash and cash equivalents				95
Prepayments and deposits				10,624
Total assets				936,117
Segment liabilities	582,720	1,015	3,206	586,941
Unallocated:				
Other payables and accruals				8,845
Tax payable				11,186
Total liabilities				606,972
Other segment information:				
Investments in associates	40,060	–	–	40,060
Depreciation and amortisation	(39,912)	(275)	(5,537)	(45,724)
Capital expenditure*	7,824	–	2	7,826
Loss on deemed disposal of partial interests in an associate	(397)	–	–	(397)

* Capital expenditure consists of additions of property, plant and equipment.

5. OPERATING SEGMENT INFORMATION (Continued)

	Electronic products HK$'000	Biodiesel products HK$'000	Energy saving business HK$'000	Total HK$'000
Year ended 31 December 2018				
Segment revenue *(note 6)*				
Sales to external customers	1,277,160	4,161	992	1,282,313
Revenue from services	–	–	2,500	2,500
Revenue from continuing operations	1,277,160	4,161	3,492	1,284,813
Segment results				
Operating profit/(loss) before interest and tax	94,430	402	(9,120)	85,712
Share of profits and losses of associates	(1,750)	–	–	(1,750)
Gain on deemed disposal of partial interests in an associate	17,963	–	–	17,963
Realised gain on disposal of partial interests in an associate	18,406	–	–	18,406
Finance costs	(15,613)	–	(5)	(15,618)
Finance income	1,317	–	2,411	3,728
Income tax expense	(22,561)	–	–	(22,561)
	92,192	402	(6,714)	85,880
Unallocated operating costs				(6,960)
Profit for the year from continuing operations				78,920
Segment assets	970,186	3,308	70,582	1,044,076
Unallocated:				
Cash and cash equivalents				827
Prepayments and deposits				230,303
Assets related to a discontinued operation				2,647,636
Total assets				3,922,842
Segment liabilities	716,100	196	4,336	720,632
Unallocated:				
Other payables and accruals				977
Liabilities related to a discontinued operation				2,621,453
Total liabilities				3,343,062
Other segment information:				
Investments in associates	47,216	–	–	47,216
Depreciation and amortisation	(18,815)	(170)	(4,052)	(23,037)
Capital expenditure*	24,096	–	69	24,165
Gain on deemed disposal of partial interests in an associate	17,963	–	–	17,963
Realised gain on disposal of partial interests in an associate	18,406	–	–	18,406

* Capital expenditure consists of additions of property, plant and equipment.

5. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

(a) Revenue from external customers

	2019 **HK$'000**	2018 HK$'000
The United States	**601,445**	608,175
Hong Kong	**260,501**	307,000
Europe	**190,177**	228,146
Mainland China	**156,733**	100,008
Other overseas countries	**51,991**	41,484
	1,260,847	1,284,813

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

(b) Non-current assets

	2019 **HK$'000**	2018 HK$'000
Hong Kong	**226,356**	255,608
Mainland China	**73,710**	67,260
	300,066	322,868

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

Information about major customers

For the year ended 31 December 2019, revenues of approximately HK$457,685,000 (2018: HK$433,643,000) were derived from a single external customer. These revenues were attributable to the electronic products segment.

6. REVENUE

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2019

Segments	Electronic products HK$'000	Biodiesel products HK$'000	Energy saving business HK$'000	Total HK$'000
Type of goods or services				
Sale of industrial products	1,255,843	3,431	39	1,259,313
Maintenance services	–	–	1,534	1,534
Total revenue from contracts with customers	1,255,843	3,431	1,573	1,260,847
Timing of revenue recognition				
Goods transferred at a point in time	1,255,843	3,431	39	1,259,313
Services transferred over time	–	–	1,534	1,534
Total revenue from contracts with customers	1,255,843	3,431	1,573	1,260,847

6. REVENUE (Continued)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

For the year ended 31 December 2018

Segments	Electronic products HK$'000	Biodiesel products HK$'000	Energy saving business HK$'000	Total HK$'000
Type of goods or services				
Sale of industrial products	1,277,160	4,161	992	1,282,313
Maintenance services	–	–	2,500	2,500
Total revenue from contracts with customers	1,277,160	4,161	3,492	1,284,813
Timing of revenue recognition				
Goods transferred at a point in time	1,277,160	4,161	992	1,282,313
Services transferred over time	–	–	2,500	2,500
Total revenue from contracts with customers	1,277,160	4,161	3,492	1,284,813

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of industrial products

The performance obligation is satisfied upon delivery of the industrial products and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

Maintenance services

Maintenance service income is recognised on a straight-line basis over the terms of the maintenance contracts.

7. (LOSS)/PROFIT BEFORE TAX

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

	Notes	2019 HK$'000	2018 HK$'000
Cost of inventories sold and services provided		**723,889**	748,796
Depreciation of property, plant and equipment	*15*	**20,469**	18,949
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	*16(a), 16(b)*	**20,487**	50
Auditors' remuneration		**2,118**	2,148
Amortisation of prepayments		**4,768**	4,038
Write-down of prepayments		**5,270**	–
Write-down/(write-back) of inventories to net realisable value	*21*	**16,224**	(8,945)
Minimum lease payments under operating leases		**–**	16,230
Lease payments not included in the measurement of lease liabilities	*16(d)*	**384**	–
Directors' and chief executive's remuneration	*9*	**15,359**	15,847
Employee benefit expense (excluding directors' and chief executive's remuneration *(note 9)*):			
Wages and salaries		**220,582**	257,385
Pension scheme contributions		**1,047**	1,059
Staff welfare and allowances		**11,431**	14,412
		233,060	272,856
Impairment of consideration receivable from a related party which is the purchaser of a disposal group*	*33(b)*	**113,740**	–
Impairment of other receivables from a related party which is a former subsidiary group*	*33(b)*	**255,439**	–
Impairment of other receivable from a related party which is the purchaser of a disposal group*	*33(b)*	**5,985**	–
Gain on disposal of a subsidiary group	*31*	**44,896**	–
Impairment of long term receivables		**3,368**	–
Loss/(gain) on deemed disposal of partial interests in an associate^		**397**	(17,963)
Realised gain on disposal of partial interests in an associate#		**–**	(18,406)
Gain on disposal of property, plant and equipment		**(18)**	(36)
Foreign exchange differences, net		**(4,451)**	(7,163)
Impairment of trade receivables, net	*22*	**4,092**	328
Interest income from bank deposits		**(2,119)**	(1,346)
Interest income from long term receivables		**(2,323)**	(2,382)
Rental income	*16*	**(898)**	(748)

7. (LOSS)/PROFIT BEFORE TAX (Continued)

* The consideration and other receivable due from the purchaser of a disposal group and the balances due from the former subsidiary group had been overdue. The purchaser and the former subsidiary group are related parties (see note 33), which had defaulted in repayment of the consideration according to the terms as set out in the respective agreement and defaulted in repayment of the balances due to the Group, respectively (see notes 12 and 31 for details of the disposal). The Group is undergoing legal proceeding to recover these balances in full and in the discussion with its legal counsel to execute the guarantee. However, considering the recent financial position of the purchaser and the former subsidiary group, the Group had made full impairment provision against these balances at 31 December 2019.

^ Loss on deemed disposal of partial interests in an associate has been recorded as HK$397,000 due to the new investment in P2 Mobile Technologies Limited from other investors in 2019.

Gain on deemed disposal of partial interests in an associate has been recorded as HK$17,963,000 due to the new investment in Yichun Yilian Print Tech Co., Ltd. from other investors in 2018.

Realised gain on disposal of partial interests in an associate has been recorded as HK$18,406,000 due to the sale of 3,000 shares in P2 Mobile Technologies Limited in 2018.

8. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2019 HK$'000	2018 HK$'000
Interest on bank loans, overdrafts and other loans	**15,897**	15,594
Interest on lease liabilities/finance lease	**1,369**	24
Total finance costs	**17,266**	15,618

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2019 HK$'000	2018 HK$'000
Fees	**1,586**	1,848
Other emoluments		
Salaries, allowances and benefits in kind	**13,535**	13,259
Discretionary bonuses	**160**	650
Pension scheme contributions	**78**	90
	13,773	13,999
	15,359	15,847

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2019 HK$'000	2018 HK$'000
Mr. Yau Ming Kim, Robert	**317**	308
Mr. Pang Kwong Wah	**317**	308
Mr. Yen Yuen Ho, Tony	**317**	308
Mr. Lin Kam Sui	**317**	308
	1,268	1,232

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses[2] HK$'000	Estimated money value of other benefits[1] HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
2019						
Executive directors:						
Mr. Lam Yin Kee *(Note i)*	**–**	**5,720**	**160**	**1,890**	**18**	**7,788**
Ms. Yeung Po Wah	**–**	**1,594**	**–**	**–**	**18**	**1,612**
Ms. Liu Jing	**–**	**662**	**–**	**–**	**–**	**662**
Mr. So Kin Hung	**–**	**1,493**	**–**	**–**	**18**	**1,511**
Mr. Lam Chee Tai, Eric	**–**	**1,966**	**–**	**–**	**18**	**1,984**
Mr. Meng Fei *(Note ii)*	**–**	**210**	**–**	**–**	**6**	**216**
	–	**11,645**	**160**	**1,890**	**78**	**13,773**
Non-executive director:						
Mr. Fan, William Chung Yue	**318**	**–**	**–**	**–**	**–**	**318**
	318	**11,645**	**160**	**1,890**	**78**	**14,091**

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

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

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses[2] HK$'000	Estimated money value of other benefits[1] HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
2018						
Executive directors:						
Mr. Lam Yin Kee *(Note i)*	–	5,355	650	1,800	18	7,823
Ms. Yeung Po Wah	–	1,518	–	–	18	1,536
Ms. Liu Jing	–	662	–	–	–	662
Mr. So Kin Hung	–	1,422	–	–	18	1,440
Mr. Lam Chee Tai, Eric	–	1,872	–	–	18	1,890
Mr. Meng Fei *(Note ii)*	–	630	–	–	18	648
	–	11,459	650	1,800	90	13,999
Non-executive directors:						
Mr. Fan, William Chung Yue	308	–	–	–	–	308
Mr. Lau Fai Lawrence *(Note iii)*	308	–	–	–	–	308
	616	11,459	650	1,800	90	14,615

1 Other benefits represent rental paid by the Group for the quarters of the directors.

2 Discretionary bonuses are determined by the remuneration committee and the Board of the Company having regard to the Company's and individual directors' performance.

Notes:

(i) Mr. Lam Yin Kee is also the chief executive officer of the Group.

(ii) Mr. Meng Fei was appointed on 1 June 2017. The executive duties of Mr. Meng Fei have been suspended on 28 March 2019 and salary payment to Mr. Meng Fei has been suspended since May 2019.

(iii) Mr. Lau Fai Lawrence was appointed on 1 June 2017, and has resigned from the office effective from 31 December 2018.

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2018: two), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining three (2018: three) highest paid employees who are neither a director nor chief executive of the Company during the year are as follows:

	2019	2018
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**5,371**	4,959
Performance related bonuses	**–**	500
Pension scheme contributions	**54**	54
	5,425	5,513

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

	2019	2018
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**3**	3
HK$2,000,001 to HK$2,500,000	**–**	–
HK$2,500,001 to HK$3,000,000	**–**	–
	3	3

11. INCOME TAX

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

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for subsidiaries of the Group which are qualifying entities under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK$2,000,000 (2018: HK$2,000,000) of assessable profits of these subsidiaries is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. Pursuant to the PRC Income Tax Law and the respective regulations, the subsidiaries which operate in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% (2018: 25%) on the taxable income.

	2019 **HK$'000**	2018 HK$'000
Current – Mainland China	**11,673**	10,553
Current – Hong Kong	**8,066**	11,050
Overprovision in prior years	**(751)**	(263)
Deferred *(note 28)*	**(5,566)**	1,221
Total tax charge for the year from continuing operations	**13,422**	22,561
Total tax charge for the year from a discontinued operation *(note 12)*	**8,811**	65,899
Total tax charge for the year	**22,233**	88,460

11. INCOME TAX (Continued)

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

	2019		2018	
	HK$'000	**%**	HK$'000	%
(Loss)/profit before tax from continuing operations	**(320,030)**		101,481	
Profit before tax from a discontinued operation	**82,246**		94,712	
	(237,784)		196,193	
Tax at the statutory tax rates	**(39,234)**	**16.5**	32,372	16.5
Effect of different taxation rates in other countries	**16,564**	**(7.0)**	8,965	4.6
Effect of withholding tax related to disposal of a subsidiary *(note 12)*	**5,818**	**(2.4)**	–	–
Effect of withholding tax at 5% on the distributable profits of a Group's PRC subsidiary	**511**	**(0.2)**	564	0.3
Income not subject to tax	**(3,469)**	**1.5**	(8,179)	(4.2)
Expenses not deductible for tax	**10,110**	**(4.3)**	7,303	3.7
Overprovision in prior years	**(751)**	**0.3**	(263)	(0.1)
Tax losses not recognised	**42,129**	**(17.7)**	48,487	24.7
Utilisation of previously unrecognised tax losses	**(8,437)**	**3.5**	(876)	(0.4)
Others	**(1,008)**	**0.4**	87	–
Tax charge at the Group's effective tax rate	**22,233**	**(9.4)**	88,460	45.1
Tax charge from continuing operations at the effective rate	**13,422**		22,561	
Tax charge from a discontinued operation at the effective rate	**8,811**		65,899	

12. DISCONTINUED OPERATION

On 20 December 2018, the Group entered into a sale and purchase agreement for the disposal of the entire issued share capital of Bonroy Limited at a consideration of RMB100 million. Bonroy Limited was an indirectly wholly-owned subsidiary of the Company which recorded all of the Group's investment properties business. The investment properties business segment was reported as a discontinued operation in the Group's consolidated financial statements since the prior year.

On 20 March 2019, an extraordinary general meeting of the Company was held and the resolution for the disposal transaction of Bonroy Limited was duly approved by the shareholders of the Company. The disposal of the Bonroy Group was completed on 15 April 2019. Accordingly, as at 31 December 2019, the Group did not record any balance relating to disposal group held for sale. (As at 31 December 2018, the Bonroy Group was classified as a disposal group held for sale and as a discontinued operation.)

The consolidated results for the period from 1 January 2019 to the date of disposal and for the year ended 31 December 2018 from the discontinued investment properties business and the gain recognised from the disposal of Bonroy Group are set out below.

