UNISPLENDOUR TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)
Stock Code: 365

CHASE THE DREAM,
CHANGE THE WORLD

2018
ANNUAL REPORT

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. ZHANG Yadong *(Chairman)*

Mr. XIA Yuan *(Chief Executive Officer)*

Mr. ZHENG Bo

Non-executive Directors

Mr. LI Zhongxiang *(Vice Chairman)*

Mr. QI Lian

Independent Non-executive Directors

Mr. CUI Yuzhi

Mr. BAO Yi

Mr. PING Fan

Audit Committee

Mr. CUI Yuzhi *(Chairman)*

Mr. LI Zhongxiang

Mr. BAO Yi

Remuneration Committee

Mr. BAO Yi *(Chairman)*

Mr. QI Lian

Mr. PING Fan

Nomination Committee

Mr. ZHANG Yadong *(Chairman)*

Mr. CUI Yuzhi

Mr. PING Fan

Company Secretary

Mr. LIU Wei

Registered Office

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2 Church Street
Hamilton HM11
Bermuda

Principal Place of Business

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International Commerce Centre
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Tsim Sha Tsui
Kowloon
Hong Kong

Principal Banker

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

Auditor

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

Principal Share Registrar and Transfer Office

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Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

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Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Unisplendour Technology (Holdings) Limited (the "Company"), I hereby present the report on the audited results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018.

Overview

In 2018, the Group faced various challenges and opportunities. On the one hand, the trend towards intelligent development of the domestic equipment manufacturing industry continued, and the downstream industries urgently called for high-end intelligent, IT-oriented and systematic SMT equipment. In view of this, the Group firmly implemented its scientific development strategy of "one orientation, two key drivers, three breakthroughs and four initiatives". The Group made its best efforts to expand the self-manufactured SMT equipment business, and regarded continuous product innovation, excellent manufacturing technology and active market promotion as its core competitiveness, which allowed for continuous growth of revenue from self-manufactured SMT equipment business on a year-on-year basis and driven the further enhancement of market competitiveness and influence of its own brand at the same time. On the other hand, due to the increased uncertainty in the global business environment, downstream customers tended to be cautious in capacity delivery, while the growth of traditional downstream industries such as computers and smart phones gradually became saturated, which indirectly restricted the growth of the Group's main business. In addition, the weak stock market also put pressure on the securities investment business of the Group, adversely affecting the overall profit performance. However, the Group believes that with the increasing popularity of emerging technologies such as 5G technology, automotive electronics, smart wearable devices, etc., as well as the gradual recovery of international business environment, the impact of the above short-term unfavourable factors will be gradually mitigated, and the vigorous demand to be released by the domestic electronic information industry will provide the driving force for the Group's long-term steady development.

Business Review

During the year, the Group was principally engaged in SMT equipment manufacturing and related business, securities investment business, and finance lease and factoring business.

SMT equipment manufacturing and related business are the core of the Group's development. As one of the first leading enterprises engaged in research and development and manufacturing of SMT equipment in Mainland China, the Group boasts of extensive R&D advantages and technology accumulation. The Group's own-brand products cover a full range of SMT solutions including solder paste printers, dispensers, wave soldering machine, reflow ovens and intelligent manufacturing management system BIMS. The Group has always aimed at strengthening its own brand and is committed to developing into a leading supplier of SMT intelligent equipment in the world and a leader in China's intelligent equipment industry. In 2018, the Group divested the agency business which is low in profit contribution but high in capital occupation, and concentrated its resources on research and development, manufacturing and sales of self-manufactured SMT equipment, recording a significant annual increase by 34% in self-manufactured equipment business income, while the overall gross profit margin of the sector increased significantly to 30%. The Group is well aware that research and development strength is the foundation of brand development. During the year, the Group introduced a number of new environment-friendly and energy-saving equipment such as high-end reflow ovens, full-automatic printers, nitrogen reflow soldering machine, etc., with 16 new patents and a total of 60 patents. The Group also won the Gold Award under the Fifth Session of the "Red Sail Award" for Industrial Design with its self-manufactured vertical reflow oven, winning the "Red Sail Award" for three consecutive years. In addition, due to the effective credit policy, the Group recorded a continuous decrease in receivables and a significantly shortened collection period in 2018, effectively activating the utilisation efficiency of capital.

In early 2017, the Group extended its business to securities investment and focused its investment on high-tech companies listed in Hong Kong, especially upstream and downstream enterprises closely linked with SMT equipment manufacturing industry. Looking back to the year 2018, Hong Kong stocks continued to fluctuate and decline after surging at the beginning of the year. During this period, affected by many factors such as the international business environment downtown, the Fed's interest rate hike, and the deleveraging in Mainland China, Hong Kong stocks remained low and showed weak overall performance under the conditions of tight capital and declining risk appetite of investors. Affected by the market, although the Group adhered to maintain its prudent investment strategy, the investment income was still not satisfactory, with the sector recording a full-year loss of about HK$112,682,000. In view of the gradual recovery of the financial market at the end of 2018, the Group believes that the good investment portfolio deployed earlier will eventually be reasonably valued by the market, thus improving the overall profit performance of the sector.

In terms of financial leasing and factoring business, in 2018, the Group introduced a strategic investor, Sino IC Leasing Co., Ltd. (芯鑫融資租賃有限責任公司, "Sino IC Leasing"), to inject capital into Unisplendour Si-Cloud Financial Leasing Co., Ltd. (紫光芯雲融資租賃有限公司, "Unis Si-Cloud"), a wholly-owned subsidiary of the Company, and issued announcements and a circular on such capital increase transaction on 2 May, 11 June and 16 July 2018, respectively. The capital increase transaction was approved at the special general meeting held on 7 August 2018. After the completion of the transaction, Sino IC Leasing holds 51% shareholding interest in Unis Si-Cloud, while the Group's equity shareholding in Unis Si-Cloud falls to 49%. Unis Si-Cloud changed from a wholly-owned subsidiary of the Company to an associate of the Company, and it is ceased to be consolidated into the Company's consolidated financial statements.

Industry Trend

Since the large-scale introduction of SMT production lines into China in the 1980s, SMT equipment manufacturing industry has experienced a rapid development period of more than 30 years and has formed a downstream industrial chain dominated by electronic consumption, computers and communication equipment. In recent years, the market for traditional electronic equipment such as smart phones, household appliances and personal computers has become saturated, resulting in the slowing-down overall growth of the industry and declining profits. At the same time, emerging technologies represented by 5G communication, automotive electronics and intelligent wearable devices are gradually moving from the experimental stage to mass production, opening up a broad new world for SMT equipment manufacturing. Taking 5G communication as an example, China's 5G technology has entered into the pre-commercial stage. Major network operators will be granted 5G licenses in 2019. And it is expected that 5G mobile phones, 5G tablets and other electronic products will be available by the end of 2019. This means that the whole communication industry will release the demand for upgrading mass equipment from 5G base stations to mobile terminals, which will cover the upstream and downstream industries of the system. In addition, with the large-scale roll-out of 5G-related infrastructure, its application scope will be expanded to education, medical care, pension and other aspects, driving the development of many new technologies and new applications, including the Internet of Things, and autonomous vehicle, providing new vigorous driving force for SMT equipment manufacturing industry.

What cannot be ignored is that the rapid development of the electronic information industry also puts forward higher requirements for SMT equipment manufacturing industry and accelerates the pace of industry integration. On the one hand, the backward production capacity in the industry will be phased out more quickly, and the traditional SMT equipment with high energy consumption and low precision will be replaced by new intelligent, high-precision and environment-friendly equipment so as to cater to the new development situation of the shortened production cycle, increased labour cost and improved environmental protection standard of electronic products. On the other hand, the previous mode of relying solely on import of high-end SMT equipment has been broken. The independent research and development capability of enterprises will play a particularly important role in the industry competition. How to enhance the strength of self-manufactured products will become the core development proposition for SMT equipment manufacturers. In this context, only SMT equipment manufacturers that have independent research and development advantages, actively explore new technologies, and are able to keep up with market demand and continuously introduce high-quality, and medium to high-end products can fully grasp the precious opportunities in the new situation of the electronic information industry, thus standing out from the competition in the industry and achieving continuous growth.

Outlook

Looking forward to 2019, the Group will continue to focus on SMT equipment manufacturing, consolidate and enhance its own research and development advantages, and continuously strengthen leading position of its own brand in the market so as to realise multi-dimensional enhancement of product sales volume, profitability and brand value. At the same time, the Group will also actively seek and explore the development opportunities of high-end equipment in other electronic industries closely linked with SMT equipment manufacturing industry so as to make full use of the advantages of industrial linkage to enhance the overall synergy benefits of the Group.

The Group's development is inseparable from the support of all parties. On behalf of all the members of the Board, I hereby take this opportunity to express our heartfelt gratitude for the diligent efforts and trust in the Company of the management, all the staff and business partners, as well as the continuous support of all the shareholders to the Group. The Group will continue to work hard to promote the long-term steady development of enterprise and create higher investment returns.

Zhang Yadong
Chairman

Hong Kong
27 March 2019

BUSINESS REVIEW

The Group adhered to the development strategy of "one orientation, two key drivers, three breakthroughs and four initiatives", and centered on SMT equipment manufacturing and related business, while engaging in securities investment business.

In 2018, the Group faced various challenges. The economy of China and even the world was hit by the continuously-volatile international market to varying degrees, in particular the import & export trade. Chinese electronic equipment industry relying on import and export was adversely affected, resulting in somewhat slowdown of growth of the industry as a whole. Businesses of the Group were also indirectly affected, and the securities investment business of the Group suffered from book losses, which led to an unsatisfactory earning performance in overall. The Group recorded consolidated net loss of approximate HK$134,457,000 for the year ended 31 December 2018. Given our experience and advantages gained in the SMT equipment manufacturing market over years, and our constant investment in technology research and development in the sector, the management believed that we will be able to duly take advantage of opportunities of the gradual economic recovery and exuberance of industry development to gain a steady rise in our earning performance in future.

SMT Equipment Manufacturing and Related Business

During the year, the Group focused on SMT equipment manufacturing and related business. As the Group has terminated the low-end businesses such as agent product sales since 2018 to centralise resources and go all out to develop and sale the self-manufactured products, it recorded a sales revenue of approximately HK$181,497,000 from its own-brand SMT equipment manufacturing and related business for the year ended 31 December 2018, representing a significant growth of 34% compared to approximately HK$135,749,000 of the same period last year. During the year, the SMT equipment manufacturing and related business segment saw an increase in its overall gross profit margin from 14% to 30% comparing to the same period last year.

In respect of internal operation management, the Group implemented the credit sale policy and continuously collected the overdue accounts receivable and have achieved remarkable results. As of 31 December 2018, the net amount of trade receivables and other receivables of the Group reduced from approximately HK$74,026,000 for the same period last year to approximately HK$41,580,000, representing a decrease of 44%. Compared with the data as of 31 December 2016, there was a dramatic decrease of 88%. In addition, by implementing strict cost control, administrative costs of the Group were lower than those for the same period last year. During the year, the Group's administrative costs decreased by 14% to approximately HK$66,701,000 from approximately HK$77,516,000 in the same period last year.

During the year, the Group continued focusing on independent R&D of SMT equipment. The Group mostly adopted humanised design in products while considering characteristics of low-cost operation, energy efficiency, and environmental friendliness. The new self-manufactured SMT equipment received wide recognition and various awards from the market and industry. Our SMT equipment has been granted the Gold Award under the "Red Sail Award" for three consecutive years since 2016. During the year, the Group developed new SMT equipment including UXT high-end reflow soldering machine, nitrogen reflow soldering machine, high-end lead-free wave soldering machine and external selective fluxer, etc. These new products were significantly improved in their functionality, performance, stability and reliability, safety, maintainability and easiness to operate, and they can be embedded with BIMS intelligent manufacturing system, which is the flagship product of the Group, effectively serving the customers' new production modes of JIT (Just in Time) and BTO (Build to Order) and strengthening real-time monitoring in such respects as data traceability, smart fault prevention and maintenance, and remote management. As of 31 December 2018, the Group owned 60 design patents in aggregate, 16 of which were granted in 2018.

In respect of market promotion, the Group actively implemented the "Go Out" strategy and participated in many large-scale industry exhibitions with great influence at home and abroad during the year, including 2018 PIC APEX EXPO in the USA, Productronia China and NEPCON China 2018 in Shanghai, China International Mobile Manufacturing Automation Technology Exhibition and South China International Industrial Automation Exhibition in Guangdong, and Shenzhen International Intelligent Equipment Industry Exposition and NEPCON in Shenzhen. Thanks to the great influence of the exhibitions across the industry, and the detailed explanation and presentation by our senior engineers on site, our self-manufactured products such as wave soldering machine, vertical reflow oven and BIMS intelligent manufacturing system were effectively promoted, and our middle to high-end brand image was further consolidated, while market popularity of the Group at home and abroad being enhanced.

Review of 2018, the overall growth of China's electronic industry was lowered as a result of the sluggish macro-economy and the ongoing industrial consolidation in China, however, in the long terms, China will gradually become one of global leaders in 5G technology, standards, industries and applications with the initiation and acceleration of 5G network development; and in the meanwhile, intelligent automobile electronics has become the focus and strategic growth point for the development of global automobile sector, which will increase the demand for special equipment for electronic assembly. Based on those, demands for the upstream electronic equipment will be driven. The management believes that the Group will be able to seize the industry development opportunity on the basis of its independent development advantage in the SMT equipment manufacturing sector and its considerable experience and resources gained in the industry over years. Besides, the Group will also actively explore the development opportunities of high-end manufacturing beyond SMT equipment manufacturing in order to gradually achieve its goal of being the smart equipment industry leader in China.

Finance lease and factoring business

The Group issued announcements and a circular concerning the major transaction in relation to the deemed disposal of shareholding interests in a subsidiary on 2 May 2018, 11 June 2018 and 16 July 2018, respectively. In accordance with the relevant announcements and circular, upon the completion of the capital increase transaction, Unis Si-Cloud, which is mainly engaged in finance lease and factoring business, will cease to be a subsidiary and become an associate company of the Company. Unis Si-Cloud will cease to be consolidated into the consolidated financial statements of the Company. The above-mentioned capital increase transaction and the transactions as contemplated under the capital increase agreement were approved at the special general meeting held on 7 August 2018, and the delivery was completed on 31 August 2018.

Securities investment business

The Group implements a low-frequency trading strategy and mainly invests in the high-tech companies listed on the Stock Exchange, with a particular focus on the outstanding enterprises in such industries as telecommunication equipment, semiconductor, Internet, computer and software. However, a segment loss of approximately HK$112,682,000 was recorded for the year ended 31 December 2018 due to the impact from worldwide economic downturn.

The management believed the segment loss in 2018 are in short-term nature and would not cause adverse influence on the long-term development of overall business and operations of the Group. In addition, the Group has established a strict reporting mechanism to ensure that the management can monitor all the investments in real time, so as to protect the safety of investment.

Name of investee		Total investment (loss)/gain for the year ended 31 December 2018
		HK$'000
SMIC	(stock code: 981.hk)	(43,195)
SMIT	(stock code: 2239.hk)	350
GOME FIN TECH	(stock code: 628.hk)	(138)
GUODIAN TECH	(stock code: 1296.hk)	(245)
LEGEND HOLDINGS	(stock code: 3396.hk)	(69,454)
		(112,682)

During the year, the Group sold an aggregate of 1,600,000 shares of SMIT.

The Group's investments in listed shares were recorded as financial assets at fair value through profit or loss on the consolidated balance sheet, which amounted to approximately HK$137,339,000 as at 31 December 2018:

Name of investee	Financial assets at fair value through profit or loss as at 31 December 2018	Percentage of total financial assets at fair value through profit or loss
	HK$'000	*%*
SMIC	44,361	32.30
GOME FIN TECH	238	0.17
GUODIAN TECH	285	0.21
LEGEND HOLDINGS	92,455	67.32
	137,339	100

FINANCIAL REVIEW

Income

In 2018, the Group recorded a total income of approximately HK$71,453,000. An analysis of the income by business segment is as follows:

	Year ended 31 December 2018 (Audited) *HK$'000*	Year ended 31 December 2017 (Audited) *HK$'000*
SMT equipment manufacturing and related business	**181,497**	195,989
Terminated operation	**23**	6,999
Securities investment	**(112,682)**	50,040
Unallocated activities	**2,615**	–
Total	**71,453**	253,028

Other income

During the year, the Group recorded other income of approximately HK$3,868,000, including revenue from scraps of approximately HK$2,525,000, and cash dividends of approximately HK$1,343,000.

