

JETE POWER HOLDINGS LIMITED

鑄能控股有限公司*

(incorporated in the Cayman Islands with limited liability)
Stock Code: 8133

2018

Annual Report

* For identification purpose only

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This report, for which the directors (the “Directors”) of Jete Power Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material aspects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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CORPORATE INFORMATION

BOARD OF DIRECTORS AND CHIEF EXECUTIVE OFFICER

Executive Directors

Mr. Choi Chiu Ming Jimmy (*Chairman*)

Independent Non-executive Directors

Ms. Leung Shuk Lan

Mr. Tang Yiu Wing

Mr. Wong Ka Shing

Chief Executive Officer

Mr. Wong Thomas Wai Yuk

BOARD COMMITTEES

Audit Committee

Mr. Wong Ka Shing (*Chairman*)

Ms. Leung Shuk Lan

Mr. Tang Yiu Wing

Remuneration Committee

Ms. Leung Shuk Lan (*Chairman*)

Mr. Wong Ka Shing

Mr. Choi Chiu Ming Jimmy

Nomination Committee

Mr. Tang Yiu Wing (*Chairman*)

Mr. Wong Ka Shing

Mr. Choi Chiu Ming Jimmy

COMPANY SECRETARY

Mr. Wong Wai Leung

COMPLIANCE OFFICER

Mr. Choi Chiu Ming Jimmy

AUTHORISED REPRESENTATIVES

Mr. Choi Chiu Ming Jimmy

Mr. Wong Wai Leung

AUDITOR

Baker Tilly Hong Kong Limited

REGISTERED OFFICE

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman

KY1-1111

Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Vanta Industrial Centre

Nos. 21-33 Tai Lin Pai Road

Kwai Chung, New Territories

Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited

Cricket Square, Hutchins Drive

PO Box 2681

Grand Cayman

KY1-1111

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking

Corporation Limited

STOCK CODE

8133

COMPANY WEBSITE

www.jetepower.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Jete Power Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), I am pleased to present to you the annual results of the Group for the year ended 31 December 2018.

REVIEW

The Group is principally engaged in the manufacturing of metal casting parts and components in the PRC. Given the rising labour cost in China coupled with the increasingly stringent environmental protection requirements of the Chinese government, the operating environment remained challenging during the year.

It has been the Group's strategy to diversify its business and to broaden the revenue streams of the Group so as to create substantial value to the shareholders. Throughout the year under review, the management had been actively seeking different business opportunities for the Group in parallel to promoting our metal casting business. In September and October 2018, the Group has through its wholly owned subsidiary, successfully organized five shows under two concert titles in Hong Kong. Our management will closely monitor the business environment and explores new and value-added businesses from time to time in order to diversify the risk of the Group and, hence, to provide a stable return to the Group.

OUTLOOK

Despite the extremely challenging business environment and competition, the Group maintained a flexible and tailored sales and marketing strategy to offer its customers with diversified and tailor-made products, which will in turn reinforce the Group's market position. The Group will continue to adopt a positive yet prudent approach in its business strategy aiming to enhance the Group's profitability and the shareholders' value in the long run. Meanwhile, the Group will also explore other potential investment opportunities in order to diversify the Group's business and create new source of revenue to the Group.

I would like to take this opportunity to express my sincere gratitude to our shareholders, customers, suppliers and business partners for their continuous support, and to our management and staff members for their diligence, dedication and contribution to the growth of our Group.

Choi Chiu Ming, Jimmy
Chairman

Hong Kong, 26 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

The Group is principally engaged in the manufacturing of metal casting parts and components in the PRC. The products of the Group can be categorized into four main categories: (a) pump components; (b) valve components; (c) filter components; and (d) food machinery components, which are made of stainless steel, carbon steel, bronze and/or grey iron. Our largest market is Germany. We also have customers from the PRC, Hong Kong and the United States.

During the year, the global economic environment remains challenging. The Group will endeavor to improve its revenue performance on its core business by executing flexible strategies to face the market challenges. Meanwhile, the Group will also explore other potential investment opportunities in order to diversify the Group's business and create new source of revenue to the Group.

On 4 April 2018, a wholly owned subsidiary of the Company entered into a cooperation framework agreement with a potential partner. Pursuant to the cooperation framework agreement, the potential partner and the Group have conditionally agreed to cooperate with each other in respect of the patents owned by the potential partner. However, as certain conditions precedent under the cooperation framework agreement were not satisfied on or before 30 June 2018, the cooperation framework agreement has been automatically terminated and ceased to have any effect.

Aiming to diversify the business profile of the Group, the Group has through its wholly owned subsidiary, successfully organized five shows under two concert titles in Hong Kong in September and October 2018 and recorded a gross profit of approximately HK\$1.78 million.

The Group will continue to adopt a positive yet prudent approach in its business strategies aiming to enhance the Group's profitability and the shareholders' value in the long run.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, total revenue of the Group increased by about 42% to approximately HK\$67.44 million as compared with the corresponding period in 2017. The increase in total revenue was mainly due to (i) the increase in sales volume of cast metal products as compared to the same period in 2017 and (ii) the new source of income arising from concerts organization of approximately HK\$6.09 million. The increase in sales volume of cast metal products was mainly due to (i) 2017 Chinese New Year's holiday of the PRC subsidiary falls between mid-January 2017 and mid-February 2017 which affected the factory output in last year and (ii) the increasing demand for the products.