	2019	2018
	HK$'000	HK$'000
Revenue	**71,345**	249,339
Gain on changes in fair value of investment properties	**8,601**	89,550
Expenses	**(6,445)**	(126,996)
Finance costs	**(36,151)**	(117,181)
Profit from the discontinued operation	**37,350**	94,712
Gain recognised on disposal of discontinued operation *(note 31)*	**44,896**	–
Profit before tax from the discontinued operation	**82,246**	94,712
Income tax:		
Related to pre-tax profit	**(2,993)**	(65,899)
Related to gain recognised on disposal of discontinued operation *(note 11)*	**(5,818)**	–
Profit for the year from the discontinued operation	**73,435**	28,813

12. DISCONTINUED OPERATION (Continued)

The major classes of assets and liabilities of the Bonroy Group classified as held for sale as at 31 December are as follows:

	2019 HK$'000	2018 HK$'000
Assets		
Property, plant and equipment	–	117
Investment properties	–	2,314,214
Cash and cash equivalents	–	649
Trade receivables	–	241,618
Prepayments, other receivables and other assets	–	91,038
Assets classified as held for sale	–	2,647,636
Liabilities		
Other payables and accruals	–	(141,361)
Due to the Group	–	(237,965)
Interest-bearing bank and other borrowings	–	(1,707,067)
Deferred tax liabilities	–	(535,060)
Liabilities directly associated with the assets classified as held for sale	–	(2,621,453)
Net assets directly associated with the disposal group	–	26,183

The net cash flows incurred by the Bonroy Group are as follows:

	2019 HK$'000	2018 HK$'000
Operating activities	(11,221)	(23,229)
Financing activities	10,598	23,086
Net cash outflow	(623)	(143)
Profit per share:		
Basic, from the discontinued operation	HK 7.76 cents	HK 3.05 cents
Diluted, from the discontinued operation	HK 7.76 cents	HK 3.05 cents

12. DISCONTINUED OPERATION (Continued)

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	2019	2018
Profit attributable to ordinary equity holders of the parent from the discontinued operation	**HK$73,435,000**	HK$28,813,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation *(note 14)*	**946,116,360**	946,116,360
Weighted average number of ordinary shares used in the diluted earnings per share calculation *(note 14)*	**946,116,360**	946,116,360

As the Bonroy Group was disposed of prior to 31 December 2019, the assets and liabilities classified as held for sale are no longer included in the consolidated statement of financial position as at 31 December 2019. The Group has no obligation to repay the bank borrowings of the Bonroy Group.

13. DIVIDEND

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

14. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

The calculations of basic and diluted (loss)/earnings per share are based on:

	2019 HK$'000	2018 HK$'000
(Loss)/earnings		
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic (loss)/earnings per share calculation:		
From continuing operations	**(335,475)**	75,428
From a discontinued operation	**73,435**	28,813
(Loss)/profit attributable to ordinary equity holders of the parent	**(262,040)**	104,241

	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	**946,116,360**	946,116,360

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2019							
At 1 January 2019 (restated):							
Cost	200,618	7,635	25,097	80,095	65,034	16,922	395,401
Accumulated depreciation	(21,900)	(5,559)	(13,054)	(56,476)	(48,864)	(11,611)	(157,464)
Net carrying amount	178,718	2,076	12,043	23,619	16,170	5,311	237,937
At 31 December 2018, net of accumulated depreciation	178,718	2,076	12,043	23,619	16,170	6,034	238,660
Effect of adoption of HKFRS 16	–	–	–	–	–	(723)	(723)
At 1 January 2019, net of accumulated depreciation (restated):	178,718	2,076	12,043	23,619	16,170	5,311	237,937
Additions	–	1,121	1,157	1,774	2,321	1,453	7,826
Disposals	–	(22)	(95)	(238)	–	(258)	(613)
Depreciation *(note 7)*	(6,369)	(815)	(2,553)	(4,481)	(4,690)	(1,561)	(20,469)
Exchange realignment	–	(29)	(177)	(204)	(204)	(41)	(655)
At 31 December 2019, net of accumulated depreciation	172,349	2,331	10,375	20,470	13,597	4,904	224,026
At 31 December 2019:							
Cost	200,618	7,471	22,937	66,418	65,467	17,261	380,172
Accumulated depreciation	(28,269)	(5,140)	(12,562)	(45,948)	(51,870)	(12,357)	(156,146)
Net carrying amount	172,349	2,331	10,375	20,470	13,597	4,904	224,026

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2018								
At 31 December 2017 and at 1 January 2018:								
Cost	200,618	7,510	22,061	73,801	68,477	19,001	11,748	403,216
Accumulated depreciation	(15,532)	(5,335)	(14,257)	(57,274)	(58,327)	(12,376)	–	(163,101)
Net carrying amount	185,086	2,175	7,804	16,527	10,150	6,625	11,748	240,115
At 1 January 2018, net of accumulated depreciation	185,086	2,175	7,804	16,527	10,150	6,625	11,748	240,115
Additions	–	771	7,156	12,849	1,624	1,765	–	24,165
Assets included in a discontinued operation *(note 12)*	–	(105)	(12)	–	–	–	–	(117)
Disposals	–	(13)	(389)	(707)	(2,670)	(110)	–	(3,889)
Depreciation *(note 7)*	(6,368)	(668)	(2,117)	(4,044)	(3,674)	(2,078)	–	(18,949)
Transfers	–	–	–	–	11,081	–	(11,081)	–
Exchange realignment	–	(84)	(399)	(1,006)	(341)	(168)	(667)	(2,665)
At 31 December 2018, net of accumulated depreciation	178,718	2,076	12,043	23,619	16,170	6,034	–	238,660
At 31 December 2018:								
Cost	200,618	7,635	25,097	80,095	65,034	19,551	–	398,030
Accumulated depreciation	(21,900)	(5,559)	(13,054)	(56,476)	(48,864)	(13,517)	–	(159,370)
Net carrying amount	178,718	2,076	12,043	23,619	16,170	6,034	–	238,660

The net carrying amounts of the Group's fixed assets held under finance leases at 31 December 2018 was HK$557,000. The lease terms are between 4 and 5 years.

At 31 December 2019, the Group's leasehold property with a carrying amount of HK$172,300,000 (2018: HK$173,500,000) was pledged as security for the Group's bank loans, as further detailed in note 27(b) to the financial statements.

16. LEASES

The Group as a lessee

The Group has lease contracts for various offices, warehouses, quarters, land, motor vehicles and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of land and buildings generally have lease terms between 2 and 10 years, while motor vehicles generally have lease terms between 4 and 5 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) *Prepaid land lease payments (before 1 January 2019)*

	HK$'000
Carrying amount at 1 January 2018	1,620
Recognised during the year *(note 7)*	(50)
Carrying amount at 31 December 2018	1,570

The Group's leasehold land is situated in Shenzhen and held under a medium term lease.

(b) *Right-of-use assets*

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

	Prepaid land lease payments HK$'000	Land HK$'000	Buildings HK$'000	Motor vehicles HK$'000	Total HK$'000
As at 1 January 2019	**1,570**	**103**	**43,526**	**723**	**45,922**
Additions	–	–	1,695	–	1,695
Disposals	–	–	(7,220)	–	(7,220)
Depreciation charge	(50)	(56)	(19,855)	(526)	(20,487)
Exchange adjustments	–	(1)	(114)	–	(115)
As at 31 December 2019	**1,520**	**46**	**18,032**	**197**	**19,795**

At 31 December 2019, the Group's leasehold property with a carrying amount of HK$1,520,000 (2018: Nil) was pledged as security for the Group's bank loans, as further detailed in note 27(b) to the financial statements.

16. LEASES (Continued)

The Group as a lessee (Continued)

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 Lease liabilities HK$'000	2018 Finance lease payables HK$'000
Carrying amount at 1 January	**44,052**	831
New leases	**1,695**	–
Early termination	**(7,460)**	–
Accretion of interest recognised during the year	**1,369**	24
Payments	**(21,059)**	(432)
Exchange realignment	**(114)**	–
Carrying amount at 31 December	**18,483**	423
Analysed into:		
Current portion	**9,679**	423
Non-current portion	**8,804**	–

The maturity analysis of lease liabilities (2018: finance lease payables) is disclosed in note 36 to the financial statements.

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

	2019 HK$'000
Interest on lease liabilities	**1,369**
Depreciation charge of right-of-use assets	**20,487**
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales)	**282**
Expense relating to leases of low-value assets (included in cost of sales and administrative expenses)	**102**
Loss on disposal of right-of-use assets (included in other expense)	**336**
Total amount recognised in profit or loss	**22,576**

16. LEASES (Continued)

The Group as a lessor

The Group leases its buildings (note 15) in Hong Kong under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was HK$898,000 (2018: HK$748,000), details of which are included in note 7 to the financial statements.