Distribution costs

During the year, the Group recorded distribution costs of approximately HK$37,380,000, representing an increase of approximately 7% compared to that of the last year.

Administrative costs

During the year, the administrative costs amounted to approximately HK$66,701,000, including labour costs of approximately HK$25,689,000 and rental of approximately HK$11,745,000.

Finance costs

During the year, the net finance costs amounted to approximately HK$12,450,000, representing an increase of approximately HK$3,797,000 compared to that of last year, mainly attributable to the amortisation of interest expense on bonds, and the interests expense on borrowings.

Loss for the year

As a result of the foregoing, the loss attributable to the equity holders of the Company for the year was approximately HK$122,919,000.

(Loss)/profit before interest, tax, depreciation and amortisation

The following table illustrates the Group's (loss)/profit before interest, tax, depreciation and amortisation for the respective year. The Group's profit before interest, tax, depreciation and amortisation ratio was approximately -171% for the year.

	Year ended 31 December 2018	Year ended 31 December 2017
	HK$'000	*HK$'000*
(Loss)/profit for the year attributable to equity holders of the Company	**(122,919)**	51,569
Finance costs	**12,450**	8,653
Income tax (credit)/expense	**(20,822)**	6,356
Depreciation and amortisation	**9,200**	8,821
(Loss)/profit before interest, tax, depreciation and amortisation	**(122,091)**	75,399

Liquidity, financial resources and gearing ratio

The Group has maintained sufficient operating capital. As at 31 December 2018, the net current assets of the Group amounted to approximately HK$60,528,000, and the liquidity ratio of the Group was maintained at 1.29, which was sufficient to support the ordinary operation of the Group. With reference to total borrowings over equity attributable to the equity holders of the Company as at 31 December 2018, the gearing ratio of the Group was 20.87%.

As of 31 December 2018, bank borrowings balance of the Group was approximately HK$68,478,000.

Operating capital management

As at 31 December 2018, the Group held cash and cash equivalents of approximately HK$43,305,000, representing a decrease of approximately HK$190,698,000 compared with HK$234,003,000 as at the beginning of the year, which was mainly due to ceasing to consolidate Unis Si-Cloud into the Company's consolidated financial statements following the deemed disposal of 51% shareholding interest of it. The Group's average inventory turnover days were approximately 106 days (31 December 2017: 113 days), the average debtors turnover days were approximately 70 days (31 December 2017: 120 days), and the average creditors turnover days were approximately 114 days (31 December 2017: 112 days).

Capital expenditure on property, plant and equipment

During the year, total capital expenditure was approximately HK$9,435,000, in which approximately HK$888,000 was on the purchase of machinery and equipment, approximately HK$8,118,000 on the renovation and decoration of office, and approximately HK$429,000 on the purchase of financial software.

Charges on the Group's assets

As at 31 December 2018, the Group's banking facilities including its import/export loan, letter of credit, documentary credits, trust receipt and bank borrowings were secured by:

(i) a first legal charge on certain of the Group's land and properties, which had an aggregate net carrying value at the balance sheet date of approximately HK$102,052,000; and

(ii) guarantee and pledged receivables provided by the Company and its subsidiaries.

Equity and liabilities

As at 31 December 2018, the Group's net assets amounted to approximately HK$328,124,000. The decrease in net assets during the year as compared with the net assets of approximately HK$462,581,000 as at 31 December 2017 was mainly attributed to loss for the year.

PRINCIPAL RISKS AND UNCERTAINTIES

Operational risk

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

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

Financial risk

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

Credit risk

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

Liquidity risk

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

Foreign exchange risk

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

Price risk

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

HUMAN RESOURCES

As at 31 December 2018, the Group employed approximately 341 full-time employees and workers in Mainland China, and employed approximately 24 employees in Hong Kong. The Group continues to maintain and enhance the capability of its employees by providing sufficient regular training to them. The Group remunerates its employees based on the industry's practice. In Mainland China, the Group provides employee benefits and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, the Group provides staff benefits including retirement scheme and performance related bonuses.

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

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

The Board periodically reviews the corporate governance practices of the Company to ensure its continuous compliance with the Code. The Company was in compliance with the Code for the year ended 31 December 2018, except for the following deviation.

Code Provision A.6.7

Pursuant to the Code Provision A.6.7, independent non-executive Directors and other non-executive Directors should attend general meetings. However, independent non-executive Directors and non-executive Directors of the Company were absent from the annual general meeting held on 6 June 2018 and the special general meeting held on 7 August 2018 due to other business commitments. To ensure compliance with the Code in the future, the Company has arranged and will continue to arrange to furnish all Directors with appropriate information on all general meetings and take all reasonable measures to arrange the schedule in such a cautious way that all Directors can attend the general meetings.

Model Code for Securities Transactions by Directors

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

Board of Directors

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

The Board of the Company comprises a total of eight Directors, with three executive Directors, two non-executive Directors and three independent non-executive Directors. More than one-third of the Board is independent non-executive Directors and not less than one of them have appropriate professional qualifications of accounting or related financial management expertise. The composition of the Board is shown on page 23 under the section "Attendance Record at Meetings" in this report. Biographies of the Directors are set out on pages 31 to 33 under the section "Directors Profile" in this annual report.

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

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

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

Board of Directors (Continued)

Corporate Governance Functions

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

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

Continuing Professional Development

The Directors have undergone satisfactory training throughout the year and provided the training record to the Company. During the year ended 31 December 2018, the training record of the Directors are set out below:

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

Board of Directors (Continued)

Directors' and officers' Insurance

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

Chairman and Chief Executive Officer

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

For the year ended 31 December 2018, the role of Chairman of the Company was served by Mr. Zhang Yadong and the role of Chief Executive Officer of the Company was served by Mr. Xia Yuan.

Nomination Committee

The Company has established a Nomination Committee in accordance with the requirements of the Code for the purpose of reviewing the structure, size and composition of the Board on an annual basis, identifying suitable candidates to become Directors and making recommendation to the Board, assessing the independence of independent Non-executive Directors and advising the Board in respect of the appointment or re-appointment of Directors.

The Nomination Committee currently comprises three members, Mr. Zhang Yadong (Chairman of the Committee), who is an Executive Director, and Mr. Cui Yuzhi and Mr. Ping Fan, who are independent Non-executive Directors.

The Nomination Committee met two times during the year ended 31 December 2018 and the individual members' attendance records are disclosed in the section "Attendance Record at Meetings" in this report. The Nomination Committee has considered and provided the Board with the following proposals:

(a) Reviewed on the structure, size and composition of the Board of Directors of the Company;

(b) Advised on the re-appointment of Directors;

(c) Advised on the Nomination Policy and Board Diversity Policy; and

(d) Assessed of the independence of Independent Non-executive Directors.

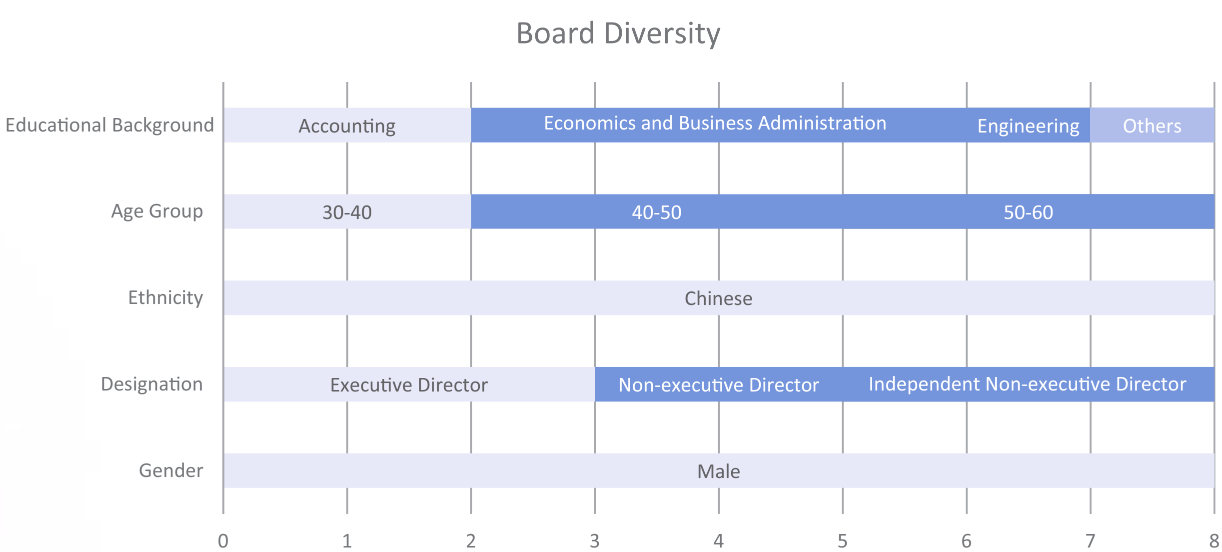
Board of Directors (Continued)

Nomination Committee (Continued)

During the year, the Nomination Committee recommended, and the Board approved the adoption of a board diversity policy ("Board Diversity Policy") and a nomination policy ("Nomination Policy") to reflect the new Code requirements effective from 1 January 2019 under the Listing Rules.

Board Diversity Policy

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



Board of Directors (Continued)

Nomination Committee (Continued)

Nomination Policy

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

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

Board of Directors (Continued)

Remuneration Committee

The Company has established a Remuneration Committee in accordance with the requirements of the Code for the purpose of reviewing the remuneration policy and fixing the remuneration package for all Directors. The Remuneration Committee currently comprises three members, Mr. Bao Yi (Chairman of the Committee) and Mr. Ping Fan, who are independent non-executive Directors, and Mr. Qi Lian, who is a non-executive Director.

The Remuneration Committee met one time during the year ended 31 December 2018 and the individual members' attendance records are disclosed in the section "Attendance Record at Meetings" in this report. The Remuneration Committee has considered and provided the Board with the following proposals:

(a) Reviewed the remuneration policies of the Directors of the Company;

(b) Advised on the remuneration of executive Directors to the Board.

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

Board of Directors (Continued)

Audit Committee

The Audit Committee currently comprises three members, Mr. Cui Yuzhi (Chairman of the Committee) and Mr. Bao Yi, who are independent non-executive Directors, and Mr. Li Zhongxiang, who is a non-executive Director.

The principal duties of the Audit Committee include to review the financial reporting system, risk management and internal control system of the Company and submit report to the Board, to review the financial information of the Group, which includes review of the completeness of the financial statements, annual reports and accounts, interim reports of the Group, as well as the review of the significant advice related to financial reporting as set out in the statements and reports, to advise the Board on the appointment, re-appointment and removal of the external auditor as well as the remuneration and the employment terms of the external auditor, to review and monitor the work procedures and the independence of the auditor, to monitor the Company's compliance with the requirements of laws and the Listing Rules, and to engage independent legal or other advisers as it determines necessary.

The Audit Committee met three times during the year ended 31 December 2018 and the individual members' attendance records are disclosed in the section "Attendance Record at Meetings" in this report. The Audit Committee has considered and provided the Board with the following proposals:

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

(b) Reviewed the remuneration of the external auditor and advised the Board about so;

(c) Advised the Board on the re-appointment of the external auditor; and

(d) Reviewed the annual audit planning of the external auditor.

Board of Directors (Continued)

Attendance Record at Meetings

The attendance record of each Director at the Board Meetings, Audit Committee Meetings, Remuneration Committee Meetings, Nomination Committee Meetings and General Meetings during the year ended 31 December 2018 is set out in the following table:

Directors	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings	Annual General Meeting	Special General Meetings
Number of meeting held	**7**	**3**	**1**	**2**	**1**	**1**
Executive Directors						
Mr. ZHANG Yadong *(Chairman)*	7/7	N/A	N/A	2/2	1/1	0/1
Mr. XIA Yuan *(Chief Executive Officer)*	7/7	N/A	N/A	N/A	1/1	1/1
Mr. ZHENG Bo	7/7	N/A	N/A	N/A	1/1	1/1
Non-executive Directors						
Mr. LI Zhongxiang *(Vice Chairman)*	6/7	3/3	N/A	N/A	0/1	0/1
Mr. QI Lian	5/7	N/A	0/1	N/A	0/1	0/1
Independent Non-executive Directors						
Mr. CUI Yuzhi	7/7	3/3	N/A	2/2	1/1	0/1
Mr. BAO Yi	7/7	3/3	1/1	N/A	0/1	0/1
Mr. PING Fan	7/7	N/A	1/1	2/2	1/1	0/1

Auditor's Remuneration

For the year ended 31 December 2018, the remuneration paid to the Company's auditor, PricewaterhouseCoopers, is set out as follows:

Services rendered	Fee paid/payable
	HK$'000
Audit services	**2,146**
	2,146

Company Secretary

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

During the year ended 31 December 2018, the Company Secretary attended not less than fifteen hours of relevant professional training to update his skills and knowledge.

Directors' responsibility statement

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

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

Auditor's responsibility statement

The auditor's responsibilities on the consolidated financial statements of the Group are set out in the Independent Auditor's Report on pages 50 to 55.

Risk Management and Internal Control

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

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

Risk Management and Internal Control (Continued)

In 2018, the Company organised a self-assessment on the internal control throughout the Group, especially key subsidiaries, under the leadership of the internal audit department to assess whether there are defects in its internal control design and the effectiveness of implementation, focusing on assessing the key control areas and control points identified through risk sorting, such as capital management, contract management, inventory management, fixed asset management and other processes. The internal control self-assessment was guided by business departments under the leadership of the internal audit department with assistance from the finance departments. The principle of risk management should be followed from the source to further promote the effective integration of self-assessment and daily operation and management. The Group has submitted a report to the Board based on the above work.

The Board understands that it should be responsible for risk management and internal control systems and reviewing the effectiveness. These systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against no material misstatement or loss. For the year ended 31 December 2018, the Board has reviewed the effectiveness of the Group's internal control system in aspects of finance, operation and compliance controls and the risk management function of the Group, and has formulated feasible corrective measures for the defects in the design and implementation of internal control found in the assessment. Improve the ability of internal control to prevent risks and promote management through continuous improvement in the internal control system and process. During the year, the Board also reviewed the Group's resources, staff qualifications and experience in training programmes and budget of the issuer's accounting, internal audit and financial reporting functions. The Board confirms that the risk management and internal control system is effective and sufficient resources are available.

Shareholders' Rights

Procedures for shareholders to convene a special general meeting ("SGM")

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

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

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

Shareholders' Rights (Continued)

Procedures for shareholders to put forward proposals at a general meeting

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

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

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

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

Shareholders' Rights (Continued)

Procedures for directing shareholders' enquiries to the Board

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

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

Fax: (852) 2343 3120
Email: Enquiry@unistech.com.hk

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

Constitutional Documents

During the year, there are no changes in the Memorandum and Articles of Association of the Company. The Memorandum and Articles of Association have already been posted on the section Bye-laws under the column of Investor Relations of the Company's website at www.unistech.com.hk for the investors' viewing.