Cost of sales and gross profit

The key components of the Group's cost of sales comprised principally the (i) raw materials used for production of metal casting parts and components, (ii) direct labour costs and (iii) manufacturing overheads such as depreciation for plant and equipment, consumables, utilities, maintenance costs and indirect labour costs. For the year ended 31 December 2018, the cost of sales of the Group increased by about 53% to approximately HK\$55.69 million as compared with the corresponding period in 2017. The increase was primarily due to (i) the increase in sales volume and labour costs for the metal casting business; and (ii) the cost of services rendered for the new concerts organization business of approximately HK\$4.31 million.

The gross profit of the Group increased from HK\$11.14 million for the year ended 31 December 2017 to HK\$11.75 million for the year ended 31 December 2018. Such increase was mainly due to the gross profit arising from the concerts organization of approximately HK\$1.78 million.

Selling and distribution expenses

The Group's selling and distribution expenses for the year ended 31 December 2018 amounted to approximately HK\$5.10 million, representing an approximately 44% increase as compared with the corresponding period in 2017 of approximately HK\$3.53 million. Selling and distribution expenses comprised mainly packaging, delivery, customs and insurance cost incurred in relation to the sales. The increase for the period was mainly due to the delivery of more urgent orders by air freight.

Administrative expenses

The Group's administrative expenses for the year ended 31 December 2018 amounted to approximately HK\$16.13 million, representing an approximately 18% increase as compared with the corresponding period in 2017 of approximately HK\$13.65 million. Administrative expenses primarily consist of salaries and benefit payments paid to directors and staff, exchange loss, audit fee and legal and professional fees to ensure on going compliance with relevant rules and regulations. The increase for the period was mainly due to addition staff recruited for the new business.

Finance costs

Finance costs mainly represented the factoring charges.

Loss for the year

Loss attributable to owners of the Company for the year ended 31 December 2018 amounted to approximately HK\$9.71 million (2017: HK\$4.93 million). The increase was mainly attributable to the increase in labour cost, the absence of one-off gain on disposal of a subsidiary which was recorded in 2017 and the increase in selling and distribution expenses as mentioned above.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal sources of funds are used to finance working capital, and the growth and expansion of the Group's operations and sales network. During the year, Group's principal sources of funds are cash generated from operations. The Group had cash and cash equivalents of approximately HK\$8.88 million as at 31 December 2018 (31 December 2017: HK\$13.44 million). As at 31 December 2018, the Group had no bank borrowings (31 December 2017: Nil).

GEARING RATIO

As at 31 December 2018, the Group's gearing ratio was 0% (31 December 2017: 0%), which is calculated based on the Group's total interest-bearing debt divided by the Group's total equity.

CAPITAL STRUCTURE

The capital of the Company only comprises ordinary shares. There has been no change in the capital structure of the Group during the year ended 31 December 2018.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The principal activity of the Group is governed by PRC environmental laws and regulations including the Environment Protection Law of the PRC. These laws and regulations cover a broad range of environmental matters, including air pollution, noise emissions, discharge of sewage and waste residues. The Group recognises the importance of environmental protection and has implemented various environmental protection measures in order to minimise the operation impact on the environment and natural resources.

The Group will continue to monitor the production process in order to ensure that it does not have a significant adverse effect on the environment and that the Group's environmental protection measures are adequate to ensure compliance with all applicable current local and national PRC regulations.

As at the date of this report, no administrative sanctions, penalties or punishments have been imposed upon us for the violation of any environmental laws or regulations.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with such requirements may affect the substantiality of the business. The Group has allocated various resources to ensure ongoing compliance with rules and regulations.

During the year under review, there is no material non-compliance with the relevant laws and regulations in Hong Kong and the PRC by the Group.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no material contingent liabilities (31 December 2017: Nil).

CHARGE OF ASSETS

As at 31 December 2018, the Group had pledged its bank deposits of nil (31 December 2017: HK\$1.51 million) to certain banks in Hong Kong to secure the banking facilities granted to the Group.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group is principally engaged in the manufacturing of metal casting parts and components in the PRC, which are exposed to certain market risks including currency risk, interest rate risk, credit risk and liquidity risk. The details are set out in note 21 “Financial risk management and fair values of financial instruments” to the consolidated financial statements.

The Group’s business and profitability growth in the year under review is affected by the increase in competition in the industry and the volatility and uncertainty of macro-economic conditions in PRC, Germany and other global nations. The Group is expected to continue to be affected by the above factors. Any increased competition in the metal casting industry in the PRC could reduce the sales, prices and profit margins, and affect the operating results. Any change in the macro-economic condition may directly or indirectly affect the cost of the production and the demand for the products.