At 31 December 2019, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 **HK$'000**	2018 HK$'000
Within one year	**898**	898
In the second to fifth years, inclusive	**2,842**	3,592
After five years	**–**	148
	3,740	4,638

17. GOODWILL

	2019 **HK$'000**	2018 HK$'000
At 1 January:		
Cost	**19,931**	19,931
Accumulated impairment	**(8,259)**	(8,259)
Net carrying amount	**11,672**	11,672
Cost at 1 January, net of accumulated impairment	**11,672**	11,672
Impairment during the year	**–**	–
Cost and net carrying amount at 31 December	**11,672**	11,672
At 31 December:		
Cost	**19,931**	19,931
Accumulated impairment	**(8,259)**	(8,259)
Net carrying amount	**11,672**	11,672

17. GOODWILL (Continued)

Impairment testing of goodwill

The net carrying amount of goodwill relates to the excess of consideration paid and the fair value of net assets acquired from the acquisition of one subsidiary, namely Southchina Engineering and Manufacturing Limited ("Southchina"). The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3 to the financial statements. Management considers Southchina as one separate industrial products cash-generating unit (the "CGU"). The recoverable amount of the CGU is determined based on a value-in-use calculation. This calculation uses pre-tax cash flow projections based on financial budgets of Southchina, approved by management covering a five-year period. The pre-tax discount rate of 13% (2018: 13%) has been applied to the cash flow projections for Southchina to reflect specific risks relating to the CGU.

Assumptions were used in the value in use calculation of the CGU for 31 December 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

(a) Budgeted turnover, operating expenses and finance costs were projected with reference to the expected earnings from the manufacture and trading of plastic moulds and plastic and electronic accessories for Southchina.

(b) For the business environment, there will be no change in the existing political, legal, regulatory, fiscal or economic conditions, bases or rates of taxation or duties in Hong Kong, or any other countries in which Southchina operates.

(c) Management determined budgeted gross margin based on past performance and its expectations for the market development. The discount rates used are pre–tax and reflect specific risks relating to the business.

The values assigned to the key assumptions on market development of the CGU, discount rates and purchase price inflation are consistent with external information sources.

In the opinion of the Company's directors, any reasonably possible change in the other key assumptions on which the recoverable amount is based would not cause the CGU's carrying amount to exceed its recoverable amount.

18. INVESTMENTS IN ASSOCIATES

	2019 HK$'000	2018 HK$'000
Share of net assets	**40,060**	47,216

Particulars of the associates are as follows:

Name	Particulars of issued shares held/registered capital contributed	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Yichun Yilian Print Tech Co., Ltd. ("Yichun Yilian")	Contributed RMB14,700,000 as registered capital	PRC/ Mainland China	40.40%	Manufacture of printers and accessory products and provision of printing service
P2 Mobile Technologies Limited ("P2MT")	5,778 ordinary shares	Hong Kong	19.89%	Wireless communication products and software development
Iotronics Wireless Limited ("Iotronics")	100 ordinary shares	Hong Kong	28.57%	Wireless communication products and software development
Good Smart Electronics Technology Limited ("Good Smart")	290 ordinary shares	Hong Kong	29.00%	Investment holding and trading

18. INVESTMENTS IN ASSOCIATES (Continued)

(i) Yichun Yilian

Yichun Yilian is a private limited liability company established on 7 November 2014. It is registered in Mainland China and is a technology company focusing on research, development and manufacture of intelligent laser printers.

The following table illustrates the summarised financial information in respect of Yichun Yilian adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2019 HK$'000	2018 HK$'000
Current assets	**207,931**	200,109
Non-current assets	**22,121**	24,749
Current liabilities	**(133,887)**	(123,155)
Net assets	**96,165**	101,703
Proportion of the Group's ownership	**40.40%**	40.40%
Carrying amount of the investment	**38,852**	41,089

	2019 HK$'000	2018 HK$'000
Revenue	**65,022**	60,485
(Loss)/profit for the year	**(3,851)**	2,675
Other comprehensive loss	**(1,687)**	(4,308)
Total comprehensive loss for the year	**(5,538)**	(1,633)

(ii) The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2019 HK$'000	2018 HK$'000 (Restated)
Share of the associates' loss for the year	**(4,522)**	(2,919)
Share of the associates' total comprehensive loss	**(4,522)**	(2,919)
Aggregate carrying amount of the Group's investments in the associates	**1,208**	6,127

19. LONG TERM RECEIVABLES

	2019 HK$'000	2018 HK$'000
Non-current		
Gross receivables	**791**	11,305
Less: unearned income	**(167)**	(2,938)
	624	8,367
Current		
Gross receivables	**22,726**	25,645
Less: unearned income	**(2,473)**	(2,323)
	20,253	23,322
Total receivables	**20,877**	31,689

Long term receivables represent the present value of the income receivables under the energy management contracts. The difference between the gross receivable and the present value of the receivable is recognised as unearned income.

20. EQUITY INVESTMENT DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 HK$'000	2018 HK$'000
Equity investment designated at fair value through other comprehensive income		
Unlisted equity investment, at fair value		
Shenzhen Leaftec Limited	**1,831**	2,273
	1,831	2,273

The above equity investment was irrevocably designated at fair value through other comprehensive income as the Group considers this investment to be strategic in nature.

21. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	**182,961**	191,273
Work in progress	**55,151**	52,354
Finished goods	**63,272**	74,554
	301,384	318,181
Provision against slow-moving and obsolete inventories	**(24,494)**	(11,968)
	276,890	306,213

22. TRADE RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables	**215,185**	247,485
Impairment	**(4,821)**	(1,016)
	210,364	246,469

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 to 90 days. As at 31 December 2019, the Group's largest customer accounted for approximately 22.1% of total trade receivables (31 December 2018: 19.3%). This customer has long term trading relationship with the Group with no defaults in the past and hence the Group does not consider there is any significant credit risk in this regard. The Group's other trade receivables relate to a large number of diversified customers. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the year, based on the invoice date, is as follows:

	2019 HK$'000	2018 HK$'000
Within 1 month	**133,396**	116,906
1 to 2 months	**42,631**	77,449
2 to 3 months	**19,652**	37,841
Over 3 months	**14,685**	14,273
	210,364	246,469

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

	2019 HK$'000	2018 HK$'000
At beginning of year	**(1,016)**	(688)
Impairment losses, net *(note 7)*	**(4,092)**	(328)
Amount written off as uncollectible	**287**	–
At end of year	**(4,821)**	(1,016)

22. TRADE RECEIVABLES (Continued)

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

The increase (2018: increase) in the loss allowance was due to the following significant changes in the gross carrying amount:

(i) Increase in the loss allowance of HK$1,204,000 (2018: Nil) as a result of increase in doubtful trade receivables which were assessed individually;

(ii) Increase in the loss allowance of HK$2,888,000 as a result of the changes in ECLs which were caused by the changes in historical observed default rates and forecast economic conditions; and

(iii) Decrease in the loss allowance of HK$287,000 (2018: Nil) as a result of the write-off of certain trade receivables.

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

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

As at 31 December 2019

	Ageing			
	Less than 1 year	**1 to 2 years**	**Over 3 years**	**Total**
Expected credit loss rate	**0.27%**	**25.74%**	**100%**	**2.24%**
Gross carrying amount (HK$'000)	**202,654**	**11,118**	**1,413**	**215,185**
Expected credit losses (HK$'000)	**546**	**2,862**	**1,413**	**4,821**

As at 31 December 2018

	Ageing			
	Less than 1 year	1 to 2 years	Over 3 years	Total
Expected credit loss rate	0.06%	25.74%	92.59%	0.41%
Gross carrying amount (HK$'000)	245,574	1,344	567	247,485
Expected credit losses (HK$'000)	145	346	525	1,016

As at 31 December 2019, the Group's trade receivables of approximately HK$0.6 million (2018: HK$0.8 million) were pledged with banks to secure banking facilities granted to the Group (note 27(b)).