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December		Nine months ended 31 December	Year ended 31 March		
	2018	2017	2016	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS						
Revenue	**71,453**	253,028	268,360	727,213	838,203	787,603
(Loss)/profit before income tax	**(144,851)**	57,925	(581,472)	(8,869)	4,321	12,796
Income tax credit/(costs)	**20,822**	(6,356)	(21,679)	433	(1,786)	(3,370)
(Loss)/profit for the year attributable to equity holders of the Company	**(122,919)**	51,569	(603,151)	(8,436)	2,535	9,426

	As at 31 December			As at 31 March		
	2018	2017	2016	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES						
Total assets	**671,247**	771,732	952,640	754,522	824,379	744,788
Total liabilities	**343,123**	309,151	(1,148,403)	(435,342)	(481,327)	(412,883)
	328,124	462,581	(195,763)	319,180	343,052	331,905

DIRECTORS PROFILE

Executive directors

Mr. Zhang Yadong, aged 48, serves as executive Director, Chairman of the Board and Chairman of Nomination Committee of the Company. He holds an EMBA degree from Tsinghua University and has the title as senior economist. Mr. Zhang is currently the Director and President of Tsinghua Unigroup Ltd. (a controlling shareholder of the Company), and the Chairman of the supervisory board of Beijing Unisoc Technologies Co, Ltd. He served as the Office Secretary of the party committee of Xinjiang Agricultural University, the manager of Bank of Communications Urumqi Development Zone Branch (交通銀行烏魯木齊開發區支行), the Chairman of Xinjiang Financial Leasing Limited (新疆金融租賃有限公司), the President of Beijing Guorongxin Investment Management Limited (北京國融信投資管理有限公司), the President of Beijing Asia Gas Investment Group Limited (北京亞燃投資集團有限公司), the Chairman of Xinjiang Zhongyouhuagong Group Limited (新疆中油化工集團有限公司), the President of Xinjiang Qingjian Investment Holding Limited (新疆青建投資控股有限公司), and the President of Shiji Ruitong (Beijing) Investment Management Limited (世紀睿通(北京)投資管理有限公司).

Mr. Xia Yuan, aged 38, serves as executive Director and Chief Executive Officer of the Company. He holds a doctoral degree in Communication Studies from Zhejiang University (浙江大學), a master's degree in Marketing Communication from Bournemouth University and a bachelor's degree in English Literature from University of International Relations (國際關係學院). Mr. Xia served as the Assistant General Manager of Beijing Tong Ren Tang Health Pharmaceutical Co. Ltd. (北京同仁堂健康藥業股份有限公司), the Vice President, and Assistant to President of China Great Wall Computer (H. K.) Holdings Limited (中國長城計算機(香港)控股有限公司), a Sales Engineer and a Sales Manager at Huawei Technologies Co. Ltd. (華為技術有限公司). Mr. Xia has over 10 years of experiences in strategic planning, marketing and capital operations.

Mr. Zheng Bo, aged 34, serves as executive Director of the Company. He holds a Bachelor's degree in Financial Management from the University of International Business and Economics. Mr. Zheng is currently the director of the Investment Financing Department and the Supervisor of Tsinghua Unigroup Ltd. (a controlling shareholder of the Company), the Director of Xiamen Unigroup Xue Co., Ltd. (a company listed on the Shenzhen Stock Exchange (stock code: 000526)) and the Supervisor of Unigroup Guoxin Microelectronics Co., Ltd. (a company listed on the Shenzhen Stock Exchange (stock code: 002049)). He served as the Consultant of Deloitte Touche Tohmatsu Certified Public Accountants LLP Beijing Branch, the Senior Consultant of Ernst & Young (China) Advisory Limited, the Tax Manager of Sinovel Wind Group Co., Ltd. (a company listed on the Shanghai Stock Exchange (stock code: 601558)), the Manager of Financial Management Department of China Resources Pharmaceutical Group Limited (stock code: 3320.hk).

Non-executive directors

Mr. Li Zhongxiang, aged 52, serves as non-executive Director, Vice Chairman of the Board and member of Audit Committee of the Company. He holds a bachelor's degree in Statistics from the Renmin University of China, and has the title as Senior Accountant. Mr. Li is currently the Vice President of Tsinghua Holdings (a controlling shareholder of the Company), the Vice Chairman of Tsinghua Unigroup (a controlling shareholder of the Company), the Chairman of Qingqingchuang Technology Service (Beijing) Co., Ltd. (青清創科技服務(北京)有限公司).He served as the Supervisor of Tsinghua Holding Sanlian Venture Capital (Beijing) Management Co., Ltd. (清控三聯創業投資(北京)管理有限公司), the Financial Controller, Vice President, Senior Vice President and Director of Unisplendour Corporation Limited, a company listed on the Shenzhen Stock Exchange (stock code: 000938), the Chief Accountant of Xiamen Marine Industry (Group) Co., Ltd. (廈門海洋實業(集團)股份有限公司), the managerial staff of Beijing Urban Construction Research Center (北京城建研究中心), and the principle staff member of the Education Department of the Ministry of Geology and Mineral Resources of PRC.

Mr. Qi Lian, aged 51, serves as non-executive Director and member of Remuneration Committee of the Company. He holds a master's degree in Business Administration from Chinese University of Hong Kong, and a bachelor's degree and a master's degree in Electrical Engineering from Tsinghua University. Mr. Qi obtained his senior engineer qualification in August 1999. Currently, Mr. Qi is the Director and Co-President of Tsinghua Unigroup (a controlling shareholder of the Company), the Director of New H3C Group Ltd. (新華三集團有限公司), the Director of Beijing Unis Memory Technology Co., Ltd. (北京紫光存儲科技有限公司) and the Director of Unicloud Tech Co.,Ltd. (紫光雲技術有限公司). Mr. Qi held the following positions in Unisplendour Corporation Limited (紫光股份有限公司) and its predecessor, Tsinghua Unisplendour Corporation Limited (清華紫光股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000938), Vice Chairman of the Board, Director, President, Executive Vice President and Secretary of the Board, and Chief Investment Officer. Mr. Qi was a director of China Transinfo Technology Co., Ltd. (北京千方科技股份有限公司) and its predecessor, Surekam Corporation (北京聯信永益科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002373). He also served as the Chief Manager of Tsinghua Unigroup Strategic Research Centre (清華紫光集團戰略研究中心), the Deputy General Manager of Tsinghua Unigroup Test Control Co., Ltd. (清華紫光集團測控公司), and the Chairman of 500.com Limited, a company listed on the New York Stock Exchange (stock code: WBAI).

Independent Non-executive Directors

Mr. Cui Yuzhi, aged 53, serves as independent non-executive Director, Chairman of Audit Committee and member of Nomination Committee of the Company. Mr. Cui is a seasoned independent investment advisor. He holds a Bachelor of Science degree in Applied Physics from the University of Notre Dame (graduated with the highest honour), and MBA from the University of Chicago Booth School of Business. Mr. Cui has more than 20 years' experience in finance with deep expertise in international capital market and enterprise operations. Mr. Cui held senior positions at various organisations, including the Executive President of Tendcare Medical Group, the Portfolio Manager at Atlantis Investment Hong Kong, the General Manager of investment and operations at Renhe Commercial (stock code: 1387.hk), the CFO of Zhong An Real Estate (stock code: 672.hk), the CFO of Excellence Group, the CFO of Treasury Holdings China Limited and the Vice President of Shanghai Forte Group.

Mr. Bao Yi, aged 43, serves as independent non-executive Director, Chairman of Remuneration Committee and member of Audit Committee of the Company. Mr. Bao is currently the Chairman of Cedarlake Capital, a cross-border platform of equity investments, and is committed to drive the value creation of synergy among global major industries, economies and capital markets. Prior to establishing Cedarlake Capital, Mr. Bao was an important investment banker and the Managing Director of Morgan Stanley, and served as the main founder, pioneer and Chief Executive Officer of Morgan Stanley Huaxin Securities Co., Ltd.. Mr. Bao also served as the Chairman of Granday Financial Leasing Co., Ltd.. Mr. Bao obtained MBA from the Wharton School of the University of Pennsylvania. He is granted as financial expert of the Hundred Talents Program of Pudong District, Shanghai.

Mr. Ping Fan, aged 40, serves as independent non-executive Director and member of Remuneration Committee and Nomination Committee. He holds a bachelor's degree in management from the Business School of the University of Manchester, and an EMBA from the School of Economics and Management of Tsinghua University. Mr. Ping is currently the Chairman and CEO of Shanghai Lang Sheng Investment Limited, a Commissioner of All-China Youth Federation, an Entrepreneurs' Council Member of Chinese Economists 50 Forum, a member of CPPCC of Shanghai Huangpu District, and the Chairman of the Shanghai Concord Bilingual School.

The Board of Directors hereby present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

Principal Activities

During the year, the principal activity of the Company is investment holding, and the principal activities of its respective subsidiaries cover the businesses of SMT equipment manufacturing, finance lease and factoring, and securities investment. In 2018, a capital increase transaction in relation to Unis Si-Cloud, a wholly-owned subsidiary of the Company, was approved at the special general meeting. Pursuant to it, Unis Si-Cloud, which is mainly engaged in finance lease and factoring business of the Group, is changed from a subsidiary of the Company to an associate company of the Company and is ceased to be consolidated into the consolidated financial statements of the Company.

Results and Dividends

The Group's profit for the year ended 31 December 2018 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 56 to 147.

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

Summary of Financial Information

The published results and a summary of assets and liabilities of the Group for the last five financial years are set out on page 30 of this annual report.

Property, Plant and Equipment

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

Share Capital

Details of movements in the Company's share capital during the year are set out in Note 23 to the consolidated financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in Note 25 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

At 31 December 2018, the Company's share premium account, in the amount of approximately HK$95,240,000, may be distributed in the form of fully paid bonus shares.

Bank Loans

Details of banks loans of the Company and the Group during the year are set out in Note 27 to the consolidated financial statements.

Major Customers and Suppliers

In the year, aggregate sales attributable to the Group's five largest customers were approximately 11% of the total sales for the year and sales attributable to the largest customer included therein were approximately 3.31%. Purchases from the Group's five largest suppliers accounted for approximately 27.51% of total purchases during this year and purchases from the largest supplier included therein amounted to approximately 10.35%.

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

Directors

The Directors of the Company are as follows:

Executive Directors

Mr. ZHANG Yadong *(Chairman)*
Mr. XIA Yuan *(Chief Executive Officer)*
Mr. ZHENG Bo

Non-executive Directors

Mr. LI Zhongxiang *(Vice Chairman)**
Mr. QI Lian

Independent Non-executive Directors

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

* Members of the Audit Committee

Directors (Continued)

In accordance with clauses 87 and 88 of the Company's bye-laws, Mr. Qi Lian, Mr. Bao Yi, and Mr. Ping Fan will retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting 2019, as informed to the Board.

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

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

Directors' Biographies

Biographical details of the Directors of the Company are set out on pages 31 to 33 of this annual report.

Directors' Service Contracts

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

Directors' Interests in Contracts

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2018.

Related Party Transactions

During the year ended 31 December 2018, the Group had not entered into any non-exempt connected transaction under the Listing Rules. Related party transactions entered into by the Group during the year ended 31 December 2018, which do not constitute non-exempt connected transactions under the Listing Rules, are disclosed in Note 33 to the consolidated financial statements.

Competing Interest

During the year ended 31 December 2018, none of the Directors, the controlling shareholders, and their respective close associates (as defined under the Listing Rules) was interest in any business which competes or may compete with the business of the Group.

Contract of Significance

There was no contract of significance between the Company or any of its subsidiaries, and the controlling shareholders or any of its subsidiaries as at 31 December 2018.

Directors' Interests in Shares and Underlying Shares

As at 31 December 2018, none of the Directors had any interest or short position in the share capital of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), that was required to be recorded in the register pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Directors' Rights to Acquire Shares or Debentures

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

Substantial Shareholder's Interest in Shares and Underlying Shares

At 31 December 2018, according to the register required to be kept by the Company under section 336 of the SFO, the following persons (other than the Directors or Chief Executive of the Company) had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long position in the Shares

Name of Shareholder	Nature of Interest	Number of the ordinary shares held	Approximate percentage of total shareholding %
Unis Technology Strategy Investment Limited *(note 1)*	Beneficial owner	986,829,420	67.82
Chen Ping	Beneficial owner	100,000,000	6.87
Reach General *(note 2)*	Beneficial owner	94,460,000	6.49
But Tin Fu *(note 3)*	Beneficial owner/ interest of controlled corporation	87,783,168	6.03

Notes:

1. Unis Technology Strategy Investment Limited is wholly owned by Beijing Unis Capital Management Co., Ltd. (北京紫光資本管理有限公司), which in turn, is wholly owned by Tsinghua Unigroup Co., Ltd. (紫光集團有限公司). Tsinghua Unigroup Co., Ltd. (紫光集團有限公司) is owned as to 51% by Tsinghua Holdings Co., Ltd. (清華控股有限公司) and 49% owned by Beijing Jiankun Investment Group Co., Ltd. (北京健坤投資集團有限公司). Tsinghua Holdings Co., Ltd. (清華控股有限公司) is wholly owned by Tsinghua University (清華大學) and Beijing Jiankun Investment Group Co., Ltd. (北京健坤投資集團有限公司) is owned as to 70% by Mr. Zhao Weiguo.

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

3. Mr. But Tin Fu is interested in 87,783,168 shares, comprising (a) 37,525,200 shares directly held by Mr. But Tin Fu, (b) 3,796,000 shares directly held by Sun East Group Limited, which is beneficially owned as to 50% by Mr. But Tin Fu and 50% by Ms. Leung Hau Sum, who is the wife of Mr. But Tin Fu, (c) 2,242,800 shares directly held by Sum Win Management Corp., which is wholly owned by Mr. But Tin Fu and (d) 44,037,168 shares directly held by Mind Seekers Investment Limited, which is wholly owned by Mr. But Tin Fu.

Substantial Shareholder's Interest in Shares and Underlying Shares (Continued)

Long position in the shares (Continued)

Save for the interests disclosed above, the Company had not been notified of any other person (other than the Directors or Chief Executive of the Company) who had interests (whether direct or indirect) or short positions in the shares or underlying shares of the Company that were required to be recorded in the register kept by the Company under Section 336 of the SFO as of 31 December 2018.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the reporting year.

Pre-emptive Rights

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

Management Contracts

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

Tax Relief

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

Permitted Compensation Provision

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

Events After the Reporting Date

The Group has no material events subsequent to the date of this report.

Segmental Information

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

Environmental Policies Performance

The Group is committed to the maintenance of the long-term sustainability of the environment and communities in which it operates. As a responsible corporation, to the best knowledge of the Directors, the Group has complied with the relevant laws and regulations regarding environmental protection during the year ended 31 December 2018.

Compliance with the Relevant Laws and Regulations

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

Relationship with Suppliers, Customers and Other Stakeholders

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

Equity-Linked Agreement

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

Directors' Remuneration

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

Sufficiency of Public Float

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

Auditor

The Company has appointed PricewaterhouseCoopers ("PwC") as the auditor of the Company with the effective period from 27 September 2016 to fill the casual vacancy due to the resignation of BDO Limited.

PwC has retired and has been reappointed at the 2018 Annual General Meeting of the Company with its terms of office until the conclusion of the forthcoming annual general meeting of the Company. It will be eligible and offer itself for re-appointment at that meeting.

Save as the above, there has been no other change in auditor of the Company in the preceding three years.

On behalf of the Board

Zhang Yadong
Chairman

Hong Kong
27 March 2019

Reporting standard and scope

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

The Report is prepared by the Group relevant to the environmental, social and governance information and activities of the Group during the period from 1 January 2018 to 31 December 2018 (the "Period Under Review"). The environmental data in the Report mainly covers the Group's production area in Shenzhen, Guangdong Province, Mainland China (the "Site") which bears the Group's major production activities, and the data is mainly derived from internal records and estimates.

Content of the Report

In recent years, voices of the whole society for environmental protection have been running high. The increasingly pressing environmental topics such as air treatment, water source protection, rubbish treatment and ecological protection urgently need joint efforts and close cooperation across the society. The Group is well aware that an enterprise is a part of the society, and that steady operation of enterprises is dependent upon the sustainable development of the environment and various resources, and would be impossible if there were no support from stakeholders. During the Period Under Review, the Group actively fulfilled its corporate social responsibilities. Compared with the last year, several indicators of the Group were decreased thanks to its strict compliance with the laws and regulations, continuous monitoring of various emissions and wastes, and the reduction of unnecessary energy consumption through several energy-saving and emission-reducing measures in the production and operation process. In addition, the Group also developed the relevant policies and pooled considerable resources in respect of employee training, maintenance of relations with suppliers and customers, and community investment. The Group was committed to creating a good interaction with major stakeholders.

Therefore, the Group hereby prepares this Report to provide an overview of management concept and specific measures of the Group in respect to environmental protection, personnel development and operation and to detail the efforts made by the Group to effectively perform its corporate social responsibilities as well as the resulted achievements. In future, the Group will continue deeply performing its corporate social responsibilities, and will promote the harmony between its development and the environmental protection in terms of such external and internal aspects as manufacturing of products, operation of business, training of employees, management of supply chains and community charity activities.