FOREIGN CURRENCY RISK

The Group mainly sells the products to customers in Germany, Hong Kong, the PRC and the United States. The Group is exposed to foreign currency risks as it receives revenue in Euro from some of its customers in Europe. The Group generally has a surcharge mechanism with its customers to protect the future profitability in certain extent against the (i) fluctuation of the cost of certain raw materials; and (ii) fluctuation of the exchange rate of Euro vs RMB, or Euro vs USD, if the purchase price is to be settled by Euro. However, there is no assurance that such mechanism could protect the Group free from foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the Board will continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

TREASURY POLICIES

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the period. To manage liquidity risk, the management closely monitors the Group’s liquidity position and maintain sufficient cash and cash equivalents and an adequate amount of committed credit facilities to settle the payables of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

TITLE DEFECT RISK IN THE LEASED PROPERTY

As at the date of this report, the Group has leased a foundry which is located at Qiuchang Town, Huiyang District, Huizhou City (“Qiuchang Foundry”) as the Group’s production base. The owner of the land where the Qiuchang Foundry is located (the “Owner”) and the landlord of the Qiuchang Foundry (the “Landlord”) do not possess valid collective land use rights certificates for construction land and building ownership certificates for the Qiuchang Foundry respectively. During the year, the Group has continued to actively liaise with the Owner and the Landlord for the progress of the rectification of the title defects for the leased property. However, the Owner and the Landlord are not able to commit to a time frame to complete the rectification by reason that the relevant procedures are subject to approvals and inspections by the relevant authorities, which is not within the control of the Landlord. As a part of the risk management plan of the Group to mitigate the risk arising from the title defect of the leased property in the PRC, the Group has entered into a legally binding memorandum of understanding (the “MOU”) with a landlord for a backup plant located at Qingyuan City, Guangdong Province, the PRC. As at date of this report, the Owner is still in the process of applying for the collective land use rights certificates for construction land, being an important and necessary step for applying the building ownership certificate for the Qiuchang Foundry. The Group, the Owner and the Landlord had not received, and the relevant government authorities had not issued, any notice, letter or order, about the title defect of the Qiuchang Foundry. The MOU remains valid and the backup plant was not occupied by any other party.

CAPITAL COMMITMENTS

As at 31 December 2018, the Group did not have any significant capital commitments (31 December 2017: Nil).

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save as disclosed in the section headed “Business review and prospects” in this report, the Group did not hold any significant investment in equity interest in any other company and have any material acquisitions and disposals of subsidiaries and affiliated companies during the year ended 31 December 2018.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this report and in the section “Future Plans and Use of Proceeds” of the Company’s prospectus dated 23 April 2015 (the “Prospectus”), the Group did not have other plans for material investments and capital assets.

RELATIONSHIPS WITH KEY STAKEHOLDERS

The Group's success also depends on the support from key stakeholders which comprise employees, customers and suppliers.

Employees

Employees are regarded as the valuable assets of the Group. The employees of the Group are remunerated by way of salary, allowance and discretionary bonus. The Group has devised an assessment system for the employees and the Group uses the assessment result for salary reviews and promotion decisions. The Group maintains good working relationships with the employees and has not encountered any difficulty in the recruitment and retention of staff for the operations since the establishment of the business.

Customers

The Group's principal customers are the suppliers of flow control devices, electromechanical equipment, and industrial machinery and equipment. The Group believes that product quality is the key to retain long-term customers. Each step in the production procedures are controlled and monitored to ensure adherence to stringent quality standard. The Group has maintained a good and long-term relationship with its customers by providing high quality and tailor-made metal casting parts and components which are able to meet the diversified requirements of the customers from a wide spectrum of industries.

Suppliers

The Group maintain stable relationship with its suppliers who are distributors of well established metal manufacturers. Most of the suppliers have distribution points in Guangdong province and they are nearby the Qiuchang Foundry, which ensures prompt delivery and relatively lower transportation costs.

EMPLOYEE AND EMOLUMENT POLICIES

As at 31 December 2018, the employee headcount (including Directors) of the Group was 158 (31 December 2017: 157) and the total staff costs, including directors' emoluments, amounted to approximately HK\$18.50 million during the year ended 31 December 2018 (2017: HK\$15.47 million). The Group recruits and promotes individuals based on their performance and development potential in the positions held. In order to attract and retain high quality staff and to enable smooth operations within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis. The emoluments of the Directors and senior management are reviewed by the remuneration committee of the Company, having regard to the Company's operating results, market competitiveness, individual performance and achievement, and approved by the Board.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS

The net proceeds from the listing of the shares of the Company by way of placing on the GEM (the "Placing") were approximately HK\$8.6 million. During the Review Period, the net proceeds from the Placing had been applied as follows:

| | Planned use of proceeds as stated in the Prospectus HK\$'million | Actual use of proceeds during the Review Period HK\$'million |
|---|--|--|
| Acquisition of new production machines and equipment and increase in leasehold improvement | 7.3 | 7.3 |
| Attendance of exhibitions in Germany | 0.4 | 0.4 |
| Organisation of client relationship events in Europe and the USA | 0.3 | 0.3 |
| General working capital | 0.6 | 0.6 |
| Total | 8.6 | 8.6 |

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus. The uses of proceeds were applied in accordance with the actual development of the market.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of corporate governance with a view to safeguarding the interests of its shareholders. To accomplish this, the Company has adopted the principles and the code provisions of the Corporate Governance Code (the “CG Code”) contained in Appendix 15 of the Rules Governing the Listing of Securities (the “GEM Listing Rules”) on the GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Throughout the year ended 31 December 2018 to the best knowledge of the Board, the Company has complied with all the applicable code provisions set out in the CG Code.