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 HK$'000	2018 HK$'000
Non-current assets		
Prepayments	**2,058**	10,064
Deposits and other receivables	**–**	3,046
	2,058	13,110
Current assets		
Prepayments	**10,843**	14,036
Deposits and other receivables	**14,918**	25,380
Loans to associates *	**25,704**	24,920
Due from non-controlling shareholders of a subsidiary	**924**	638
Receivable relating to the consideration for the disposal of Bonroy Limited (note 33(b))	**111,857**	–
Other receivable due from a related party, the Purchaser of the Bonroy Group (note 33(b))	**5,985**	–
Other receivables due from the former subsidiary group, Bonroy Group (note 33(b))	**237,194**	–
Due from a disposal group classified as held for sale	**–**	237,965
	407,425	302,939
Impairment of other receivables	**(355,036)**	–
Current portion	**52,389**	302,939

* Details of loans to associates are as follows:

(i) the loans of HK$4,450,000 and HK$1,000,000 granted to P2MT bear interest at 8% per annum and 3% per annum respectively and are repayable within one year (31 December 2018: HK$4,450,000 at 8 % and HK$1,000,000 at 3% respectively). During the year, the interest income generated from the loans was HK$386,000 (2018: HK$204,000);

(ii) a loan of HK$7,830,000 (31 December 2018: HK$7,955,000) granted to Yichun Yilian bears interest at 4.35% per annum and is repayable within one year. During the year, the interest income generated from the loan was HK$356,000 (2018: HK$618,000);

(iii) a loan of HK$909,000 (31 December 2018: Nil) granted to Yichun Yilian bears interest at 2% per annum and is repayable within one year. During the year, the interest income generated from the loan was HK$15,000 (2018: Nil).

(iv) a loan of HK$1,745,000 (31 December 2018: HK$1,745,000) granted to Iotronics is non-interest-bearing and repayable on demand; and

(v) a loan of HK$9,770,000 (31 December 2018: HK$9,770,000) granted to Good Smart is non-interest-bearing and repayable on demand.

As at 31 December 2019, financial assets included in prepayments, other receivables and other assets were in Stage 1 and 3, and a provision for impairment of HK$355,036,000 was provided. Details of impairment assessment of financial assets included in prepayments, other receivables and other assets for the years ended 31 December 2019 and 2018 are set out in note 36.

The carrying amounts of the remaining other receivables that were neither past due nor impaired relate to other debtors for whom there was no recent history of default.

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2019 **HK$'000**	2018 HK$'000
Cash and bank balances	**61,062**	64,820
Time deposits	**5,578**	6,569
	66,640	71,389
Less: Pledged time deposits for bank and other borrowings *(note 27 (b))*	**(5,259)**	(6,569)
Cash and cash equivalents	**61,381**	64,820
Cash and bank balances denominated in		
— Renminbi ("RMB")	**22,412**	29,719
— United States dollars ("US$")	**35,512**	28,461
— HK$	**3,278**	6,564
— Other currencies	**179**	76
Cash and cash equivalents	**61,381**	64,820

The RMB is not freely convertible into other currencies. However, under PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of 3 to 6 months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

As at 31 December 2019, the Group's fixed deposits denominated in HK$ of approximately HK$4.3 million (as at 31 December 2018: HK$4.6 million) and bank deposits denominated in US$ of approximately HK$1 million (as at 31 December 2018: HK$2 million) were pledged with banks to secure banking facilities granted to the Group (note 27(b)).

25. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the year, based on the invoice date, is as follows:

	2019 HK$'000	2018 HK$'000
Within 1 month	**105,930**	92,005
1 to 2 months	**86,161**	93,184
2 to 3 months	**33,550**	49,829
Over 3 months	**6,690**	11,422
	232,331	246,440

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days.

26. OTHER PAYABLES AND ACCRUALS

	Notes	2019 HK$'000	2018 HK$'000
Receipt in advance		**371**	323
Contract liabilities	*(a)*	**12,114**	10,165
Other payables	*(b)*	**17,688**	10,275
Salary and welfare payables		**33,370**	32,621
Accruals		**10,129**	10,230
		73,672	63,614

Notes:

(a) Details of contract liabilities are as follows:

	31 December 2019 HK$'000	31 December 2018 HK$'000
Short-term advances received from customers		
Sale of goods	**12,114**	10,165

Contract liabilities include short-term advances received to deliver industrial products.

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

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2019			1 January 2019	31 December 2018		
	Effective interest rate (%)	Maturity	HK$'000	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current							
Bank overdraft – secured	**0–1 over prime rate**	**On demand**	**5,336**	4,598	0–1 over prime rate	On demand	4,598
Bank overdraft – unsecured	**0–1 under prime rate & 2.35 over HIBOR**	**On demand**	**18,728**	22,934	0–1 under prime rate & 2.35 over HIBOR	On demand	22,934
Trust receipt loans – secured	**2–2.25 over HIBOR**	**On demand**	**1,404**	2,453	2–2.25 over HIBOR	On demand	2,453
Bank loans – secured	**1.55–3 over HIBOR**	**On demand**	**83,496**	70,168	1.55–3 over HIBOR	On demand	70,168
Bank loans – unsecured	**1–3.5 over HIBOR**	**On demand**	**145,235**	297,468	1–3.5 over HIBOR	On demand	297,468
Finance lease payables			**–**	–	3.9	2019	423
			254,199	397,621			398,044
Non-current			**–**	–			–
			254,199	397,621			398,044

(a) The Group's bank overdrafts, trust receipt loans and bank loans were due for repayment as follows:

	2019 HK$'000	2018 HK$'000
Analysed into:		
Bank and other loans repayable:		
Within one year	**197,664**	332,489
In the second year	**56,535**	8,597
In the third to fifth years	**–**	56,535
	254,199	397,621

The amounts due set out above are based on the scheduled repayment dates set out in the loan agreements without considering any repayment on demand clause.

27. INTEREST–BEARING BANK AND OTHER BORROWINGS (Continued)

(a) (Continued)

Some of the banking facilities are subject to the fulfilment of covenants relating to certain financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the drawn down facilities would become repayable on demand. In addition, certain of the Group's bank loan arrangements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations. The total amount of HK$56,535,000 as at year end have been reclassified to current portion due to the repayment on demand clause.

As at 31 December 2019, certain of the covenants under the bank loan facility agreements for bank loans with an aggregate amount of HK$37 million were not satisfied but waivers were obtained subsequent to the end of the reporting period. The Group regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of the bank loans and does not consider it probable that the respective banks will exercise their discretion to demand repayment for so long as the Group continues to meet these requirements. During the year ended 31 December 2019, none of the lenders had exercised their rights to demand immediate repayment of the drawn down facilities, either at their sole discretion or due to any breach of covenants.

At 31 December 2019, total borrowings of the Group amounted to HK$197.6 million were denominated in Hong Kong dollars, HK$23.0 million were denominated in RMB and HK$33.6 million were denominated in United States dollars respectively.

(b) The bank and other borrowings were secured by the following:

(i) the pledge of the Group's fixed deposits denominated in HK$ of approximately HK$4.3 million (as at 31 December 2018: HK$4.6 million) and bank deposits denominated in US$ of approximately HK$1 million (as at 31 December 2018: HK$2 million);

(ii) the Group's trade receivables of HK$0.6 million (as at 31 December 2018: HK$0.8 million);

(iii) the Group's leasehold property of HK$172.3 million (as at 31 December 2018: HK$173.5 million);

(iv) the Group's right-of-use assets in Shenzhen of HK$1.5 million (as at 31 December 2018: Nil); and

(v) the banking facilities granted to a subsidiary, Southchina, were also secured by personal guarantees given by its non-controlling shareholders.