1. Environment

Emissions

The Group is principally engaged in SMT equipment manufacturing business in the Site in Shenzhen. It does not produce large-scale and highly polluting emissions in the production process, and the Site has been strictly complying with the *Law of the People's Republic of China for Environmental Protection*, the *Law of the People's Republic of China for Environmental Protection Tax* and other laws and regulations for environmental protection. During the Period Under Review, the major air pollutants produced in the production and operation of the Site were waste gas and particles emitted by transport vehicles. In terms of amount of emission, top waste was the nitrogen oxide (NOx), with total amount of approximately 4.32kg, representing a decrease of approximately 33% compared with the same period last year. Total amount of sulfur dioxide (SOx) was approximately 0.10kg, representing an increase of approximately 0.03kg compared with the same period last year. Total amount of particle emissions (PM) was approximately 0.32kg, representing a decrease of approximately 22% compared with the same period last year. The Group reviewed and implemented the internal regulations for management of transportation tool on annual basis, and strictly monitored and recorded use of the transportation tool and its rationality to ensure resources are utilised fully and effectively.

In terms of greenhouse gas emission, the Group formulated detailed internal management regulations, guidelines and appraisal standards pursuant to requirements of different production stages and operations on Site, and also strengthened environmental protection awareness education to minimise unnecessary waste of resources. During the Period Under Review, total amount of greenhouse gas directly discharged by the Group was approximately 18.22 tons, which was mainly generated from lead-free gasoline consumed by the transportation tool, including approximately 15.88 tons of carbon dioxide (CO_2), approximately 0.04 tons of methane (CH_4), and approximately 2.31 tons of nitrous oxide (N_2O). In addition, given that the Group mainly relied on the purchased electricity rather than fossil fuel, oil or liquefied petroleum gas to provide the energy for production and operation within the Site of the Group, the greenhouse gas (carbon dioxide (CO_2)) indirectly resulted from the purchased electricity was approximately 842.50 tons during the Period Under Review, representing a decrease of 18.77% as compared with the same period last year. The greenhouse gases indirectly produced were calculated based on the emission coefficient provided in the Guangdong Province Enterprise (Unit) Carbon Dioxide Emissions Information Reporting Guide (2014).

Waste

Since the Group has outsourced the sector of basic processing, no hazardous waste such as sewage and sludge was generated during the production. In the Period Under Review, the harmless wastes produced within the Site amounted to approximately 21 tons, which represented a drop of about 56% as compared to 48.15 tons in the same period last year. Harmless wastes were mainly office and living garbage in the Site (including the staff accommodation area).The Group has established detailed regulations on the management of recycling of various types of waste produced during the production and operation with reference to the national and local laws and regulations such as the *Law of the People's Republic of China for Environmental Protection*, *Law of the People's Republic of China for Environmental Protection Tax*, *Law* of *the People's Republic of China on the Prevention and Control of Environmental Pollution Caused by Solid Waste* and *Administration Measures of Shenzhen City for Classification and Reduction of Living Garbage* to ensure the effective recycling and disposal of various wastes. Some examples were the establishment of the special garbage recycling station in the Site, placement of garbage from production workshops, warehouses, offices, dormitories and other areas in the Site according to the categorisation of recyclable, non-recyclable and production tailings, and recycling or detoxification of waste by external cleaning companies on a classification basis to avoid a waste of resources and the occurrence of secondary contamination as a result of the waste.

Use of resources

Electricity and water resources are consumed during the production and operation activities of the Group. The Group has fully been aware of the effect of generation of electricity on the environment and the urgent demands for protection of water resources. During the Period Under Review, the Group took several measures to minimise unnecessary consumption of resources, which allowed for further reduction of electricity and water consumptions. Specially, during the period from 1 January 2018 to 31 December 2018, the Group's Site consumed a total of 1,318,545 kWh of electricity, which represented a decrease of approximately 19% as compared to 1,624,305 kWh during the same period last year, while consumed 17,875 m^3 of water, which represented a decrease of approximately 3.32% as compared to 18,489 m^3 during the same period last year. The Group has established regulations internally on the management of electricity in accordance with policies and regulations such as the *Law of the People's Republic of China for Energy Saving*, requiring the departments of production and operation to safely and rationally use electricity in strict accordance with the relevant stipulations, and also to carry out regular servicing of equipment relevant to production, office and living to ensure stable and efficient operation of the equipment. Referring to the local policies such as *Regulations of Shenzhen City on Water Saving*, the Group also encouraged employees to save water in production and daily life and strictly monitored and recorded the monthly water consumption of the Site so as to promptly discover and review irrational use of water through in-depth analysis of water use data, thus minimising the waste of water resources.

The Group's finished products are mainly SMT-related soldering machine. They have to be packaged using materials such as wooden boards, cardboard boxes, bubble bags and stretch films before dispatching to prevent the finished products from damage during transportation. During the Period Under Review, a total of approximately 249.15 tons of packaging materials were used in the Site, representing a decrease of approximately 13% as compared with 215.24 tons last year. The Group mainly used simple and recyclable packaging materials and avoided excessive or repeated packaging to minimise a waste of resources.

According to the judgment of the management on the basis of business type and operating mode of the Group, business activities of the Group do not have significant impact on the environment and natural resources, and the Group has established definite regulations on the management of a series of environment and resources problems such as waste gases management, noise management, waste management, and energy saving and emission reduction that were involved in the daily operation and production activities of the Site with reference to the relevant national laws, regulations and regulatory standards, and continuously monitored the implementation of such management regulations and regularly reviewed the relevant stipulations in order to properly tackle the environment and resource problems that may be involved in production and operation activities, thus minimising the adverse effects on the environment.

2. Employees

Employee employment and labour standards

Adhering to the management philosophy of "Putting People into First Place" and the corporate values of "Creation, Sharing, Undertaking and Conveying", the Group is committed to sharing the common achievements with employees, creating a good platform and development space for employees, and creating a harmonious, warm, healthy and upward atmosphere through continuous improvement in the employee management system and rewards mechanism.

The Group strictly complied with employment-related laws and regulations such as the *Labour Law of the People's Republic of China*, the *Contract Law of the People's Republic of China*, the *Labour Contract Law of the People's Republic of China* and the *Employment Promotion Law of the People's Republic of China*, and signed employment contracts with employees and formulated perfect employment rules and regulations in accordance with the requirements of laws and regulations to protect the rights to which employees are entitled such as rights of salary, welfare and reasonable working hours.

In the aspects of employee employment, assessment, training and promotion, the Group provided fair opportunities for candidates and employees and did not assess them in terms of age, sex, race, marital status, religion and nationality, physical disability, sexual orientation or political background, etc. At the same time, the Group attached great importance to and cared about employees in difficulty and female employees, and gave them care in terms of policy and mechanism, thus safeguarding their legal rights and interests. The Group also provided employees with various benefits such as festivals benefits, birthdays benefits, and occupational health examination, and provided various subsidies such as meals, transportation, and telephone charges. Through various material and non-material rewards and incentive policies, the satisfaction and enthusiasm of employees were improved.

During the Period Under Review, the Group made innovations in the area of employee cultural activities to enrich activities of employees in their free time, including holding online and offline holiday care activities such as sending blessings on Mother's Day, parent-child interaction activities such as cake making, and opening a green vegetable garden in the Site, in which employees could enjoy planting and harvesting in their spare time.

The Group implemented a flexible remuneration system, in which factors such as employee qualifications, abilities, level of market wage and corporate profits were considered. During the Period Under Review, the Group did not violate any local government policies on employees' salaries. In addition, the Group prohibits the use of child labour and forced labour in any workplace.

According to the operation development needs, the Group phased out production manufacturing equipment and capacity lagging behind and affecting the environment and adjusted personnel structure during the phase out, and the adjustment was in line with the requirements of government policies and regulations.

Employee health and safety

The Group adheres to the management philosophy of "safety first, prevention utmost" and always pays attention to protecting employees' occupational health and work safety.

The Group has formulated the *Safety Management System* and *Comprehensive Contingency Plan* to systematically manage safe production, and the Group has established *Safe Operation Procedures* on all posts based on job characteristics to provide clear guidance for each aspect of work safety. Through the establishment of the safe production committee and the appointment of security officers at all levels, the Group realised institutional and daily safety inspection, and promptly discovered and eliminated potential safety risks relying on the management by wandering around, thus implementing the safety & prevention in each detail of the work. During the Period Under Review, the Group further upgraded the supporting hardware facilities, strengthened the work safety protection equipment for employees in the production workshop, and comprehensively renovated the workplace to reduce hidden dangers in production operations. In addition, from the perspective of enhancing safety awareness of employees, the Group conducted a total of more than 30 hours of safety training for nearly 400 persons during the Period Under Review, representing an increase of approximately 33% as compared with the nearly 300 persons in the same period last year. The Group conducted the full 5S commitment in departments of production and operation of the Site to ensure work safety in terms of system and awareness.

The Group values health of its employees. During the Period Under Review, the Group provided all employees with comprehensive physical examinations, set up internal gymnasiums and organised various sports competitions and culture & sports learning classes for employees, advocating the health concept of keeping fit through exercise. The Group also continuously cleaned and maintained the drinking water equipment in the Site to ensure water safety. For the staff accommodation area in the Site, the Group regularly evaluated the hygiene and safety index of the dormitory, and promptly repaired and changed indoor supplies, thus providing a clean and safe living environment for staff.

Employee development and training

The Group always regards "occupational training" as the greatest welfare of its employees, attaches great importance to the professional development of employees and the improvement of their overall quality, especially the cultivation of their professional skills and professional qualities. During the Period Under Review, the Group arranged 224 persons to participate in external management and skills training by "bringing in and going out", and organised 224 hours of internal technical and business training for 2,074 persons, thus establishing an upward atmosphere in which all employees are willing to study and highly motivated. In terms of professional quality, the Group independently organized and planned large-scale indoor outward bounds trainings to further enhance the cohesion and collaboration of the staff team. It also employed external lecturers and invited professional trainers to teach specialized courses on professional quality for the employees to strengthen their understanding and knowledge of professional quality through the combination of theoretical teaching and interactive experience.

The Group also focuses on improving the overall quality of employees and cultivating their personal sentiment. During the Period Under Review, the Group organised and carried out culture and sports classes such as calligraphy and Tai Chi for employees, and provided employees with a talent showcase platform through internal arts shows and sports competitions.

3. Operation

Supply chain management

The Group has a sound and reasonable management mechanism to select, evaluate and continuously assess suppliers so as to perform the procurement process and meet the procurement needs in a fair and open manner. Supplier assessment of the Group covers the following aspects: the capability to deliver products and services, the technical standards of supplied materials, the supplier's capability of quality assurance and the trial of material samples. For specific materials, the supplier also needs to sign an environmental guarantee agreement to ensure that the material is in compliance with relevant environmental management substance requirements and labeling requirements and does not contain hazardous chemical substances specific to the Group.

The Group also continuously conducts regular evaluations on existing suppliers to evaluate the supply prices, delivery conditions, quality of materials and service based on current market conditions, in order to ensure that continuous quality products and services are received at a reasonable price. All evaluation procedures of relevant suppliers of the Group are jointly participated by departments such as procurement, research and development, quality control and production departments to ensure that the procedures are carried out in an equal, scientific and transparent manner.

Product liability

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

The Group also formulated stipulations on confidentiality, under which the Group keeps the customer information obtained in the course of business strictly confidential, and confidentiality provisions are included in contracts entered with customers to prevent the disclosure of confidential or private information.

Anti-corruption

The Group attaches great importance to professional conduct and integrity, and all businesses are subject to the Anti-Bribery Ordinance in Hong Kong and the relevant anti-corruption legislations in Mainland China. Also, the Group reviewed business activities and relevant rules of the Directors and employees, and bound their actions through the internal audit department and risk management committee to ensure that they are in compliance with anti-corruption requirements. The Group believes that the above measures are necessary for the long-term sustainable development of the Company and hence can obtain trust from employees, customers, suppliers or other stakeholders under open standards.

Community investment

Enterprise development depends on social stability and harmony. The Group actively undertakes corporate social responsibility, continuously participates in various public welfare activities and community construction in community where it is located, and is committed to promoting the common development of enterprises and communities.

During the Period Under Review, the Group further strengthened its corporate volunteering team and led more employees to participate in social welfare affairs, including participating in community public welfare awareness activities and public welfare services at stations, actively strengthened interaction and cooperation with relevant community organisations, and put forward various suggestions for improving the community environment. In addition, the Group has actively responded to the call for "precise poverty alleviation" in Mainland China. The Group encouraged the employees to make donations to impoverished areas through multiple events such as "Warmth carried by the Spring Breeze" (春風送暖).

Looking to the future, the Group will continue to care about development of the community where it is located, and will make contributions to the development of community by active participation in the community construction in a responsible and active manner.

羅兵咸永道

To the Shareholders of Unisplendour Technology (Holdings) Limited
(incorporated in Bermuda with limited liability)

Opinion

What we have audited

The consolidated financial statements of Unisplendour Technology (Holdings) Limited (the "Company") and its subsidiaries (hereafter collectively, the "Group") set out on pages 56 to 147, which comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2018;
- the consolidated balance sheet as at 31 December 2018;
- the consolidated statement of changes in equity for the year ended 31 December 2018;
- the consolidated statement of cash flows for the year ended 31 December 2018; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows as at that date in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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Basis for Opinion

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

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Impairment of receivables

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of receivables	
Refer to Note 4 Critical accounting estimates and judgements and Note 20 Trade receivables and other receivables of the consolidated financial statements. As of 31 December 2018, stated in the consolidated balance sheet that the total trade and bill receivables of the Group amounted to HK$54,459,000, the provision for impairment on trade and bill receivables was amounted to HK$20,500,000. The Group considered the credit history of the customers and the analysis and assessment on the latest market and business operations updates, and did grouping according to the common characteristics and ageing of credit risk and made provision for impairment by adopting the expected loss of the entire credit loss period of the receivables. We focused on these areas as its significance and the assessment for impairment of receivables involves critical accounting estimates and judgements.	Regarding the impairment of receivables, we performed the following procedures: • Understood and evaluated the Group's internal controls over the process of identifying events or circumstances give rise to impairment of receivables and the respective impairment assessments, and we tested relevant key internal controls; • Evaluated whether the model and method used by the management for calculating the expected credit loss meets the accounting standards; • Evaluated whether the management made reasonable judgement on the grouping of receivables and the characteristics of common risks; • Evaluated the rationality of the interval selection of historical reference and verified the reliability of key data used to calculate historical default rate, including historical credit loss data of each combinations, distribution data of receivables throughout the duration and other parameters; • Understood the factors that management considers in forward-looking information forecasts, including forecasts of future economic, market conditions, and customer conditions, and assess their rationality; • Obtained the calculation files by the management for calculating the expected credit losses for different combinations and verified the accuracy of their calculations; and • Made sampling inspection of customer cash receipts for the balances of receivables as at 31 December 2018 after the end of the financial year. Based on the procedures performed and evidence obtained, we found the accounting estimates and judgements in relation to the provision for impairment of trade receivables were supported by the evidence we obtained.