COMPLIANCE OF CODE OF CONDUCT FOR DIRECTORS’ SECURITIES TRANSACTION

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors have complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company during the year.

BOARD OF DIRECTORS

Composition of the Board

As at the date of this report, the board of directors of the Company (the “Board”) comprises one Executive Directors and three Independent Non-executive Directors. The composition of the Board during the year and up to the date of this annual report was as follows:

Executive Directors

Mr. Choi Chiu Ming Jimmy (*Chairman*)

Mr. Johnny Huang

(resigned on 31 May 2018)

Independent Non-executive Directors

Ms. Leung Shuk Lan

Mr. Tang Yiu Wing

Mr. Wong Ka Shing

The biographical details of all Directors and senior management of the Company are set out on pages 24 to 25 of this report. To the best knowledge of the Company, there is no financial, business, family or other material or relevant relationships among members of the Board.

FUNCTIONS OF THE BOARD AND MANAGEMENT

The Board is responsible for establishing the strategic direction of the Company and its subsidiaries; setting objectives and business development plans; monitoring the performance of the senior management; and assuming responsibility for corporate governance. The management, under the leadership of the chief executive officer, is responsible for implementing the strategies and plans established by the Board and reporting on the Company’s operations to the Board on a regular basis to ensure effective performance of the Board’s responsibilities.

CORPORATE GOVERNANCE REPORT

DIRECTORS' AND OFFICERS' LIABILITIES

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage is reviewed on an annual basis by the Board.

BOARD MEETINGS

The Directors can attend meetings in person or through other means of electronic communication in accordance with the Company's articles of association. All minutes of the Board meetings were recorded in sufficient detail of the matters considered by the Board and the decisions made.

During the year, seven board meetings were held. The attendance of the respective Directors at the Board meetings are set out below:

| Name of Directors | Attendance/ Number of meetings |
|--|--------------------------------------|
| <i>Executive Directors</i> | |
| Mr. Choi Chiu Ming Jimmy | 7/7 |
| Mr. Johnny Huang | (resigned on 31 May 2018) 3/3 |
| <i>Independent Non-executive Directors</i> | |
| Ms. Leung Shuk Lan | 6/7 |
| Mr. Tang Yiu Wing | 7/7 |
| Mr. Wong Ka Shing | 7/7 |

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for a term of three years. Either party has the right to give not less than three months' written notice to terminate the respective service contract.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a specific term of three years pursuant to code provision A.4.1 of the CG Code.

In compliance with the code provision in A.4.2 of the CG Code, all Directors are subject to retirement by rotation at least once every three years. Furthermore, pursuant to article 84 of the articles of association of the Company (the "Articles"), at each annual general meeting one-third of the Directors for the time being, or, if their number is not 3 or a multiple of 3, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every 3 years. A retiring Director shall be eligible for re-election. The Company at the general meeting at which a Director retires may fill the vacated office.

By virtue of article 84 of the Articles, Mr. Choi Chiu Ming Jimmy and Ms. Leung Shuk Lan will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with Rules 5.05(1), 5.05(2) and 5.05A of the GEM Listing Rules, the Company has appointed three independent non-executive Directors representing more than one-third of the Board and with at least one of whom having appropriate professional qualifications, or accounting or related financial management expertise. The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Rule 5.09 of the GEM Listing Rules. The Board considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the GEM Listing Rules for the year.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In compliance with the code provision in A.2.1 of the CG Code, the roles of the Chairman and the Chief Executive Officer are distinct and separate with clear and well established division of responsibilities. Mr. Choi Chiu Ming Jimmy ("Mr. Choi"), the executive Director and co-chairman of the Company is responsible for the roles of the chairman by providing leadership to the Board while Mr. Wong Thomas Wai Yuk ("Mr. Wong"), the Chief Executive Officer of the Company, is responsible for overseeing the general management and daily operations of the Group.

BOARD COMMITTEES

The Board has established, with written terms of reference, three board committees, namely audit committee, remuneration committee and nomination committee, to oversee particular aspects of the Company's affairs. The Board committees are provided with sufficient resources to discharge their duties. The written terms of reference for each Board committee are in line with the GEM Listing Rules and are available on the websites of the Stock Exchange and the Company, respectively.

AUDIT COMMITTEE

The Company has established an audit committee on 10 April 2015 with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and code provision C.3 of the CG Code. The audit committee consists of 3 independent non-executive Directors, namely, Mr. Wong Ka Shing, who has the appropriate accounting and financial related management expertise and serves as the chairman of the audit committee, Ms. Leung Shuk Lan and Mr. Tang Yiu Wing.

The primary duties of the audit committee are (but without limitation) to assist the Board in providing an independent view of the effectiveness of our Company's financial reporting process, risk management and internal control systems, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board.