(c) As at 31 December 2019, the Group's total available banking facilities amounted to approximately HK$497 million (as at 31 December 2018: HK$560 million), of which approximately HK$178 million (as at 31 December 2018: HK$163 million) was unutilised.

(d) As at 31 December 2019, the Group's finance lease liabilities were fully repaid.

28. DEFERRED TAX

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

Deferred tax assets

	Depreciation allowance in excess of related depreciation HK$'000	Provision HK$'000	Loss available for offsetting against future taxable profits HK$'000	Total HK$'000
At 1 January 2018	1,354	3,754	–	5,108
Deferred tax charged to the statement of profit or loss during the year *(note 11)*	–	(2,067)	–	(2,067)
Gross deferred tax assets at 31 December 2018 and 1 January 2019	1,354	1,687	–	3,041
Deferred tax credited to the statement of profit or loss during the year *(note 11)*	34	7,270	841	8,145
Exchange differences	–	(93)	(12)	(105)
Gross deferred tax assets at 31 December 2019	1,388	8,864	829	11,081

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of investment properties HK$'000	Excess rental revenue recognised for future HK$'000	Total HK$'000
At 1 January 2018	578	497,735	–	498,313
Exchange differences	–	(26,929)	(1,644)	(28,573)
Deferred tax charged to the statement of profit or loss during the year *(note 11)*	1,246	25,309	40,590	67,145
Liabilities included in a discontinued operation	–	(496,115)	(38,946)	(535,061)
Gross deferred tax liabilities at 31 December 2018 and 1 January 2019	1,824	–	–	1,824
Deferred tax charged to the statement of profit or loss during the year *(note 11)*	2,579	–	–	2,579
Gross deferred tax liabilities at 31 December 2019	4,403	–	–	4,403

28. DEFERRED TAX (Continued)

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

	2019 HK$'000	2018 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**9,515**	2,006
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(2,837)**	(789)

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

	2019 HK$'000	2018 HK$'000
Tax losses	**343,658**	352,362

The above tax losses are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised. Except for the estimated tax losses of HK$22,413,000 (2018: HK$278,792,000) expiring within five years, the remaining tax losses have no expiry.

PRC withholding income tax of 10% shall be levied on the dividends declared by the companies established in the PRC to their foreign investors out of their profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are incorporated or operated in Hong Kong and fulfil the requirements to the tax treaty arrangements between the PRC and Hong Kong.

At 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$20,673,000 at 31 December 2019 (2018: HK$19,687,000).

29. SHARE CAPITAL

	2019 HK$'000	2018 HK$'000
Issued and fully paid:		
946,116,360 (2018: 946,116,360) ordinary shares	**9,461**	9,461

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

	Number of shares in issue	Share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2018	946,116,360	9,461	277,388	286,849
At 31 December 2018 and 1 January 2019	946,116,360	9,461	277,388	286,849
At 31 December 2019	946,116,360	9,461	277,388	286,849

30. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 67 of the financial statements.

Reserve fund

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

31. DISPOSAL OF A SUBSIDIARY GROUP

On 20 December 2018, the Group, Yingtai Holdings Limited being the purchaser (the "Purchaser") and Luohe Yinge Industrial Group Company Limited being the guarantor (the "Guarantor") entered into the sale and purchase agreement pursuant to which the Group disposed of the entire interests in Bonroy Limited to the Purchaser at a consideration of HK$116,836,000 (equivalent to RMB100,000,000) (the "Disposal"). The Disposal was completed on 15 April 2019 pursuant to the shareholders' approval at an extraordinary general meeting held on 20 March 2019. Bonroy Limited was classified as the disposal group held for sale since the prior year (see note 12).

Pursuant to the aforesaid sale and purchase agreement, the Disposal was subject to a guarantee executed by the Guarantor. The consideration was agreed by all parties to be settled by 15 January 2020 of HK$35,051,000 (equivalent to RMB30,000,000), by 15 July 2020 of HK$35,051,000 (equivalent to RMB30,000,000) and by 15 October 2020 of HK$46,734,000 (equivalent to RMB40,000,000).

The Purchaser and the Guarantor are both related parties to the Company as the controlling shareholder of the Purchaser and the Guarantor is a family member of Mr. Meng Fei who is an executive director of the Company with executive duties suspended on 28 March 2019 (note 9).

Upon completion of the Disposal, the Group recognised a gain on the disposal of this subsidiary group:

	2019 **HK$'000**
Net assets disposed of:	
Property, plant and equipment	**103**
Investment properties	**2,384,498**
Cash and cash equivalents	**26**
Trade receivables	**312,469**
Prepayments, other receivables and other assets	**110,393**
Other payables and accruals	**(188,173)**
Due to the Group	**(255,218)**
Interest-bearing bank and other borrowings	**(1,752,541)**
Deferred tax liabilities	**(551,055)**
	60,502
Exchange fluctuation reserve	**11,438**
	71,940
Gain on disposal of the subsidiary group *(note 12)*	**44,896**
	116,836
Satisfied by:	
Consideration receivable*	**116,836**

* As set out in note 7 to the financial statements, subsequent to the disposal, due to a change of facts and circumstances, the Group made an impairment against this receivable.

31. DISPOSAL OF A SUBSIDIARY (Continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the subsidiary group is as follows:

	2019 HK$'000
Cash consideration	–
Cash and bank balances disposed of	(26)
Net outflow of cash and cash equivalents in respect of the disposal of the subsidiary group	(26)

32. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting year:

	2019 HK$'000	2018 HK$'000
Contracted, but not provided for:		
Buildings	–	1,063
Plant and machinery	1,315	298
	1,315	1,361

(b) Operating lease commitments as at 31 December 2018

The Group leased various offices, warehouses and quarters under non-cancellable operating lease agreements. The leases had varying terms, escalation clauses and renewal rights.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK$'000
Within one year	19,258
In the second to fifth years, inclusive	22,129
After five years	2,639
	44,026

33. RELATED PARTY TRANSACTIONS AND BALANCES

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

For the year ended 31 December	Notes	2019 HK$'000	2018 HK$'000
Sales of LED lighting equipment to an associate, Yichun Yilian	*(i)*	–	23
Rental expenses paid to Profit Home Investments Limited	*(ii)*	–	1,800
Interest expenses on loans from a director	*(iii)*	750	400
Expenses paid to an associate, Yichun Yilian	*(iv)*	954	479
Interest income from associates:			
P2MT	*23(i)*	386	204
Yichun Yilian	*23(ii)&(iii)*	371	618

As at 31 December	Notes	2019 HK$'000	2018 HK$'000
Loans to associates:			
Good Smart	*23(v)*	9,770	9,770
Iotronics	*23(iv)*	1,745	1,745
P2MT	*23(i)*	5,450	5,450
Yichun Yilian	*23(ii)&(iii)*	8,739	7,955
		25,704	24,920

(i) Alltronics Energy Saving (Shenzhen) Limited, a wholly-owned subsidiary of the Group, sold LED lighting equipment to Yichun Yilian at a markup based on the mutual agreement between the parties.

(ii) Ms. Yeung Po Wah and Mr. Lam Chee Tai, Eric are executive directors of the Company, and have 60% and 20% equity interests in Profit Home Investments Limited, respectively. The rental was determined according to the negotiation with the counterparties. This related party transaction also constitutes a continuing connected transaction as defined in Chapter 14A of the Listing Rules.

(iii) ATM borrowed a loan from an executive director, Ms. Yeung Po Wah, with a principal amount of HK$20,000,000 for a period of 5 months from 2 January 2019 to 1 June 2019, which bore interest rate at 6% per annum, and further borrowed another loan with a principal amount of HK$10,000,000 for a period of 5 months from 2 July 2019 to 1 December 2019, which bore interest rate at 6% per annum (2018: with a principal amount of HK$20,000,000 for 3 months from 19 September 2018 to 18 December 2018, which bore interest rate at 8% per annum). These loans were repaid during the year ended 31 December 2019.