Other Information

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

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with 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 judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the Year ended 31 December 2018 HK$'000	For the Year ended 31 December 2017 HK$'000 (restated)
Continuing operation			
Operating revenue	5	**71,430**	246,029
Operating cost	8	**(127,992)**	(174,848)
Gross (loss)/profit		**(56,562)**	71,181
Other income	6	**3,868**	2,634
Other gains/(losses), net	7	**9,703**	(8,004)
Distribution costs	8	**(37,380)**	(33,987)
Administrative costs	8	**(64,295)**	(71,323)
Reversal of impairment of receivables	8	**14,157**	25,055
Operating loss		**(130,509)**	(14,444)
Finance income	10	**201**	1,999
Finance costs	10	**(13,301)**	(11,092)
Finance costs, net	10	**(13,100)**	(9,093)
Share of operating results of associates	13(b)	**187**	(6)
Gains from change in fair value of convertible bonds	28	**—**	78,405
(Loss)/profit before income tax		**(143,422)**	54,862
Income tax credit/(costs)	11	**20,822**	(5,558)
(Loss)/profit of continuing operation for the year attributable to equity holders of the Company		**(122,600)**	49,304
Terminated operation			
(Loss)/profit of terminated operation for the year	34(a)	**(319)**	2,265
(Loss)/profit for the year attributable to equity holders of the Company		**(122,919)**	51,569
Other Comprehensive Income			
Items that will not be reclassified subsequently to profit or loss			
Surplus on revaluation of properties	14	**1,448**	10,327
Deferred tax relating to revaluation surplus	29	**23**	(2,222)
		1,471	8,105
Item that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**(13,009)**	20,729
Other comprehensive (loss)/income for the year, net of tax		**(11,538)**	28,834
Total comprehensive (loss)/income for the year		**(134,457)**	80,403

	Notes	**For the Year ended 31 December 2018 HK$'000**	For the Year ended 31 December 2017 HK$'000 (restated)
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company		**(134,457)**	80,403
Comprehensive income attributable to the owner of the Company from:			
Continuing operation		**(134,138)**	78,138
Terminated operation		**(319)**	2,265
Total comprehensive (loss)/income for the year		**(134,457)**	80,403
Earnings per share of continuing operation & terminated operation for the year attributable to the owner of the Company			
Basic (losses)/earnings per share			
From continuing operation		**(8.43) Cents**	3.38 Cents
From terminated operation		**(0.02) Cents**	0.16 Cents
(**Loss**)/**profit for the year**	12(a)	**(8.45) Cents**	3.54 Cents
Diluted loss per share			
From continuing operation		**(8.43) Cents**	(1.18) Cents
From terminated operation		**(0.02) Cents**	0.12 Cents
Loss for the year	12(b)	**(8.45) Cents**	(1.06) Cents

The Notes on pages 63 to 147 are an integral part of these consolidated financial statements.

	Notes	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**139,115**	143,366
Land use rights	15	**9,251**	10,005
Intangible assets	16	**5,868**	—
Deferred income tax assets	29	**13,534**	—
Other non-current assets	20	**2,410**	—
Investment in associate(s)	13(b)	**234,856**	2,634
		405,034	156,005
Current assets			
Inventories	17	**36,385**	39,157
Trade receivables and other receivables	20	**41,580**	74,026
Finance lease receivables		**—**	732
Tax reserve certificates		**5,325**	4,590
Financial assets at fair value through profit or loss	19	**137,339**	256,563
Security and restricted deposits	22	**2,279**	6,656
Cash and cash equivalents	21	**43,305**	234,003
		266,213	615,727
TOTAL ASSETS		**671,247**	771,732
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital and share premium	23	**240,740**	240,740
Other reserves	25	**674,140**	685,678
Accumulative losses	24	**(586,756)**	(463,837)
TOTAL EQUITY		**328,124**	462,581

	Notes	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
LIABILITIES			
Non-current liabilities			
Convertible bonds	28	**118,463**	107,969
Deferred income	30	**4,565**	4,772
Deferred income tax liabilities	29	**14,410**	21,721
		137,438	134,462
Current liabilities			
Trade payables and other payables	26	**74,333**	122,365
Contract liabilities	2.1.2, 26	**12,092**	—
Borrowings	27	**68,478**	—
Current income tax liabilities		**50,782**	52,324
		205,685	174,689
TOTAL LIABILITIES		**343,123**	309,151
TOTAL EQUITY AND LIABILITIES		**671,247**	771,732

The notes on pages 63 to 147 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 56 to 147 were approved by the Board of Directors on 27 March 2019 and were signed on its behalf.

ZHANG Yadong
Director

XIA Yuan
Director

	Notes	Share Capital HK$'000	Share premium HK$'000	Other reserves HK$'000 (Note 25)	Accumulted losses HK$'000	Total equity HK$'000
Balance as at 1 January 2018		145,500	95,240	685,678	(463,837)	462,581
Comprehensive loss						
Loss for the year		–	–	–	(122,919)	(122,919)
Surplus on revaluation of properties	14	–	–	1,448	–	1,448
Deferred tax relating to revaluation of properties	29	–	–	23	–	23
Exchange differences on translation of foreign operations		–	–	(13,009)	–	(13,009)
Total comprehensive loss		–	–	(11,538)	(122,919)	(134,457)
Total transactions with equity holders in their capacity as equity holders		–	–	–	–	–
Balance as at 31 December 2018		145,500	95,240	674,140	(586,756)	328,124

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Share Capital HK$'000	Share premium HK$'000	Other reserves HK$'000 (Note 25)	Accumulted losses HK$'000	Total equity HK$'000
Balance as at 1 January 2017		145,500	95,240	78,676	(515,179)	(195,763)
Comprehensive income						
Profit for the year		–	–	–	51,569	51,569
Changes in the measurement method of convertible equity	28	–	–	577,941	–	577,941
Surplus on revaluation of properties	14	–	–	10,327	–	10,327
Deferred tax relating to revaluation of properties	29	–	–	(2,222)	–	(2,222)
Exchange differences on translation of foreign operations		–	–	20,729	–	20,729
Total comprehensive income		–	–	606,775	51,569	658,344
Transactions with equity holders in their capacity as equity holders						
Transfers to reserve	24	–	–	227	(227)	–
Total transactions with equity holders in their capacity as equity holders		–	–	227	(227)	–
Balance as at 31 December 2017		145,500	95,240	685,678	(463,837)	462,581

The notes on pages 63 to 147 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Cash flows from operating activities			
Cash (used in)/generated from operations	31(a)	**(15,083)**	76,842
Interest paid		**(2,806)**	(3,248)
Interest received		**851**	—
Income tax paid		**(735)**	(2,038)
Net cash (used in)/generated from operating activities		**(17,773)**	71,556
Cash flows from investing activities			
Purchase of property, plant and equipment		**(18,364)**	(6,485)
Proceeds from disposal of property, plant and equipment		**1,121**	5,000
Purchase of available-for-sale financial assets		**—**	(249,725)
Proceeds from the diposal of available-for-sale financial assets		**—**	250,837
Capital contribution to associates	13(b)	**—**	(2,640)
Cash reduced by disposal of a subsidiary	34	**(226,758)**	—
Decrease/(increase) in security and restricted deposits		**1,161**	(3,773)
Cash dividend received	6	**1,343**	—
Interest received		**—**	779
Net cash used in investing activities		**(241,497)**	(6,007)
Cash flows from financing activities			
Proceeds from borrowings	31(c)	**68,478**	19,172
Repayment of borrowings	31(c)	**—**	(146,344)
Net cash generated from/(used in) financing activities		**68,478**	(127,172)
Net decrease in cash and cash equivalents		**(190,792)**	(61,623)
Cash and cash equivalents at the beginning of the year	21	**234,003**	294,052
Exchange gains on cash and cash equivalents		**94**	1,574
Cash and cash equivalents at the end of the year		**43,305**	234,003

The notes on pages 63 to 147 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

1 General Information

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

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

On 30 May 2016, the Company issued 730,000,000 ordinary shares (Note 23) to Unis Technology Strategy Investment Limited ("Unis Strategy Investment Company") at the price of HK$0.4 per share and zero coupon convertible bonds of face value of HK$148,000,000 (Note 28). After the completion of the aforesaid transaction, Unis Strategy Investment Company held 50.17% of the enlarged issued share capital of the Company and became a controlling shareholder of the Company. Pursuant to Rule 26.1 of the Takeovers Code, immediately following the completion of the aforementioned transaction, Unis Strategy Investment Company was required to make an unconditional mandatory cash offer for all the issued shares. On 26 August 2016 (the last date for acceptance of the offer), Unis Strategy Investment Company received a total of 294,659,420 shares, aggregating the shares of the Company already held by Unis Strategy Investment Company, representing 70.42% of the issued share capital of the Company. The percentage of the issued share capital of the Company held by the public reduced to 23.40%. Accordingly, the minimum public float requirement of 25% under Rule 8.08(1)(a) of the Listing Rules was not satisfied. The Company applied to the Stock Exchange for a temporary waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules. On 2 November 2016, Unis Strategy Investment Company disposed of its 37,830,000 shares held in the Company to an independent third party. Following the disposal, 378,303,412 shares of the Company were held by the public. Therefore, the Company has met the requirement of Rule 8.08(1)(a) of the Listing Rules. On 31 December 2017 and 31 December 2018, the percentage of the issued share capital of the Company held by Unis Strategy Investment Company was 67.82%.

These consolidated financial statements are presented in Hong Kong dollar, unless otherwise stated. These consolidated financial statements were approved for issue by the Board of Directors on 27 March 2019.

2 Summary of Significant Accounting Policies

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

2.1 Basis of preparation

These consolidated financial statements of the Company have been prepared in accordance with all applicable HKFRS. These consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets and properties at fair value through profit or loss and properties, which are carried at fair value.

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

2.1.1 Going concern

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements. Further information on the Group's borrowings is set out in Note 27.

2 Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on 1 January 2018:

- HKFRS 9 Financial Instruments;
- HKFRS 15 Revenue from Contracts with Customers;
- Amendments to HKFRS 2 Classification and Measurement of Share-based Payment Transactions;
- HK(IFRIC) Interpretation 22 Foreign Currency Transactions and Advance Consideration; and
- Amendments to HKFRS 28 Investments in Associates and Joint Ventures.

Except for HKFRS 15 Revenue from Contracts with Customers, the adoption of these amendments did not have significant impact on the amounts recognised in prior periods.

From 1 January 2018, the Group has adopted HKFRS 15 Revenue from Contracts with Customers, resulting in changes in the accounting policies. The Group applied HKFRS 15 using the modified retrospective approach, which means that the cumulative effect of the adoption (if any) will be recognised in retained earnings on 1 January 2018 and the comparative figures will not be restated.

2 Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policies and disclosures (Continued)

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

Presentation of contract liabilities

Reclassification was conducted on 1 January 2018 to comply with requirements of HKFRS 15:

Since HKFRS 15 has been adopted on 1 January 2018, advances from customers that were presented in the payables and other payables were re-classified as contract liabilities.

The Group anticipated that no more than one year will be lapsed between the transfer of commodity to customers and payment by customers, therefore, the Group didn't adjust any transaction price for the time value of money.

No extra cost was incurred to complete the identified contracts.

Except for the reclassification of contract liabilities, the time point at which the sales revenue was recognised remained unchanged, therefore, the adoption of HKFRS 15 had no impact on the cumulative loss of the Group as at 1 January 2018.

As at 1 January 2018, the adoption of HKFRS 15 exerted the following impact on the Condensed Consolidated Statement of Financial Position:

	31 December 2017 HK$'000	Reclassification HK$'000	**1 January 2018 HK$'000**
Contract liabilities	—	17,109	**17,109**
Trade payables and other payables	122,365	(17,109)	**105,256**

2 Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policies and disclosures (Continued)

(b) New standards and interpretations not yet adopted

HKFRS 16 Leases

Overview of Changes

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased asset) and a financial liability to pay rentals must be recognised. The only exceptions are short-term and low-value leases.

The accounting for leasers will not significantly change.

Impact

The standard will affect primarily the accounting for Group's operating leases. As at 31 December 2018, the Group's aggregate future minimum lease payments under non-cancellable operating lease are HK$8,260,000 (Note 32), with operating lease commitments related to short-term lease and low-value lease totaling approximately HK$367,000. Amounts of the short-term lease and the low-value lease will be recognised in the profits or losses as expenses in the straight-line method. In respect of the remaining lease commitments, the Group will recognise all such leases as the right-of-use asset and the corresponding liabilities.

The Group will adopt HKFRS 16 on 1 January 2019, which is the mandatory date for adoption of the standard. The Group intends to adopt the simplified transition approach and will not restate the comparative figures for the year prior to first adoption. On the transition date, the right-of-use asset of the lease will be deemed to be measured under the new standard. Any and all right-of-use assets will be measured at the amount of lease liabilities as of the date of adoption (amount adjusted on the basis of prepaid or withheld lease expense).

2 Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policies and disclosures (Continued)

(b) New standards and interpretations not yet adopted (Continued)

HKFRS 16 Leases (Continued)

Date of adoption by the Group

In addition, the following are the new accounting standards and amendments to and interpretation of the existing standards that have been announced and related to the Group but have not yet come into force in the financial year beginning on 1 January 2018, and the Group did not adopt in advance:

	Effective for annual periods beginning on or after
Uncertainty over income tax treatments – HK (IFRIC) Interpretation 23	1 January 2019
Long-term interests in Associates and Joint Ventures – HKAS 28 Amendments	1 January 2019
Annual Improvements to HKFRS Standards 2015–2017 Cycle	1 January 2019
Plan amendment, Curtailment or Settlement – HKAS 19 Amendments	1 January 2019
Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture – HKFRS 10 and HKAS 28 (Amendments)	To be determined

The above new standards and amendments to the standards are effective for the financial year beginning after 1 January 2019 but have not been applied in the consolidated financial statements. These standards and amendments are not expected to have a material impact on the Group's consolidated financial statements.

2 Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries

2.2.1 Consolidation

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

(a) Business combinations

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

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

Acquisition-related costs are expensed as incurred.

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

2 Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(a) Business combinations (Continued)

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

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

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

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

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

2 Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(c) Disposal of subsidiaries

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

2.2.2 Separate financial statements

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

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

2.3 Associates

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

2 Summary of Significant Accounting Policies (Continued)

2.3 Associates (Continued)

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

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

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

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

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

2.4 Segment reporting

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

2 Summary of Significant Accounting Policies (Continued)

2.5 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

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

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

2 Summary of Significant Accounting Policies (Continued)

2.5 Foreign currency translation (Continued)

(c) *Group companies*

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

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

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

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

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

2.6 Property, plant and equipment

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

A revaluation surplus is recognised in other comprehensive income and is credited to other reserves in shareholders' equity, unless the carrying value of that asset has previously suffered a revaluation decrease or impairment loss. To the extent that any decrease has previously been recognised in profit or loss, a revaluation increase is credited to profit or loss with the remaining part of the increase dealt with in other comprehensive income. A decrease in the net carrying value of properties arising on revaluation is recognised in other comprehensive income to the extent of the revaluation surplus in asset revaluation reserve relating to the same asset and the remaining decrease is recognised in profit or loss.

2 Summary of Significant Accounting Policies (Continued)

2.6 Property, plant and equipment (Continued)

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

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

–	Properties	20-22 years
–	Machinery and equipment	5-10 years
–	Furniture, fixtures and property decoration	5-10 years
–	Computer software	3-10 years
–	Motor vehicles	3-10 years

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

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

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

2.7 Land use rights

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

2 Summary of Significant Accounting Policies (Continued)

2.8 Research and development costs

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

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

Costs that can be directly capitalised include the employee costs, material costs and appropriate part of management costs developed from intangible assets.

Capitalised development costs are recorded as intangible assets, and from the time the asset is ready for use, it is amortised on the straight-line basis over its estimated useful lives.

Other development expenditures that do not meet these criteria are recognised as a cost as incurred. Development costs that have been previously recognised as costs will not be recognised as assets in the future.

2 Summary of Significant Accounting Policies (Continued)

2.9 Impairment of investments in non-financial assets

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

2.10 Terminated operation

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

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

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

2 Summary of Significant Accounting Policies (Continued)

2.11 Financial assets

(a) Classification

From 1 January 2018, the Group classifies its financial assets according to the following measurement categories:

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

- financial assets measured at amortised cost.

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

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

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

(b) Recognition and derecognition

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

(c) Measurement

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

2 Summary of Significant Accounting Policies (Continued)

2.11 Financial assets (Continued)

(c) Measurement (Continued)

Debt instrument

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

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

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

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

2 Summary of Significant Accounting Policies (Continued)

2.11 Financial assets (Continued)

(c) Measurement (Continued)

Equity instrument

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

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

(d) Impairment

From 1 January 2018, for trade receivables, the Group uses the simplified approach permitted by HKFRS 9 to measure the expected credit losses of the entire life of the trade receivables at initial recognition, please refer to Note 3.1(b) for details.

(e) Accounting policies adopted as of 31 December 2017

The Group has applied HKFRS 9 retroactively but has chosen not to restate the comparative data. Therefore, the Group will continue to account for the comparative data provided in accordance with the previous accounting policies.