CORPORATE GOVERNANCE REPORT

The audit committee held four meeting during the year. Details of the attendance of members of the Audit Committee meeting are as follows:

| Members | Attendance/ Number of meetings |
|--------------------|---|
| Mr. Wong Ka Shing | 4/4 |
| Ms. Leung Shuk Lan | 3/4 |
| Mr. Tang Yiu Wing | 4/4 |

During the year, the audit committee reviewed the Company's annual financial statements, interim and quarterly reports; discussed the internal control of the Group; met with the independent external auditors and reviewed reports from the independent external auditors regarding their audit on annual financial statements.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 10 April 2015 with written terms of reference in compliance with code provision B.1 of the CG Code. The remuneration committee currently consists of 3 members, the majority of whom are independent non-executive Directors, namely Ms. Leung Shuk Lan, who serves as the chairman of the remuneration committee, Mr. Choi Chiu Ming, Jimmy and Mr. Wong Ka Shing.

The primary duties of the remuneration committee include (but without limitation): (i) making recommendations to the Directors on the policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of the Directors and senior management; (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time.

During the year, one remuneration committee meetings were held for, inter alia, reviewing the policy and structure for all remuneration of Directors. All the members of the remuneration committee at the relevant time had attended that meeting.

REMUNERATION POLICY FOR DIRECTORS AND SENIOR MANAGEMENT

Each of the Directors will receive a fee which is subject to an annual adjustment at a rate to be reviewed by the remuneration committee and be determined at the discretion of the Board. The Company's policy concerning the remuneration of the Directors is that the amount of remuneration is determined by reference to the relevant Director's experience, responsibilities, workload and the time devoted to the Group. The Group has adopted incentive bonus schemes and continues to maintain these schemes, seeking to align the financial well-being of the Group with that of the employees, and to retain the Directors and staff of high caliber.

NOMINATION COMMITTEE

The Company established a nomination committee on 10 April 2015 with written terms of reference in compliance with code provision A.5 of the CG Code. The nomination committee currently consists of 3 members, the majority of whom are independent non-executive Directors, namely Mr. Tang Yiu Wing, who serves as the chairman of the nomination committee, Mr. Choi Chiu Ming, Jimmy and Mr. Wong Ka Shing.

The primary function of the nomination committee includes making recommendations to the Board to fill vacancies on the same, assessing the independence of independent non-executive Directors and reviewing of the structure, size and composition of the Board.

During the year, one nomination committee meetings were held for, inter alia, reviewing the structure, size and composition of the Board and board diversity policy as well as considering the appointment of Directors. All the members of the nomination committee at the relevant time had attended that meeting.

BOARD DIVERSITY POLICY

The Company has adopted a board diversity policy (the “Diversity Policy”) which sets out the approach to achieve diversity on the Board. The Company embraces the benefits of having a diverse Board to enhance the quality of its performance. Pursuant to the Diversity Policy, the Company seeks to achieve Board diversity through the consideration of a number of aspects, including (but not limited to) gender, regional and industry experience, skills, knowledge and educational background.

The Board will consider to set measurable objectives to implement the Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. At present, the Board has not set any measurable objectives. The Nomination Committee will review the Diversity Policy, as appropriate, to ensure its effectiveness.

NOMINATION PROCEDURES, PROCESS AND CRITERIA

The Nomination Committee leads the process and makes recommendations for re-election and appointment to the Board, whether as additional appointment or to fill up the casual vacancy of directorship as and when they arise, in light of the challenges and opportunities facing by the Group, as well as the business development and requirements of the Group. In evaluating and selecting candidate(s) for directorship, the Nomination Committee considers the merit and contribution that the candidates will bring to the Board, having due regard for the election criteria set out in the Nomination Policy including, inter alia, the character and integrity; the accomplishment and experience; the commitment in respect of available time and relevant interest; the cultural and educational background, the gender, qualification, ethnicity, professional experience, skills, knowledge and length of service; the benefits of diversity on the existing Board as well as the independence of the candidates (for independent non-executive director). The Nomination Committee makes recommendation to the Board to appoint the appropriate person among the candidates nominated for directorship. Suitable candidate(s) shall be appointed by the Board in accordance with the Articles and the GEM Listing Rules.

CORPORATE GOVERNANCE REPORT

CONTINUING PROFESSIONAL DEVELOPMENT

According to the code provision A.6.5 of the CG Code, all directors shall participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. During the year, the Group has provided training materials for all the Directors to keep them abreast of the latest development of legal, regulatory and corporate governance. The Group, together with its compliance adviser, continuously updates the Directors on the latest developments regarding the GEM Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

ACCOUNTABILITY AND AUDIT

Directors' and Auditor's Responsibilities for the Consolidated Financial Statements

All Directors acknowledges their responsibility to prepare the Group's consolidated financial statements for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Directors continue to adopt the going concern approach in preparing the consolidated financial statements and are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The responsibilities of the external auditors about their financial reporting are set out in the independent auditor's report attached to the Company's financial statements for the year ended 31 December 2018 set out in this report.