(iv) During the year, the expenses such as rental payment and utilities paid to Yichun Yilian by 宜春華訊電子製品有限公司 were HK$954,000 (2018: HK$479,000).

33. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Disposal of a subsidiary group and related balances

As set out in notes 7, 12 and 31 to the financial statements, during the year, the Group disposed of the Bonroy Group to Yingtai Holdings Limited (as "Purchaser") which is a related party. Pursuant to the relevant agreement, the disposal was guaranteed by Luohe Yinge Industrial Group Company Limited (as "Guarantor") which is also a related party. These two related parties have the same controlling shareholder who is the family member of Mr. Meng Fei, an executive director of the Company whose executive duties were suspended on 28 March 2019 (see notes 9 and 31).

As at 31 December 2019, the Group had the following balances due from the Purchaser and its former subsidiary group, the Bonroy Group:

As at 31 December		**2019** **HK$'000**
Receivable relating to the consideration for the disposal of Bonroy Limited	*Note (i)*	**111,857**
Other receivables due from the former subsidiary group, Bonroy Group	*Note (ii)*	**237,194**
Other receivable due from a related party, the Purchaser of Bonroy Limited	*Note (iii)*	**5,985**
Aggregate amounts due from these related parties		**355,036**
Less: provision for impairment	*Note 7*	**(375,164)**
Effect of exchange rate changes		**20,128**
Net exposure:		**–**

Notes:

(i) It represents the consideration for the disposal of Bonroy Limited payable by the Purchaser to the Group. The balance has been overdue.

(ii) These represent the outstanding balances due from the former subsidiary group, Bonroy Group, which have been overdue.

(iii) It represents the income tax related to gain recognised on disposal of Bonroy Limited borne by the Purchaser to the Group according to the sale and purchase agreement (see note 12), which was fully impaired together with the consideration (note (i)).

The Purchaser had defaulted in repayment of the consideration according to the terms as set out in the respective agreement. The balances due from this former subsidiary group, Bonroy Group, had been overdue. The Group is undergoing legal proceeding to recover these balances in full and in the discussion with its legal counsel to execute the guarantee. However, considering the recent financial position of the Purchaser and this former subsidiary group, the Group had made full impairment provision against these balances at 31 December 2019.

33. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) Compensation of key management personnel of the Group

	2019 HK$'000	2018 HK$'000
Fees	1,586	1,848
Salaries and other short-term employee benefits	26,055	28,151
Pension costs – defined contribution plans	240	252
Total compensation paid to key management personnel	27,881	30,251

Further details of directors' and the chief executive's emoluments are included in note 9 to the financial statements.

(d) The Group has a rental contract with Profit Home Investments Limited. At the reporting date, the Group had total lease liabilities with Profit Home Investments Limited under non-cancellable leases falling due as follows:

	2019 HK$'000	2018 HK$'000
Lease liabilities – current	1,859	–
Lease liabilities – non-current	477	–
	2,336	–

Under the rental contract, the minimum lease payment during the year was HK$1,890,000. As at 31 December 2019, the Group's right-of-use assets relating to such rental contract amounted to HK$2,281,000 (At 31 December 2018: Nil).

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the year are as follows:

2019

Financial assets

	Financial assets at fair value through other comprehensive income		
	Equity investment HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Trade receivables	–	210,364	210,364
Financial assets included in prepayments, other receivables and other assets	–	41,546	41,546
Cash and cash equivalents	–	61,381	61,381
Pledged deposits	–	5,259	5,259
Long term receivables	–	20,877	20,877
Equity investment designated at fair value through other comprehensive income	1,831	–	1,831
	1,831	339,427	341,258

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Interest-bearing bank and other borrowings	254,199
Trade and bills payables	232,331
Financial liabilities included in other payables and accruals	2,035
	488,565

34. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the year are as follows: (Continued)

2018

Financial assets

	Financial assets at fair value through other comprehensive income		
	Equity investment HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Trade receivables	–	246,469	246,469
Financial assets included in prepayments, other receivables and other assets	–	50,938	50,938
Cash and cash equivalents	–	64,820	64,820
Pledged deposits	–	6,569	6,569
Long term receivables	–	31,689	31,689
Equity investment designated at fair value through other comprehensive income	2,273	–	2,273
	2,273	400,485	402,758

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Interest-bearing bank and other borrowings	398,044
Trade and bills payables	246,440
Financial liabilities included in other payables and accruals	2,079
	646,563

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Equity investment designated at fair value through other comprehensive income	**1,831**	2,273	**1,831**	2,273
	1,831	2,273	**1,831**	2,273
Financial liabilities				
Interest-bearing bank loans and other borrowings	**254,199**	398,044	**254,199**	398,044
	254,199	398,044	**254,199**	398,044

Management has assessed that the fair values of cash and cash equivalents, pledged bank deposits, trade and bills receivables, financial assets included in prepayments, other receivables and other assets, trade and bills payables, financial liabilities included in other payables and accruals, and interest-bearing bank and other borrowings approximate to their respective carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the chief financial officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the chairman of the Company. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of long term receivables, interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2019 were assessed to be insignificant.

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

The fair value of the unlisted equity investment at fair value through other comprehensive income has been estimated using the discounted cash flow valuation model.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2019:

	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investment	Discount for lack of marketability	2019: 30% (2018: 30%)	5% increase in discount would result in decrease in fair value by HK$39,000 (2018: 52,000)

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using significant unobservable inputs (Level 3) HK$'000
Equity investment designated at fair value through other comprehensive income	**1,831**

As at 31 December 2018

	Fair value measurement using significant unobservable inputs (Level 3) HK$'000
Equity investment designated at fair value through other comprehensive income	2,273

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2018: Nil).

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank loans and other borrowings, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, other receivables, trade and bills payables, and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, interest risk, credit risk and liquidity risk. The board of directors review and agree policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales by operating units in currencies other than the units' functional currencies. Approximately 77.6% and 81.1% of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale for the years ended 31 December 2019 and 2018 respectively, whilst all inventory costs were denominated in the units' functional currencies.

The following table demonstrates the sensitivity at the end of the year to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's (loss)/profit before tax and the Group's equity.

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in (loss)/profit before tax	Increase/ (decrease) in equity*
	%	HK$'000	HK$'000
As at 31 December 2019			
If HK$ weakens against RMB	**5**	**65**	**7,598**
If HK$ strengthens against RMB	**(5)**	**(65)**	**(7,598)**
As at 31 December 2018			
If HK$ weakens against RMB	5	529	7,927
If HK$ strengthens against RMB	(5)	(529)	(7,927)

* Excluding retained profits

Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets except its bank deposits, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arose from interest-bearing bank and other borrowings, which were at variable rates and expose the Group to cash flow interest rate risk.

Fixed rate interest-bearing bank and other borrowings expose the Group to fair value interest rate risk.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Cash flow and fair value interest rate risk (Continued)

The Group regularly seeks out the most favourable interest rates available for its bank deposits and interest-bearing bank and other borrowings. Information relating to interest rates of the Group's bank balances, deposits and interest-bearing bank and other borrowings is disclosed in notes 24 and 27, respectively.

As at 31 December 2019, if interest rates on interest-bearing bank borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been HK$2,103,000 lower/higher (2018: HK$3,324,000 lower/higher), mainly as a result of higher/lower interest expense on interest-bearing bank borrowings.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Trade receivables*	–	–	–	215,185	215,185
Financial assets included in prepayments, other receivables and other assets					
– Normal**	41,546	–	–	–	41,546
– Doubtful**	–	–	355,036	–	355,036
Pledged deposits					
– Not yet past due	5,259	–	–	–	5,259
Cash and cash equivalents					
– Not yet past due	61,381	–	–	–	61,381
	108,186	–	355,036	215,185	678,407

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Trade receivables*	–	–	–	247,485	247,485
Financial assets included in prepayments, other receivables and other assets					
– Normal**	64,975	–	–	–	64,975
Pledged deposits					
– Not yet past due	6,569	–	–	–	6,569
Cash and cash equivalents					
– Not yet past due	64,820	–	–	–	64,820
	136,364	–	–	247,485	383,849

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 22 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. The Group had certain concentrations of credit risk as 53.0% and 57.6% of the Group's trade receivables were due from the Group's five largest customers as at 31 December 2019 and 2018, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 22 to the financial statements.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements, its compliance with lending covenants and its relationship with its bankers to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's bank borrowings and other financial liabilities, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates prevailing at the end of the reporting period) and the earliest date the Group can be required to pay.