2.12 Offsetting financial instruments

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

2 Summary of Significant Accounting Policies (Continued)

2.13 Inventories

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

2.14 Trade and bills receivables

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

Trade and bills receivables are initially recognised at the consideration without conditions, however, when it contains significant financing components, it needs to be initially recognised at fair value. The purpose of the Group's trade receivables is to collect contractual cash flows, so the trade receivables are subsequently measured at amortised cost using the effective interest method. Please refer to Note 20 for more information on the accounting treatment of the Group's trade receivables. Please refer to Note 3.1(b) for the Group's impairment policy.

2.15 Cash and cash equivalents

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

2.16 Share capital

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

2 Summary of Significant Accounting Policies (Continued)

2.17 Trade and bills payables

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

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

2.18 Borrowings

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

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

2.19 Borrowing costs

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

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

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

2 Summary of Significant Accounting Policies (Continued)

2.20 Convertible bonds

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

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

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

2.21 Current and deferred income tax

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

(a) *Current income tax*

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

2 Summary of Significant Accounting Policies (Continued)

2.21 Current and deferred income tax (Continued)

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

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

(c) Offsetting

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

2 Summary of Significant Accounting Policies (Continued)

2.22 Employee benefits

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

(a) *Defined contribution plan*

Retirement benefits to employees are provided through defined contribution plans.

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

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

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

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

(b) *Short-term employee benefits*

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

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

2 Summary of Significant Accounting Policies (Continued)

2.22 Employee benefits (Continued)

(c) Termination benefits

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

2.23 Provisions

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

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

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

2 Summary of Significant Accounting Policies (Continued)

2.24 Revenue recognition

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

(a) *Revenue generated from contracts with customers*

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

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

(b) *Securities investment income*

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

2.25 Interest income

Interest income from financial assets measured at amortized cost (2017: loans and receivables) is calculated using the effective interest method and recognised in the consolidated statement of comprehensive income. Interest income from financial assets held for cash management purposes is presented as financial income (please refer to Note 10), and other interest income is included in other income.

2 Summary of Significant Accounting Policies (Continued)

2.26 Dividend income

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

2.27 Government grants

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

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

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

2.28 Lease

(a) Where the Group is the lessor of financial lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Upon the commencement of the lease term, the Group recognises the minimum lease payments as finance lease receivables, and recognises unguaranteed residual value as assets under the same category. The Group recognises the difference between (a) the total of unguaranteed residual value and minimum lease payments and (b) the present value of such payments (carried as finance lease receivables, net in the balance sheet) as unearned finance income. Minimum lease payments are payments over the lease term that the lease is or can be required to make plus any residual value guaranteed to the lessor by the lessee, or a party unrelated to the lessor.

2 Summary of Significant Accounting Policies (Continued)

2.28 Lease (Continued)

(a) *Where the Group is the lessor of financial lease (Continued)*

Unearned finance income is allocated to each period during the lease term using the effective interest method that allocates each rental between finance income and repayment of capital in each accounting period in such a way that finance income is recognised as a constant periodic rate of return on the relevant net investment in the leases (implicit effective interest rate).

Initial direct costs such as commission, legal fees and internal costs that are incremental and directly attribute to negotiating and arranging a lease, are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

In respect of derecognition and impairment, finance lease receivables are treated as loans and receivables.

The impairment loss of finance lease receivables is measured by the difference between the carrying amount of receivables and the present value of estimated future cash flows (discounted based on the implied effective interest rate used in initial recognition).

(b) *Where the Group is the lessee*

<u>Lessee of operating lease</u>

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessees. Payments received from lessees under operating leases (net of any incentives grant to the lessor) are recognised in the profit or loss on a straight-line basis over the lease periods.

<u>Lessee of finance lease</u>

The leased asset is recognised as the lower of the fair value of the leased assets and the present value of the minimum lease payments, the difference between the leased assets and minimum lease payment is recognised as unrecognised finance expenses using the effective interest method to amortise during the lease periods. The minimum lease payments less unrecognised finance expenses is stated as financial lease liability.

2 Summary of Significant Accounting Policies (Continued)

2.29 Dividend distribution

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

3 Financial Risk Management

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

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

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

As at 31 December 2017, if Renminbi had weakened/strengthened by 5% against Hong Kong dollar and US dollar with all other variables held constant, the Group's profit after tax for the period would have been increased/decreased by HK$1,713,000, mainly as a result of exchange losses/gains on translation of US dollar denominated cash and cash equivalents of the Group's subsidiaries in Mainland China.

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

(ii) Price risk

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

The Group's equity investments in other entities are stocks publicly traded in the stock market. As at 31 December 2018, the equity investments of the Group consist of stocks that are traded in the Main Board of the Stock Exchange. Therefore, the Groups's profits and interests after tax would be affected by the increased or decreased of the shares held by the Group, if the shares held by the Group had increased/decreased by 5%, with all other factors held constant, the Group's after-tax profit (i.e. equity) would have been increased/decreased by approximately HK$5,734,000 (year ended 31 December 2017: HK$10,711,000).

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Cash flow and fair value interest rate risk

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

(b) Credit risk

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

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

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

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

To measure the expected credit losses of trade and bills receivables, trade and bills receivables are grouped according to the common credit risk characteristics and ageing. As at 31 December 2018 and 1 January 2018, the provision rate is as follows. The following expected credit losses considered the factors of forward-looking information:

	As at 31 December 2018			As at 1 January 2018		
	Overall expected credit loss rate	Book value HK$'000	Provisions HK$'000	Overall expected credit loss rate	Book value HK$'000	Provisions HK$'000
Current period	0.1%	20,460	20	0.1%	27,519	28
Overdue for 6 months or less	0.1%	7,722	8	0.1%	12,028	12
Overdue for 6 months to 1 year	27.3%	2,570	702	22.1%	660	146
Overdue for 1 year to 2 year	50.8%	4,585	2,328	48.7%	6,473	3,154
Overdue more than 2 years	91.2%	19,122	17,442	65.7%	51,834	34,054
		54,459	20,500		98,514	37,394

The adoption of the new expected credit loss model in HKFRS 9 did not result in additional impairment losses on the trade and bills receivables as at 1 January 2018.

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

3 Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(c) *Liquidity risk*

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

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

	Within 1 year HK$'000	1 to 5 years HK$'000	Total HK$'000
As at 31 December 2018			
Trade payables and bills payables	**33,304**	**–**	**33,304**
Other payables and accrued expenses	**5,205**	**–**	**5,205**
Borrowings	**69,688**	**–**	**69,688**
Convertible bonds	**–**	**148,000**	**148,000**
	108,197	**148,000**	**256,197**
As at 31 December 2017			
Trade payables and bills payables	49,613	–	49,613
Other payables and accrued expenses	11,595	–	11,595
Convertible bonds	–	148,000	148,000
	61,208	148,000	209,208

3 Financial Risk Management (Continued)

3.2 Capital risk management

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

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

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

	31 December 2018 HK$'000	31 December 2017 HK$'000
Net liabilities	**343,123**	309,151
Total assets	**671,247**	771,732
Gearing ratio	**51.12%**	40.06%

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2018 and 31 December 2017 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

3 Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

See Note 14 for disclosure of the properties that are measured at fair value and Note 19 for disclosure of the financial assets at fair value through profit or loss.

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

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
ASSETS				
Trading securities (Note 19)	**137,339**	**—**	**—**	**137,339**

Financial instruments at fair value as at 31 December 2017 were as follows:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
ASSETS				
Trading securities (Note 19)	256,563	—	—	256,563

There was no transfer between Level 1, 2 and 3 during the year.

As at 31 December 2017 and 31 December 2018, current financial assets (including cash and cash equivalents, security deposits, restricted deposits, trade and bills receivables, finance lease receivables and other receivables), current financial liabilities (including trade payables, other payables and other accruals), and the fair value of convertible bonds in non-current liabilities are all similar to their carrying values.

4 Critical Accounting Estimates and Judgements

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

4.1 Critical accounting estimates and assumptions

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

(a) Impairment of trade receivables and other receivables

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

(b) Income taxes

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

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

4 Critical Accounting Estimates and Judgements (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(c) Net realisable value of inventories

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

(d) Development cost capitalisation

When the recognition standard in accordance with Note 2.8 are met, the development costs are capitalised as intangible assets. Based on the historical experience of existing products and market prospects, the management determines whether the research and development of these patents, etc., will bring future economic benefits to the Group through professional judgment. Any significant changes in market performance and technology development will affect the capitalisation of development costs.

5 Segment Information

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

Originally, the principal business of the Group is the production and sales of industrial products, finance lease and factoring, and securities investment. According to Note 34, after divesting part of the business, the Group will not proceed the finance lease and factoring business. During the year ended 31 December 2018 and 31 December 2017, the results of this business have been classified as terminated operation of the Group.

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

5 Segment Information (Continued)

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

	Year ended 31 December 2018					
	Production and sales of industrial products HK$'000	Securities investment HK$'000	Unallocated activities HK$'000	Continuing operation segment total HK$'000	Terminated operation segment HK$'000	Total HK$'000
Segment revenue/(loss)	181,497	(112,682)	2,615	71,430	23	71,453
Segment results	53,592	(112,769)	2,615	(56,562)	(10)	(56,572)
Other income	2,525	1,343	–	3,868	–	3,868
Other gains, net	9,673	–	30	9,703	337	10,040
Distribution costs	(37,380)	–	–	(37,380)	–	(37,380)
Administrative costs	(40,457)	(8,692)	(15,146)	(64,295)	(2,406)	(66,701)
Reversal of impairment of receivables	14,157	–	–	14,157	–	14,157
Finance (costs)/income, net	(2,605)	(3)	(10,492)	(13,100)	650	(12,450)
Share of results of associates	–	–	187	187	–	187
Earning from disposal of a subsidiary	–	–	–	–	1,110	1,110
Loss before income tax	(495)	(120,121)	(22,806)	(143,422)	(319)	(143,741)

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

5 Segment Information (Continued)

The segment information for the year ended 31 December 2017 is presented as follows:

	Year ended 31 December 2017					
	Production and sales of industrial products HK$'000 (restated)	Securities investment HK$'000	Unallocated activities HK$'000	Continuing operation segment total HK$'000 (restated)	Terminated operation segment HK$'000 (restated)	Total HK$'000
Segment revenue	195,989	50,040	–	246,029	6,999	253,028
Segment results	22,126	49,055	–	71,181	6,999	78,180
Other income	2,634	–	–	2,634	1,112	3,746
Other (loss)/gain, net	(8,826)	24	798	(8,004)	1,762	(6,242)
Distribution costs	(33,987)	–	–	(33,987)	(1,057)	(35,044)
Administrative costs	(48,933)	(8,258)	(14,132)	(71,323)	(6,193)	(77,516)
Reversal of impairment of receivables	25,055	–	–	25,055	–	25,055
Finance (costs)/income, net	(1,674)	7	(7,426)	(9,093)	440	(8,653)
Share of results of associates	–	–	(6)	(6)	–	(6)
Earning from changes in fair value of convertible bonds	–	–	78,405	78,405	–	78,405
(Loss)/profit before income tax	(43,605)	40,828	57,639	54,862	3,063	57,925

	As at 31 December 2017					
	Production and sales of industrial products HK$'000	Securities investment HK$'000	Unallocated activities HK$'000	Continuing operation segment total HK$'000 (restated)	Terminated operation segment HK$'000 (restated)	Total HK$'000
Segment total assets	316,626	256,917	28,038	601,581	170,151	771,732

For the year ended 31 December 2018 and 31 December 2017, the revenue of the Group is mainly arising from Mainland China and Hong Kong.

Revenue of approximately HK$6,016,000 (year ended 31 December 2017: HK$8,000,000) was derived from a single external customer. Such revenue was derived from the production and sales of industrial products segment.

As at 31 December 2018 and 31 December 2017, except for the financial instruments, the Group's non-current assets were located in Mainland China and Hong Kong.

6 Other Income

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000 (restated)
Income from sales of scraps	**2,525**	2,634
Cash dividends	**1,343**	—
	3,868	2,634

7 Other Gain/(Losses), Net

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000 (restated)
Losses on scrap inventories and inventory short	**—**	(8,257)
Gain/(loss) on disposal of property, plant and equipment	**37**	(239)
Exchange gains/(losses)	**1,546**	(1,619)
Compensation income	**2,224**	944
Government grants	**2,265**	1,770
Payment of liquidated damage	**—**	(35)
Waiver of accounts payable	**3,969**	—
Others	**(338)**	(568)
	9,703	(8,004)

8 Expenses by Nature

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000 (restated)
Raw materials and consumables	**106,232**	146,303
Employee benefits expense	**68,942**	68,415
Operating lease expenses	**11,498**	12,112
Depreciation	**8,849**	8,466
Research and development expense	**5,541**	8,569
Professional service fees	**4,812**	5,191
Travelling expense	**3,127**	3,849
Promotion and exhibition fee	**2,873**	3,011
Installation and maintenance fee	**2,779**	1,901
Utilities	**2,331**	2,546
Other taxes	**2,060**	3,076
Auditors' remuneration - audit services	**2,146**	2,302
Office expenses	**1,613**	2,061
Entertainment expenses	**1,139**	843
Vehicles expenses	**949**	1,017
Provision for impairment of inventories	**803**	2,035
Transportation expense	**491**	2,963
Amortisation of land use rights	**316**	322
Reversal of impairment of receivables	**(14,157)**	(25,055)
Others	**3,166**	5,176
	215,510	255,103

9 Employee Benefit Expense

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000 (restated)
Wages and salaries	**64,715**	63,051
Defined contribution plan (a)	**3,753**	4,111
Termination benefits (b)	**474**	1,253
	68,942	68,415

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

(b) Termination benefits

For the year ended 31 December 2018, provision made for employee termination benefits amounted to HK$474,000 due to continuing business restructuring and business transformation carried out in the Group's subsidiaries located in Mainland China (year ended 31 December 2017: HK$1,253,000).

9 Employee Benefit Expense (Continued)

(c) Five highest paid individuals

The five highest paid individuals in the Group did not include Directors (year ended 31 December 2017: 5) for the year ended 31 December 2018. The Directors' emoluments are reflected in the analysis shown in Note 36. The emoluments payable to the five (year ended 31 December 2017: 5) highest paid individuals for the year ended 31 December 2018 are as follows:

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Basic salaries, allowances and benefits in kind	**6,078**	6,591
Contribution to pension scheme	**39**	237
	6,117	6,828

The emoluments fell within the following bands:

	Number of individuals	
	Year ended 31 December 2018	Year ended 31 December 2017
Emolument bands (HK$)		
HK$500,001 - HK$1,000,000	**2**	1
HK$1,000,001 - HK$2,000,000	**3**	3
HK$2,000,001 - HK$3,000,000	**–**	1

10 Finance Costs, Net

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000 (restated)
Finance income:		
– Interest income from bank deposits	(201)	(339)
– Exchange gains	–	(1,660)
	(201)	(1,999)
Finance costs:		
– Interest expenses on bank and other borrowings	2,807	3,248
– Amortisation of interest expenses on convertible bonds	10,494	7,423
– Discount interest on bills	–	421
	13,301	11,092
Finance costs, net	13,100	9,093

11 Income Tax (Credit)/Expense

Hong Kong profits tax has been provided at the rate of 16.5% (year ended 31 December 2017: 16.5%) on the estimated assessable profit for the year. The applicable tax rate of the subsidiaries of the Group in Mainland China is 25% (year ended 31 December 2017: 25%). Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000 (restated)
Current income tax	–	194
Deferred income tax (Note 29)	**(20,822)**	5,364
Income tax (credit)/expense	**(20,822)**	5,558

11 Income Tax (Credit)/Expense (Continued)

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

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000 (restated)
(Loss)/Profit before income tax	**(143,422)**	54,862
Tax at the statutory tax rates	**(20,550)**	6,192
Tax effects of:		
– Income not subject to tax	**(222)**	(12,937)
– Expenses not deductible for tax purposes	**746**	1,452
– Utilisation of previously unrecognised tax losses and other temporary differences	**(4,370)**	(349)
– Tax loss for which no deferred income tax asset was recognised	**3,574**	11,200
Income tax (credit)/expense	**(20,822)**	5,558

12 (Losses)/Earnings per Share

(a) Basic

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

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000 (restated)
(Losses)/earnings from continuing operation attributable to equity holders of the Company	**(122,600)**	49,304
(Losses)/earnings from terminated operation attributable to equity holders of the Company	**(319)**	2,265
(Losses)/earnings attributable to equity holders of the Company	**(122,919)**	51,569
Weighted average number of ordinary shares in issue *(in thousands)*	**1,455,000**	1,455,000
Basic (losses)/earnings per share:		
from continuing operation	**(8.43) Cents**	3.38 Cents
from terminated operation	**(0.02) Cents**	0.16 Cents
	(8.45) Cents	3.54 Cents

(b) Diluted

In 2017, diluted earnings per share were calculated based on the weighted average number of ordinary shares in issue, assuming that all diluted potential ordinary shares were converted into ordinary shares. The diluted potential ordinary shares of the Company refer to the convertible bonds in Note 28. The convertible bonds are assumed to be converted into ordinary shares, and the net profit is adjusted to eliminate the gains from changes in fair value of convertible bonds and interest expense less the tax effect.