AUDITOR'S REMUNERATION

For the year ended 31 December 2018, the remuneration paid or payable to Baker Tilly Hong Kong Limited and its affiliate companies in respect of audit and non-audit services provided is set out below:

| Services rendered | Remuneration paid/payable HK\$'000 |
|--------------------|--|
| Audit services | 450 |
| Non-audit services | — |
| | 450 |

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems and reviewing their effectiveness at least annually.

As a part of the Group's risk management and internal control systems, appropriate policies and controls have been designed and established by the Group to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed.

However, the risk management and internal control systems can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

The Group has adopted a three-tier risk management approach to identify, evaluate and manage significant risks. The operating units of the Group, as a first line of defence, identify, evaluate, mitigate and monitor the risks, and report such risk management activities to the Group's management on a regularly basis. The Group's management, as the second line of defence, provides support to the operating units and ensure that the significant risks are properly manage and within the acceptable range and report the situation to the Board at each regularly scheduled meeting. The Board, as the final line of defence, conducts an annual review of the overall effectiveness of the Group's risk management and internal control systems.

During the year, the Board has reviewed and discussed the risk management and internal control systems, which has covered all material controls, including financial, operational and compliance controls, with the Group's management and has conducted selective review of the effectiveness of internal control system of the Group and no material internal control fallings, weaknesses or deficiencies have been identified during the course of the review.

Based on the above, the Board were not aware of any areas of concern that would have a material impact on the Group's financial position or results of operations and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions.

DISCLOSURE OF INSIDE INFORMATION

The Board acknowledges its responsibilities under the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong and the GEM Listing Rules that inside information should be announced immediately when it is the subject of a decision. The Group has established appropriate procedures and internal controls for the handling and dissemination of inside information. The Company regulates the handling and dissemination of inside information as set out in the Group's policy, which has covered the related disclosure requirement under the GEM Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong in June 2012 to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company aims to provide its shareholders and investors with high standards of disclosure and financial transparency. The Board is committed to provide clear, detailed, timely manner and on a regular basis, information of the Group to shareholders through the publication of quarterly, interim and annual reports and/or dispatching circular, notices, and other announcements.

The general meetings of the Company provide a forum for communication between the Board and the Shareholders. The Chairman of the Board and other members of the respective committees are available to answer questions at the general meeting of the Shareholders. The Company recognises the importance of maintaining on-going communications with the shareholders and encourages them to attend general meetings to stay informed of the Group's businesses and convey any concerns they may have to the Directors and senior management.

CORPORATE GOVERNANCE REPORT

The Company maintains a website at <http://www.jetepower.com> where extensive information and updates on the Company's financial information, corporate governance practices and other useful information are posted and available for access by the public investors.

DIVIDEND POLICY

The Company does not have any pre-determined dividend distribution ratio. In deciding whether to propose a dividend and in determining the dividend amount, the Board takes into account, among other things, the Group's earnings performance, financial condition, cash requirements and availability, the availability of funds to meet the financial covenants of the Group's bank loans and any other factors that the Directors may consider relevant.

2018 GENERAL MEETINGS

The 2018 annual general meeting was held on 25 May 2018. The Company announced the results of the poll in the manner prescribed under the GEM Listing Rules. The respective chairman of the Board, audit committee, remuneration committee and nomination committee has attended the annual general meeting to ensure effective communication with shareholders. The attendance record of the Directors at the general meetings held in 2018 is set out below:

| Name of Directors | Number of general meetings attended/held |
|--|--|
| <i>Executive Directors</i> | |
| Mr. Choi Chiu Ming Jimmy | 1/1 |
| Mr. Johnny Huang (resigned on 31 May 2018) | 0/1 |
| <i>Independent Non-executive Directors</i> | |
| Ms. Leung Shuk Lan | 1/1 |
| Mr. Tang Yiu Wing | 1/1 |
| Mr. Wong Ka Shing | 1/1 |

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene an extraordinary general meeting and to put forward proposal at general meetings

Pursuant to article 58 of the Articles, the Board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Article 85 of the Articles provides that no person other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgment of the notices required under this Article will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days. The written notice must state that person's biographical details as required by Rule 17.50(2) of the GEM Listing Rules. The procedures for shareholders of the Company to propose a person for election as director is posted on the Company's website.

SHAREHOLDERS' ENQUIRIES TO THE BOARD

Shareholders may send their enquiries and concerns to the Board by addressing them to the Company Secretary by mail to the principal office of the Company in Hong Kong. The Company Secretary forwards communications relating to matters within the Board's purview to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and complaints, to the Chief Executive Officer.

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

COMPANY SECRETARY

The Company Secretary of the Company is Mr. Wong Wai Leung, a member of The Hong Kong Institute of Certified Public Accountants, and an associate member of The Hong Kong Institute of Chartered Secretaries. During the year ended 31 December 2018, the Company Secretary has duly complied with the relevant professional training requirement under Rule 5.15 of the GEM Listing Rules.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

This 2018 Environmental, Social and Governance (“ESG”) report aims to disclose the overall policies, practice, commitments and strategies on the sustainable development of the Group during the reporting period which covers the period from 1 January 2018 to 31 December 2018. Unless otherwise stated, this report mainly covers our wholly-owned operating subsidiary in the PRC.