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the maturity analysis shows the cash outflow based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts are greater than the amounts disclosed in the maturity analysis set out in note 27. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements. If the lenders were to invoke their unconditional rights to call the loans, the full amounts of the loans, together with interests, will be repayable immediately. The maturity analysis for obligations under finance leases is prepared based on the scheduled repayment dates.

The maturity profile of financial liabilities as at 31 December 2019 and 2018, based on the contractual undiscounted payments, is as follows:

	2019		
	Less than 1 year HK$'000	**Over 1 year HK$'000**	**Total HK$'000**
Lease liabilities	**10,247**	**9,423**	**19,670**
Interest-bearing bank and other borrowings	**200,994**	**56,714**	**257,708**
Trade and bills payables	**232,331**	**–**	**232,331**
Financial liabilities included in other payables and accruals	**2,035**	**–**	**2,035**
	445,607	**66,137**	**511,744**

	2018		
	Less than 1 year HK$'000	Over 1 year HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	336,560	66,997	403,557
Trade and bills payables	246,440	–	246,440
Financial liabilities included in other payables and accruals	2,079	–	2,079
	585,079	66,997	652,076

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

As at 31 December 2019, the Group had net debts (being total bank and other borrowings excluding trade debts and net of cash and cash equivalents) of approximately HK$191.4 million. The total equity was approximately HK$329.1 million. The gearing ratio as at 31 December 2019 was approximately 58.2%. For the year ended 31 December 2018, the gearing ratio for the continuing operations (excluding borrowings of the investment properties business segment) was approximately 57.1%.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through maintaining the appropriate debt and equity balance. The directors of the Company review the capital structure of the Group on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through various alternatives including the payment of dividends, new share issues and share buy-backs as well as the issue of new debts or the redemption of existing debts.

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

	Bank and other loans HK$'000	**Finance lease payables/Lease liabilities HK$'000**
At 1 January 2019	**367,636**	**44,052**
Changes from financing cash flows	**(138,905)**	**(19,690)**
New lease	**–**	**1,695**
Early termination	**–**	**(7,460)**
Foreign exchange movement	**–**	**(114)**
At 31 December 2019	**228,731**	**18,483**

	Bank and other loans HK$'000	Finance lease payables HK$'000
At 1 January 2018	2,117,897	831
Changes from financing cash flows	5,522	(408)
Foreign exchange movement	(48,716)	–
Liability included in a discontinued operation	(1,707,067)	–
At 31 December 2018	367,636	423

37. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 HK$'000
Within operating activities	**(384)**
Within financing activities	**(19,690)**
	(20,074)

38. EVENTS AFTER THE REPORTING PERIOD

(a) On 2 January 2020, Alltronics Energy Saving (Shenzhen) Limited ("Alltronics Energy Saving"), being a wholly-owned subsidiary of the Company, as the plaintiff, commenced civil action in the PRC by filing an official civil complaint (the "Complaint") at the Shenzhen Intermediate People's Court (深圳市中級人民法院). The three defendants of the Complaint were Beijing Wan Heng Da Investment Company Limited ("Beijing Wan Heng Da", a wholly-owned subsidiary of Bonroy Limited), the Guarantor and 北京太陽飄亮商業管理有限公司 ("Taiyang Piaoliang", being the sole tenant of the investment properties held by Beijing Wan Heng Da). Under the Complaint, Alltronics Energy Saving claimed against the parties for immediate settlement of all overdue debts due from Beijing Wan Heng Da, and for enforcement of the pledge agreement dated 20 September 2019 with Taiyang Piaoliang's rental receivables as collateral. The Complaint is currently being processed by the Shenzhen Intermediate People's Court and no date for hearing has been fixed as at the date of this report.

(b) The outbreak of novel coronavirus (COVID-19) continues to spread across the world.

The COVID-19 has certain impact on the business operations of the Group in particular the electronic products operations. In adherence to the guidelines of the Chinese government and to protect the employees from infection, the Group has temporarily suspended the operations of its factories in Shenzhen and Yichun for about three weeks since the end of January. These factories have gradually resumed operation since 24 February 2020. The degree of the impact depends on the situation of the epidemic preventive measures and the duration of the epidemic. The Group has implemented various cost-cutting measures to minimise the adverse effects due to the COVID-19.

The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of the report, the assessment is still in progress.

Given the dynamic nature of these circumstances, the related impact on the Group's consolidated results of operations, cash flows and financial condition could not be reasonably estimated at this stage and will be reflected in the Group's 2020 interim and annual financial statements.

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS		
Investment in an associate	**6,869**	6,869
Amounts due from subsidiaries	**401,312**	404,178
Investments in subsidiaries	**9,975**	9,975
Total non-current assets	**418,156**	421,022
CURRENT ASSETS		
Prepayments, other receivables and other assets	**10,624**	9,754
Cash and cash equivalents	**95**	827
Total current assets	**10,719**	10,581
CURRENT LIABILITIES		
Amount due to a subsidiary	**90,860**	88,051
Other payables	**8,061**	977
Total current liabilities	**98,921**	89,028
NET CURRENT LIABILITIES	**(88,202)**	(78,447)
Net assets	**329,954**	342,575
EQUITY		
Share capital	**9,461**	9,461
Reserves *(note)*	**320,493**	333,114
Total equity	**329,954**	342,575

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2018	277,388	42	40,967	318,397
Total comprehensive income for the year	–	–	62,023	62,023
Final 2017 dividend paid	–	–	(47,306)	(47,306)
At 31 December 2018 and 1 January 2019	277,388	42	55,684	333,114
Total comprehensive loss for the year	–	–	(12,621)	(12,621)
At 31 December 2019	277,388	42	43,063	320,493

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2020.

FIVE-YEAR FINANCIAL SUMMARY

The following table summarises the results, assets and liabilities of the Group for each of the five years ended 31 December 2019:

	Year ended 31 December				
	2019	2018	2017	2016	2015
Results	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**1,260,847**	1,284,813	1,275,221	1,023,550	886,305
(Loss)/profit before income tax	**(320,030)**	101,481	146,258	98,438	59,590
Income tax expense	**(13,422)**	(22,561)	(29,586)	(21,848)	(15,521)
(Loss)/profit for the year from continuing operations	**(333,452)**	78,920	116,672	76,590	44,069
Profit for the year from a discontinuing operation	**73,435**	28,813	2,297	–	–
(Loss)/profit for the year	**(260,017)**	107,733	118,969	76,590	44,069
Non-controlling interest	**(2,023)**	(3,492)	(7,971)	(4,832)	(2,659)
(Loss)/profit attributable to owners of the parent	**(262,040)**	104,241	110,998	71,758	41,410
Assets and liabilities					
Total assets	**936,117**	3,922,842	3,519,401	1,089,579	729,240
Total liabilities	**(606,972)**	(3,343,062)	(2,970,541)	(602,928)	(367,826)
Total equity	**329,145**	579,780	548,860	486,651	361,414

Note:

(1) The results of the Group for each of the two years ended 31 December 2019 and 2018 and its assets and liabilities as at 31 December 2019 and 2018 are those set out on pages 62 to 66 of this report and are presented on the basis as set out in note 2 to the consolidated financial statements.