12 (Losses)/Earnings per Share (Continued)

(b) Diluted (Continued)

In 2018, as it is assumed that the conversion of the Company's outstanding convertible bonds will result in a decrease in losses per share for the period, it is not assumed that the Company's outstanding convertible bonds have been exercised in the calculation of the diluted losses per share for the year ended 31 December 2018.

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000 (restated)
(Losses)/earnings from continuing operation attributable to equity holders of the Company	**(122,600)**	49,304
Gains from change in fair value and adjustment to interest expense of convertible bonds, net of tax	**–**	(70,982)
Losses for calculation of diluted losses per share	**(122,600)**	(21,678)
(Losses)/earnings from terminated operation attributable to equity holders of the Company	**(319)**	2,265
	(122,919)	(19,413)
Weighted average number of ordinary shares in issue *(in thousands)*	**1,455,000**	1,455,000
Adjustments for:		
– Assuming convertible bonds are converted into *(in thousands)*	**–**	370,000
Weighted average number of ordinary shares for diluted earnings per share *(in thousands)*	**1,455,000**	1,825,000
Diluted losses per share:		
from continuing operation	**(8.43) Cents**	(1.18) Cents
from terminated operation	**(0.02) Cents**	0.12 Cents
	(8.45) Cents	(1.06) Cents

13 Subsidiaries and investment in associates

(a) Subsidiaries

The following is a list of the principal subsidiaries as of 31 December 2018:

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

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year ended 31 December 2018 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.

13 Subsidiaries and investment in associates (Continued)

(b) Investment in associates

The amounts recognised at the balance sheet are as follows:

	31 December 2018 HK$'000	31 December 2017 HK$'000
As at 1 January	**2,634**	–
Capital contribution to associates	**–**	2,640
Fair value of the retained 49% interest after disposal of certain equity in a subsidiary	**232,035**	–
Profits/(losses) attributable to the Group	**187**	(6)
As at 31 December	**234,856**	2,634

The following are the associates the Directors believed to be of nonsignificance to the Group as of 31 December 2018. The equities of the associates listed below are oridinary shares and directly held by the Group. The incorporation or registration countries are their principle business places.

13 Subsidiaries and investment in associates (Continued)

(b) Investment in associates (Continued)

Nature of investment in associates as at 31 December 2018:

Name	Incorporation country/ business place	Ownership interest	Relation nature	Measuring method
Unisplendour Capital Limited	British Virgin Islands	33%	note 1	Equity method
Unisplendour Si-Cloud Financial Leasing Co., Ltd. (hereinafter "Unis Si-Cloud", 紫光芯雲融資租賃有限公司)	Mainland China	49%	Note 34	Equity Method

note 1: Unisplendour Capital Limited has not yet commenced business this year. Unisplendour Capital Limited is a private company, and its shares do not have market quotes.

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

14 Property, Plant and Equipment

Year ended 31 December 2017	Properties HK$'000	Machinery and equipment HK$'000	Funiture, fixtures and property decoration HK$'000	Computer software HK$'000	Motor vehicles HK$'000	Total HK$'000
As at 1 January 2017						
Cost	–	38,831	27,584	2,317	8,118	76,850
Accumulated depreciation and impairment	–	(30,864)	(25,117)	(964)	(4,414)	(61,359)
Fair valuation	117,530	–	–	–	–	117,530
	117,530	7,967	2,467	1,353	3,704	133,021
Net book amount	117,530	7,967	2,467	1,353	3,704	133,021
Opening net book amount	117,530	7,967	2,467	1,353	3,704	133,021
Addition	–	1,574	3,550	1,027	334	6,485
Disposals	–	(3,270)	(605)	(1,112)	(252)	(5,239)
Reclassification	(355)	781	(630)	–	204	–
Surplus on revaluation	10,327	–	–	–	–	10,327
Depreciation charges	(5,245)	(792)	(1,328)	(323)	(811)	(8,499)
Exchange adjustments	6,308	635	112	82	134	7,271
Closing net book amount	128,565	6,895	3,566	1,027	3,313	143,366
Analysis of cost or valuation at 31 December 2017 is as follows:						
Cost	–	28,432	26,690	1,029	5,367	61,518
Accumulated depreciation and impairment	–	(21,537)	(23,124)	(2)	(2,054)	(46,717)
Fair valuation	128,565	–	–	–	–	128,565
	128,565	6,895	3,566	1,027	3,313	143,366
Year ended 31 December 2018						
Opening net book amount	**128,565**	**6,895**	**3,566**	**1,027**	**3,313**	**143,366**
Addition	**–**	**888**	**8,118**	**429**	**–**	**9,435**
Disposals	**–**	**(1,004)**	**(65)**	**–**	**(15)**	**(1,084)**
Disposal of a subsidiary	**–**	**(11)**	**(183)**	**–**	**–**	**(194)**
Surplus on revaluation	**1,448**	**–**	**–**	**–**	**–**	**1,448**
Depreciation charges	**(5,937)**	**(498)**	**(1,792)**	**(143)**	**(514)**	**(8,884)**
Exchange adjustments	**(4,327)**	**(186)**	**(230)**	**(41)**	**(188)**	**(4,972)**
Closing net book amount	**119,749**	**6,084**	**9,414**	**1,272**	**2,596**	**139,115**
Analysis of cost or valuation at 31 December 2018 is as follows:						
Cost	**–**	**23,279**	**33,583**	**1,418**	**4,967**	**63,247**
Accumulated depreciation and impairment	**–**	**(17,195)**	**(24,169)**	**(146)**	**(2,371)**	**(43,881)**
Fair valuation	**119,749**	**–**	**–**	**–**	**–**	**119,749**
	119,749	**6,084**	**9,414**	**1,272**	**2,596**	**139,115**

14 Property, Plant and Equipment (Continued)

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

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Cost of sales	**453**	1,689
Distribution costs	**37**	128
Administrative costs	**8,394**	6,682
	8,884	8,499

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000 (restated)
Depreciation charges attributable to:		
– Continuing operation	**8,849**	8,466
– Terminated operation	**35**	33
	8,884	8,499

As at 31 December 2018, the bank loans were pledged by the Group's properties with net book amounts of HK$87,652,000, and the letter of credit was pledged by the Group's properties with net book amounts of HK$14,400,000 (as at 31 December 2017: the Group's properties were not pledged to any banks) (Note 27).

14 Property, Plant and Equipment (Continued)

Valuation processes of the Group

The Group's properties were valued on each balance sheet date by independent professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. For all properties, their current use equates to the highest and best use.

The Group's Finance Department is responsible for reviewing the valuations performed by the independent valuer for financial reporting purposes. The Finance Department reports directly to the CFO and the Audit Committee. As at 31 December 2018 and 31 December 2017, the fair value of properties has been assessed by independent valuer.

At each balance sheet date, the finance department will:

- verify all major inputs to the independent valuation report;
- assess property valuations movements when compared to the prior year valuation report; and
- discuss with independent valuer.

All movements in the fair value of Level 2 and Level 3 on each balance sheet date will be discussed with the CFO, the Audit Committee and the Finance Department on the annual valuation meeting. The Finance Department will submit the report with the explanation of the change in fair value after the meeting.

14 Property, Plant and Equipment (Continued)

Valuation processes of the Group (Continued)

Fair value of properties is a Level 3 fair value measurement. Significant unobservable inputs and valuation techniques are as follows:

Description	Fair value at 31 December 2018 HK$'000	Valuation technique	Unobservable input	Range (weighted average)
Properties of 日東電子發展(深圳)有限公司	87,652	Depreciated replacement cost approach	Construction cost	Approximately Reminbi 1,700 per square metre
Properties of 紫光日東科技(深圳)有限公司	2,297	Direct comparision approach	Comparable land price per floor area	Approximately Reminbi 5,900 – 8,300 per square metre
Properties of Sun East Electronic Equipment Company Limited (日東電子設備有限公司)	29,800	Direct comparision approach	Comparable land price per floor area	Approximately HK$5,000-6,300 per square foot

14 Property, Plant and Equipment (Continued)

Valuation processes of the Group (Continued)

Description	Fair value at 31 December 2017 HK$'000	Valuation technique	Unobservable input	Range (weighted average)
Properties of 日東電子發展(深圳)有限公司	99,452	Depreciated replacement cost approach	Construction cost	Approximately Reminbi 2,200 per square metre
Properties of 紫光日東科技(深圳)有限公司	2,513	Direct comparision approach	Comparable land price per floor area	Approximately Reminbi 7,500-8,500 per square metre
Properties of Sun East Electronic Equipment Company Limited (日東電子設備有限公司)	26,600	Direct comparision approach	Comparable land price per floor area	Approximately HK$4,700 -6,000 per square foot

14 Property, Plant and Equipment (Continued)

Fair value measurements using significant unobservable inputs (Level 3)

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Balance of properties at the beginning of the year	**128,565**	117,530
Surplus on revaluation	**1,448**	10,327
Fair value change recognised in the other comprehensive income (Note 25)	**1,471**	8,105
Deferred tax liability arising from the change in fair value (Note 29)	**(23)**	2,222
Depreciation charges	**(5,937)**	(5,245)
Exchange adjustments	**(4,327)**	6,308
Reclassification	**—**	(355)
Balance of properties at the end of the year	**119,749**	128,565

As at 31 December 2018, if the properties were measured at historical cost, the book value was HK$123,391,000, the accumulated depreciation was HK$70,950,000 and the net book value was HK$52,441,000 (as at 31 December 2017: the book value was HK$124,421,000, the accumulated depreciation was HK$66,841,000 and the net book value was HK$57,580,000).

For the year ended 31 December 2018, no provision of the impairment losses on assets was provided (year ended 31 December 2017: Nil).

The Group assesses the fair value of the aforesaid assets using the direct method of comparative and depreciation of the cost method, which is Level 3 fair value measurement. The significant unobservable input values used in the valuation process mainly include the selling prices and asset replacement costs for similar assets.

15 Land Use Rights

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Carrying amount at the beginning of the year	**10,005**	9,660
Amortisation of land use rights	**(316)**	(322)
Exchange adjustments	**(438)**	667
Carrying amount at the end of the year	**9,251**	10,005

As at 31 December 2018, no land use rights are pledged to banks to secure the banking facilities granted to the Group (31 December 2017: Nil)).

16 Intangible Assets

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Carrying amount of development costs at the beginning of the year	**–**	–
Addition	**5,868**	–
Carrying amount of development costs at the end of the year	**5,868**	–

As at 31 December 2018, such intangible assets have not yet ready for use.

17 Inventories

	31 December 2018 HK$'000	31 December 2017 HK$'000
Raw materials	**10,624**	15,475
Work in progress	**5,369**	9,391
Finished goods	**20,392**	14,291
	36,385	39,157

Movements in provision for impairment are as follows:

	31 December 2018 HK$'000	31 December 2017 HK$'000
At the beginning of the year	**(11,676)**	(31,804)
Currency translation differences	**543**	(2,086)
Provision for impairment of inventories	**(803)**	(2,035)
Written-off (a)	**8,684**	24,249
At the end of the year	**(3,252)**	(11,676)

For the year ended 31 December 2018, the inventory cost recognised in cost of sales was HK$125,034,000 (year ended 31 December 2017: HK$166,982,000).

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

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

18 Financial Instruments by Category

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

	Liabilities at fair value through profit or loss HK$'000	Other financial liabilities at amortised cost HK$'000	Total HK$'000
Liabilities as per balance sheet			
Convertible bonds	–	118,463	118,463
Trade payables and other payables, excluding statutory liabilities	–	38,509	38,509
Total	–	156,972	156,972

18 Financial Instruments by Category (Continued)

	Loans and receivables HK$'000	Financial assets at fair value through profit or loss HK$'000	Total HK$'000
As at 31 December 2017			
Assets as per balance sheet			
Finance lease receivables	732	—	732
Trade receivables and other receivables, excluding prepayments	66,544	—	66,544
Financial assets at fair value through profit or loss	—	256,563	256,563
Security and restricted deposits	6,656	—	6,656
Cash and cash equivalents	234,003	—	234,003
Total	307,935	256,563	564,498

	Liabilities at fair value through profit or loss HK$'000	Other financial liabilities at amortised cost HK$'000	Total HK$'000
Liabilities as per balance sheet			
Convertible bonds	—	107,969	107,969
Trade payables and other payables, excluding statutory liabilities	—	61,208	61,208
Total	—	169,177	169,177

19 Financial Assets at Fair Value through Profit or Loss

	31 December 2018 HK$'000	31 December 2017 HK$'000
Listed securities - held-for-trading:		
– Equity securities – Hong Kong	**137,339**	256,563

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

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

20 Trade Receivables and Other Receivables

	31 December 2018 HK$'000	31 December 2017 HK$'000
Non-current portion		
Other non-current assets – prepaid renovation expenses	**2,410**	–
Current portion		
Trade and bills receivables	**54,459**	98,514
Less: Provision for impairment of trade receivables	**(20,500)**	(37,394)
Trade and bills receivables, net	**33,959**	61,120
Prepayments	**1,794**	7,482
Other receivables	**5,827**	5,424
	41,580	74,026

As at 31 December 2018, the Group's bank loans are pledged by trade receivables of HK$27,889,000 (Note 27) (31 December 2017: Nil).

20 Trade Receivables and Other Receivables (Continued)

Parts of the Group's sales are on acceptance bills or documents against payment. The remaining amounts are with credit terms of thirty to ninety days. As at 31 December 2018 and 31 December 2017, the aging analysis of the trade and bills receivables based on invoice date is as follows:

	31 December 2018 HK$'000	31 December 2017 HK$'000
3 months or less	**16,750**	31,125
3 to 6 months	**9,815**	10,341
More than 6 months	**27,894**	57,048
	54,459	98,514

The Group applies the HKFRS 9 simplified approach to measure expected credit losses and makes provision for impairment of trade receivables based on the expected credit losses. As at 31 December 2018, the provision was HK$20,500,000 (31 December 2017: HK$37,394,000) (Note 3.1(b)).

20 Trade Receivables and Other Receivables (Continued)

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

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
At the beginning of the year	**37,394**	99,092
Written-off	**(1,728)**	(40,863)
Reversal of impairment	**(14,157)**	(25,055)
Exchange adjustments	**(1,009)**	4,220
At the end of the year	**20,500**	37,394

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

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

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

21 Cash and cash equivalents

	31 December 2018 HK$'000	31 December 2017 HK$'000
Cash at bank and on hand	**42,156**	233,650
Other cash balances (a)	**1,149**	353
Cash and cash equivalents	**43,305**	234,003

(a) **Other cash balances are balances deposited in securities company not invested.**

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

	31 December 2018 HK$'000	31 December 2017 HK$'000
Renminbi	**24,906**	185,665
Hong Kong dollar	**16,981**	14,196
US dollar	**1,413**	34,103
Others	**5**	39
	43,305	234,003

22 Security and Restricted Deposits

	31 December 2018 HK$'000	31 December 2017 HK$'000
Security deposits (a)	**2,279**	6,656

(a) Security deposits comprise performance guarantee bonds and deposits for bills payables which are deposited by the Group in banks. These deposits earn interest at 0.35% (31 December 2017: 0.35%) per annum.

As at 31 December 2018 and 31 December 2017, security deposits and restricted deposits were listed in Renminbi.