The Group understands that sustainability is particularly important to the long-term development of the Group, the society as well as our next generation. The Group is committed to create a business that contributes to global efforts in environmental care and will introduce various environmental protection and social welfare activities in order to foster the sustainability development of the society.

This report is prepared in compliance with the relevant provisions of the Environmental, Social and Governance Reporting Guide set out in appendix 20 to the GEM Listing Rules.

ENVIRONMENTAL PROTECTION

Emission

The Group is principally engaged in the manufacturing of metal casting parts and components in the PRC. Resources such as liquid petroleum gas, electricity and raw materials are essential inputs to our business and greenhouse gas emissions are unavoidable during our production process.

Greenhouse Gas Emissions:

| Year | Scope 1 (Carbon dioxide equivalent, ton) | Scope 2 (Carbon dioxide equivalent, ton) | Scope 3 (Carbon dioxide equivalent, ton) | Total (Carbon dioxide equivalent, ton) | Carbon Intensity per each ton of output |
|------|---|---|---|---|--|
| 2018 | 1,073.01 | 2,519.79 | 1.48 | 3,594.28 | 5.67 |
| 2017 | 1,108.41 | 2,227.83 | 1.04 | 3,337.28 | 5.97 |

Note: Scope 1 refers to direct greenhouse gas emissions which resulted from the liquid petroleum gas and diesel consumed by the Group. Scope 2 refers to energy indirect emissions which resulted only from the generation of the Group’s purchased electricity. Scope 3 refers to other indirect greenhouse gas emissions which resulted from the water consumption.

The Group generated no significant hazardous waste and non-hazardous waste during the reporting period. It is the Group’s objective to improve its production and operations process in order to promote environmental sustainability by reducing the emissions associated with a wide-range of business activities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Use of Resources

The Group is also committed to use resources wisely and efficiently and reduce waste generation within our operations. Throughout all of our operations, we have been progressively implementing different resource-saving measures including but not limited to the environmental education to our people.

Liquid Petroleum Gas and Diesel Consumption:

| Year | Total (ton) | Intensity per each ton of output |
|-------------|------------------------|---|
| 2018 | 346 | 0.55 |
| 2017 | 355 | 0.64 |

Electricity Consumption:

| Year | Total (mWh) | Intensity per each ton of output |
|-------------|------------------------|---|
| 2018 | 3,748.23 | 5.91 |
| 2017 | 3,313.92 | 5.92 |

Water Consumption:

| Year | Total (cubic meter) | Intensity per each ton of output |
|-------------|--------------------------------|---|
| 2018 | 2,974.27 | 4.69 |
| 2017 | 2,094.19 | 3.74 |

The Group has used simple and recyclable materials for packaging in order to avoid the wastage of resources. During the year ended 31 December 2018, the usage and intensity of packaging materials per each ton of production is considered as immaterial.

Environment and Natural Resources

The Group will continue to monitor the production and operations process in order to ensure that it does not have a significant adverse effect on the environment and that the Group's environmental protection measures are adequate to ensure compliance with all applicable current local and national PRC regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL

Employment and Labour Standards

The success of our business has been, and will continue to be, heavily dependent upon the continuing service of our employees. The Group provides competitive remuneration, implements a sound performance appraisal, advocates ethics and human rights at the workplace.

As of 31 December 2018, the Group has 158 (2017: 157) employees in offices located in Hong Kong and Qiuchang, PRC. The Group strictly complies with the requirements of the labour law or regulations under local jurisdiction:

1. The Group prohibits the employment of child, forced or compulsory labour in any of our operations;
2. Wages, overtime payments and related benefits are made in accordance with minimum wage or above (if any);
3. Holidays and statutory paid leaves are compliant respective Labour Law or Regulations; and
4. The Group treats all its employees equally that their employment, remuneration and promotion will not be affected by their social identities such as ethnicity, race, nationality, gender, religion, age, sexual orientation, political faction and marital status.

During the year ended 31 December 2018, there were no non-compliance or notification from governmental authorities for contravention of any of the employment practices referred to above.

Health and Safety

The Group gives priority for providing a safe and convenient working environment to employees.

The Group has formulated a series of code of practice for safety at work, comprised of sanitation and clean, machine operation, smoking prohibition and fire prevention, as well as emergency treatment, etc. The Group provides training for code of practice of safety at work and requires employees strictly comply with the code.

The government authorities keeps regular monitoring on the Group's working environmental. Rectification will be made by the Group in accordance with the monitoring results, if necessary.

During the year ended 31 December 2018, the Group has no fatal accidents at work.

Development and Training

The Group ample resources to staff training and development with the aim of sustaining a competent and professional staff force that will contribute to the success of the Group. In 2018, training sessions were provided to our employees on different aspects such as technology, internal system, safety and staff induction.

In additions, a number of staff activities were organised to show appreciation to employees for their contribution and to enhance their sense of belonging.