23 Share Capital and Share Premium

	Number of shares (In thousands)	Share Capital HK$'000	Share Premium HK$'000
As at 31 December 2017 and 31 December 2018	**1,455,000**	**145,500**	**95,240**

24 Accumulated Losses

	31 December 2018 HK$'000	31 December 2017 HK$'000
Balance at the beginning of the year	**(463,837)**	(515,179)
Year (losses)/profits	**(122,919)**	51,569
Amounts allocated to statutory reserve	**—**	(227)
Balance at the end of the year	**(586,756)**	(463,837)

25 Other Reserves

	Contributed surplus HK$'000	Convertible bonds HK$'000	Statutory reserve HK$'000	Asset revaluation reserve HK$'000	Foreign currency translation HK$'000	Total HK$'000
Balance at 1 January 2017	4,800	–	11,602	69,444	(7,170)	78,676
Revaluation of properties	–	–	–	8,105	–	8,105
Exchange difference on translation of foreign currency	–	–	–	–	20,729	20,729
Amounts allocated to statutory reserve	–	–	227	–	–	227
Changes in the measurement method of convertible bonds	–	577,941	–	–	–	577,941
Balance at 31 December 2017	4,800	577,941	11,829	77,549	13,559	685,678

	Contributed surplus HK$'000	**Convertible bonds HK$'000**	**Statutory reserve HK$'000**	**Asset revaluation reserve HK$'000**	**Foreign currency translation HK$'000**	**Total HK$'000**
Balance at 1 January 2018	**4,800**	**577,941**	**11,829**	**77,549**	**13,559**	**685,678**
Revaluation of properties	**–**	**–**	**–**	**1,471**	**–**	**1,471**
Exchange difference on translation of foreign currency	**–**	**–**	**–**	**–**	**(13,009)**	**(13,009)**
Balance at 31 December 2018	**4,800**	**577,941**	**11,829**	**79,020**	**550**	**674,140**

26 Trade Payables and Other Payables, and Contract Liabilities

	31 December 2018 HK$'000	31 December 2017 HK$'000
Trade payables	**32,016**	48,294
Bills payables	**1,288**	1,319
Employee salaries payables	**21,473**	25,590
Other taxes payables	**14,351**	18,458
Contract liabilities	**12,092**	—
Advances from customers	**—**	17,109
Other payables	**1,539**	3,515
Accrued expenses	**3,666**	8,080
	86,425	122,365

As at 31 December 2018 and 31 December 2017, the aging analysis of trade and bills payables based on the invoice date was as follows:

	31 December 2018 HK$'000	31 December 2017 HK$'000
Within 90 days	**24,732**	35,440
91 to 120 days	**1,568**	1,734
Over 120 days	**7,004**	12,439
	33,304	49,613

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

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

	31 December 2018 HK$'000	31 December 2017 HK$'000
Renminbi	**34,810**	48,715
Hong Kong dollar	**33**	4,413
	34,843	53,128

27 Borrowings

	31 December 2018 HK$'000	31 December 2017 HK$'000
Current		
Secured bank loans due for repayment within one year (a)	**68,478**	–

(a) The bank loans are secured by the propertis of the Group with net value of HK$87,652,000 (Note 14) and pledged by trade receivables of HK$27,889,000 (Note 20), and corporate guarantees are provided by its subsidiaries.

As at 31 December 2018, the average annual borrowing interest rate was 5.66% (31 December 2017: 4.49%).

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

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

	31 December 2018 HK$'000	31 December 2017 HK$'000
Renminbi	**68,478**	–

28 Convertible Bonds

As described in Note 1, on 30 May 2016, the Company issued 730,000,000 ordinary shares at a price of HK$0.4 per share and zero coupon convertible bonds with face value of HK$148,000,000 to Unis Strategy Investment Company. The bonds shall be matured in five years from the date of issue at their face value of HK$148,000,000 or converted into ordinary shares of the Company at HK$0.4 per share (subject to adjustment) by the holder before the maturity date of the bonds. Such transaction was approved at the special general meeting held on 9 May 2016. The above convertible bonds are classified as financial liabilities at fair value through profit or loss.

On 30 March 2017, the special general meeting approved the supplementary agreement for the convertible bonds signed by the Company and Unis Strategy Investment Company. The supplementary agreement removes the relevant terms in relation to the conversion price adjustment under the original agreement. Accordingly, the convertible bonds issued by the Company pursuant to the original agreement were derecognised. According to the supplementary agreement, the convertible bonds were recognised as compound financial instruments. As at 30 March 2017, such financial liability at fair value through profit or loss of HK$678,487,000 was derecognised. Pursuant to the amended terms and the fair value at the date, the Company has recognized the convertible bond as compound financial instruments, among which, the fair value of the liability component was HK$100,546,000, the fair value of the equity component was HK$577,941,000, and the liability component of the compound financial instruments was subsequently measured by the cost method. The recognised interest expense of convertible bonds for the year was HK$10,494,000 (year ended 31 December 2017: recognised gains from change in fair value of convertible bonds of HK$78,405,000, and recognised interest expense of HK$7,423,000 (Note 10).

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

29 Deferred Income Tax

The analysis of deferred income tax is as follows:

	31 December 2018 HK$'000	31 December 2017 HK$'000
Deferred income tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	13,249	15,532
– Deferred tax liabilities to be recovered within 12 months	1,161	6,189
	14,410	21,721
Deferred income tax assets:		
– Deferred tax assets to be recovered after more than 12 months	–	–
– Deferred tax assets to be recovered within 12 months	13,534	–
	13,534	–

29 Deferred Income Tax (Continued)

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

Deferred income tax liabilities	Properties revaluation HK$'000	Gains on financial assets at fair value through profit or loss HK$'000	Total HK$'000
As at 1 January 2017	13,310	—	13,310
Charged to the statement of income	—	6,189	6,189
Charged to other comprehensive income	2,222	—	2,222
As at 31 December 2017	15,532	6,189	21,721
Charged to the statement of income	**(1,099)**	**(6,189)**	**(7,288)**
Charged to other comprehensive income	**(23)**	**—**	**(23)**
As at 31 December 2018	**14,410**	**—**	**14,410**

Deferred income tax assets	Tax losses HK$'000	Total HK$'000
As at 1 January 2018	**—**	**—**
Charged to the statement of income	**13,534**	**13,534**
As at 31 December 2018	**13,534**	**13,534**

29 Deferred Income Tax (Continued)

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profit is probable. For the year ended 31 December 2018, the Group has not recognised deferred income tax assets amounted to HK$113,299,000 (year ended 31 December 2017: HK$114,808,000) in respect of losses amounted to HK$663,220,000 (year ended 31 December 2017: HK$663,142,000) that can be carried forward against future taxable income.

For the year ended 31 December 2018, the aforesaid losses of HK$408,509,000 (year ended 31 December 2017: HK$389,818,000), which was not carried forward to offset future taxable income, had no due date. The remaining losses that are not carried forward to offset future taxable income will expire in the following years:

	31 December 2018 HK$'000	31 December 2017 HK$'000
Year		
2018	**–**	10,430
2019	**215**	760
2020	**3,409**	3,409
2021	**219,867**	229,302
2022	**29,261**	29,423
2023	**1,959**	–
	254,711	273,324

30 Deferred income

For the year ended 31 December 2018, the Company received government grant related to the project of "Non-contact solderspray and welding technique (非接觸焊料噴射與焊接技術)" by the Financial Committee of Shenzhen City (深圳市財政委員會), equivalent to HK$4,565,000 (31 December 2017: HK$4,772,000). The implementation period of the project will be end on 30 June 2019. Management expect the project will be completed by 30 June 2019.

31 Notes to the Consolidated Statement of Cash Flows

(a) Reconciliation between (Loss)/profit before income tax and cash (used in)/generated from operating activities:

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000 (restated)
(Loss)/profit before income tax		
– Continuing operation	**(143,422)**	54,862
– Terminated operation	**(319)**	3,063
Adjustments for:		
– Amortisation of land use rights (Note 15)	**316**	322
– Depreciation of property, plant and equipment (Note 14)	**8,884**	8,499
– (Profits)/losses on disposal of property, plant and equipment (Note 7)	**(37)**	239
– Provision for impairment of trade receivables (Note 8)	**(14,157)**	(25,055)
– Provision for impairment of inventories (Note 8)	**803**	2,035
– Investment income arising from disposal of terminated operation (Note 34)	**(1,110)**	–
– Shares of results of associate(s) (Note 13(b))	**(187)**	6
– Cash dividends received	**(1,343)**	–
– Gains on redemption of available-for-sale financial assets (Note 34)	**–**	(1,112)
– Finance costs, net	**13,301**	8,653
– Changes in fair value of convertible bonds (Note 28)	**–**	(78,405)
Changes in working capital:		
– Decrease in inventories	**2,512**	38,655
– Decrease in trade receivables and other receivables	**165,181**	121,182
– Decrease in trade payables and other payables	**(46,237)**	(59,839)
– Decrease in finance lease receivables	**732**	3,737
Cash (used in)/generated from operations	**(15,083)**	76,842

31 Notes to the Consolidated Statement of Cash Flows

(Continued)

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

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Net book value (Note 14)	**1,084**	5,239
Profits/(losses) on disposal of property, plant and equipment	**37**	(239)
Proceeds from disposal of property, plant and equipment	**1,121**	5,000

(c) Net cash reconciliation

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Cash and cash equivalents	**43,305**	234,003
Liquid investments (i)	**137,339**	256,563
Borrowings – repayment within one year	**(68,478)**	—
Net cash	**112,166**	490,566
Cash and liquid investments	**180,644**	490,566
Total debt – floating rates	**(68,478)**	—
Net cash	**112,166**	490,566

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

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

(c) Net cash reconciliation (Continued)

	Other Assets		Liabilities of Financing Activities
	Cash and cash equivalents HK$'000	Liquid investments HK$'000	Borrowings due within one year HK$'000
Net cash as at 1 January 2017	294,052	76,042	(122,881)
Cash flows	(61,623)	149,438	127,172
Exchange in adjustment	1,574	—	(4,291)
Other non-cash movements (ii)	—	31,083	—
Net cash as at 31 December 2017	234,003	256,563	—
Net cash as at 1 January 2018	**234,003**	**256,563**	**—**
Cash flows	**(190,792)**	**(4,260)**	**(68,478)**
Exchange in adjustment	**94**	**—**	**—**
Other non-cash movements (ii)	**—**	**(114,964)**	**—**
Net cash as at 31 December 2018	**43,305**	**137,339**	**(68,478)**

(ii) Other non-cash movements are changes in fair value of financial assets at fair value through profit or loss.

32 Commitments

Operating lease commitments – the Group as lessee

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

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

	31 December 2018 HK$'000	31 December 2017 HK$'000
Within one year	**8,260**	12,039
More than one year but not more than five years	**–**	14,078
	8,260	26,117

As at 31 December 2018 and 31 December 2017, the Group had no non-cancellable contracted capital commitments.

33 Related Party Transactions

Key management compensation

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

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Salaries and other short-term employee benefits	**5,076**	7,023
Post-employment benefits	**27**	237
	5,103	7,260

34 Terminated Operation

At the special general meeting held on 7 August 2018, it is approved that Unisplendour Investment Holding Co. Limited ("Unisplendour Invesetment"), an indirectly wholly-owned subsidiary of the Company, Sino IC Leasing Co., Ltd. (芯鑫融資租賃有限責任公司, "Sino IC Leasing") and Unis Si-Cloud entered into a Capital Increase Agreement ("Capital Increase Agreement"). Pursuant to the Capital Increase Agreement, the parties thereunder agreed that Sino IC Leasing should inject capital into Unis Si-Cloud with a total amount of RMB210,954,942.86. Upon completion of the capital increase transaction in September 2018, the registered capital of Unis Si-Cloud is increased to RMB405,440,816.33, and the shareholding interests of Unisplendour Investment and Sino IC Leasing in Unis Si-Cloud are 49% and 51%, respectively. Accordingly, Unis Si-Cloud, which is mainly engaged in finance lease and factoring business, ceased to be a subsidiary of the Company. Since the above-mentioned company business is regarded as an independent business segment, the corresponding business has been classified as terminated operation following the completion of the capital increase by Sino IC Leasing.

(a) Results and cash flow of terminated operation

	As at disposal date HK$'000	Year ended 31 December 2017 HK$'000
Revenue	**23**	6,999
Cost of Sales	**(33)**	—
Other income	**—**	1,112
Other gain, net	**337**	1,762
Distribution costs	**—**	(1,057)
Administrative costs	**(2,406)**	(6,193)
Financial income, net	**650**	440
(Loss)/profit of terminated operation before tax	**(1,429)**	3,063
Income tax expense	**—**	(798)
(Loss)/profit of terminated operation after tax	**(1,429)**	2,265
Earnings from disposal of a subsidiary	**1,110**	—
(Loss)/profit from terminated operation for the year attributable to equity holders of the Company	**(319)**	2,265

34 Terminated Operation (Continued)

(a) Results and cash flow of terminated operation (Continued)

	Period ended on disposal date HK$'000	Year ended 31 December 2017 HK$'000
Cash flow generated from operating activities	**61,444**	128,061
Cash flow generated from investing activities	**5**	876
Exchange gains on cash and cash equivalents	**–**	1,574
Total cash flows	**61,449**	130,511

(b) Details of disposal of the subsidiary, Unis Si-Cloud

	Period ended on disposal date HK$'000
Consideration for disposal	
Fair value of the retained 49% interest	**232,035**
Less: disposed net assets	**(230,925)**
Earnings from disposal	**1,110**

34 Terminated Operation (Continued)

(b) Details of disposal of the subsidiary, Unis Si-Cloud (Continued)

Carrying amounts of assets and liabilities as at 31 August 2018 are as follows:

	31 August 2018 HK$'000
Cash and cash equivalents	226,758
Security and restricted deposites	3,216
Trade receivables and other receivables	1,268
Property, plant and equipment	194
Trade payables and other payables	(511)
Net assets	230,925

35 Balance Sheet and Reserve Movement of the Company

	31 December 2018 HK$'000	31 December 2017 HK$'000
ASSETS		
Non-current assets		
Property, plant and equipment	670	1,298
Investment in subsidiaries	117,882	117,882
	118,552	119,180
Current assets		
Amounts due from subsidiaries	630,306	625,912
Trade receivables and other receivables	5,178	5,003
Cash and bank deposits	13,663	21,737
	649,147	652,652
Current liabilities		
Amounts due to subsidiaries	3,775	3,604
Trade payables and other payables	6,117	6,608
	9,892	10,212
Non-current liabilities		
Convertible bonds	118,463	107,969
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the Company		
Share capital and share premium	240,740	240,740
Accumulated losses (a)	(179,337)	(165,030)
Other reserves (a)	577,941	577,941
TOTAL EQUITY	639,344	653,651

35 Balance Sheet and Reserve Movement of the Company

(Continued)

(a) Accumulated losses and reserve movement of the Company

	Other reserves HK$'000	Accumulated losses HK$'000
1 January 2017	–	(230,440)
Convertible bonds (Note 28)	577,941	–
Profit for the year	–	65,410
31 December 2017	577,941	(165,030)
1 January 2018	577,941	(165,030)
Loss for the year	–	(14,307)
31 December 2018	577,941	(179,337)

36 Benefits and Interests of Directors

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

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

For the year ended 31 December 2018:

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

(i) Mr. Zhang Yadong, Mr. ZHENG Bo, Mr. Li Zhongxiang and Mr. Xia Yuan were re-elected as Directors of the Company at general meeting held on 6 June 2018.

36 Benefits and Interests of Directors (Continued)

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

For the year ended 31 December 2017:

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

(i) On 17 February 2017, Mr. Wang Huixuan was re-designated as executive Director of the Company, and on 28 June 2017, Mr. Wang Huixuan resigned the foresaid position.

(ii) On 28 June 2017, Mr. Zhang Yadong was appointed as executive Director of the Company.

(iii) On 3 August 2017, Mr. Zheng Bo was appointed as executive Director of the Company.

36 Benefits and Interests of Directors (Continued)

(b) For the year ended 31 December 2018, the Group has no Directors' retirement benefits, termination benefits, considerations and borrowings provided to third parties for rendering of Director's service, as well as loans, quasi-loans and other credit transaction information provided to Directors, body corporate controlled by these Directors and related parties of Directors to be disclosed.

(c) No significant transactions, arrangements or contracts in relation to the Group's business to which the Company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted for the year ended 31 December 2018.