Supply Chain Management

Effective supply chain management can have implications on cost, quality and serve to mitigate social or environmental risks that an organization may face. As such, supply chain management is always one of the key links in the Group's quality control system. The Group exercises a high level of scrutiny over the selection of suppliers. The Group has carried out long-term quality monitoring and regular review over major suppliers and subcontractors. They are subject to regular on-site assessment on product quality as well as suitability made by our Group. In case of a significant change in their qualification or serious quality issue, the Group may suspend them from our supplier list.

Product Responsibility

The nature of our business requires the highest degree of accuracy, precision and quality in developing our products. To bolster our efforts in quality assurance, we undergo stringent certification programs from unbiased organisations that enforce international, national and industry standards. Each step in our production procedures are controlled and monitored to ensure adherence to stringent quality standard. This is our way of ensuring we deliver only qualified products to the market, and maintaining our outstanding track record in the metal casting industry.

In recognition of our quality control system, a wholly owned subsidiary of the Group has obtained the certification from TÜV Rheinland for the European Directive 97/23/EC for Pressure Equipment & AD 2000-Merkblatt W0/TRD100.

As a result of our stringent quality control procedures, our clients are satisfied with our products and we did not receive any material complaints in relation to our products. During the year ended 31 December 2018, there were no non-compliance cases noted in relation to health and safety, advertising, labelling and privacy matters.

Anti-corruption

The Code of Conduct included in our Human Resources Manual allows our people to understand explicitly on several areas, which include the provisions of anti-bribery and corruption. All of the Group's operations comply with local and national legislation on standards of conduct, such as with the Prevention of Bribery Ordinance in Hong Kong and relevant legislation on anti-corruption and bribery in the PRC. The Group definitely has zero tolerance on bribery and corruption behavior.

There were no non-compliance cases noted in relation to corruption related laws and regulations as of 31 December 2018.

Community Investment

Charity and Social Responsibility

We consider our interaction with the community as a long-term investment. In 2018, the Group donated HK\$2.03 million in total to a number of registered charitable organisations to help people in need.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Choi Chiu Ming Jimmy, aged 65, was appointed as a Director on 24 February 2014 and redesignated as the Chairman of the Board, the compliance officer of the Company and executive Director on 10 April 2015. Mr. Choi is also a director of various subsidiaries of the Company. Prior to joining our Group, Mr. Choi had worked in the Royal Hong Kong Auxiliary Air Force (now retitled as “Government Flying Service”) for about 27 years and retired in 2008 at the position of Senior Aircrewman Officer. During his tenure, Mr. Choi had been seconded to Security Bureau as Assistant Secretary for Security between 2000 and 2001 and had attended various professional and management training courses, such as Senior Command Course (Hong Kong Police), Senior Staff Course (Hong Kong Government) and Intermediate Command and Staff Course provided by the Royal Air Force Staff College, the United Kingdom. In particular, Mr. Choi obtained the Certificate of Qualified Crewman Instructor from the Central Flying School, Royal Air Force, the United Kingdom in December 1987.

Mr. Choi has over 27 years of experience in the management level of disciplinary force in Hong Kong and was awarded a number of honorary commendations, including Government Flying Service Medal for Meritorious Service (G.M.S.M.) in 2002; and Medal of Bravery (Bronze) (M.B.B.) in 2004. Mr. Choi has been serving as the General Manager of China Financial Leasing Group Limited (listed on the Stock Exchange, stock code: 2312) since January 2014. Mr. Choi was also a non-executive director of China Internet Investment Finance Holdings Limited (formerly known as “Opes Asia Development Limited”) (listed on the Stock Exchange, stock code: 810) from December 2013 to May 2014.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Leung Shuk Lan, aged 61, was appointed as an independent non-executive Director of our Group on 10 April 2015. Ms. Leung had been the chairman of the executive committee of the Professional Insurance Brokers Association from 2008 to 2011. Ms. Leung is currently the chief executive of K U M Insurance Brokers Limited and Charter Management Company. Ms. Leung has accumulated over 30 years of experience in the Hong Kong insurance industry. Ms. Leung was also an independent non-executive director of Long Success International (Holdings) Limited (a company previously listed on the GEM of the Stock Exchange) from October 2013 to February 2017.

Mr. Tang Yiu Wing, aged 52, was appointed as an independent non-executive Director of our Group on 10 April 2015. Mr. Tang obtained a Bachelor of Laws in November 1988 and a Postgraduate Certificate in Laws in June 1989 from the University of Hong Kong and a Master of Laws in Chinese and Comparative Law from the City University of Hong Kong in November 1999.

Mr. Tang is a member of the Law Society of Hong Kong and a practicing solicitor in Hong Kong and the founder and partner of Ivan Tang & Co. Mr. Tang was admitted as a solicitor of the Supreme Court of England and Wales in November 1993.

Mr. Tang has been an independent non-executive director of Goldin Financial Holdings Limited (Stock Code: 530), a company listed on the Main Board of the Stock Exchange, since September 2006; an independent non-executive director of Zhejiang United Investment Holdings Group Limited (Stock Code: 8366), a company listed on the GEM of the Stock Exchange, since July 2017; and an independent non-executive director of Universe Entertainment and Culture Group Company Limited (formerly known as Universe International Financial Holdings Limited (Stock Code: 1046), a company listed on the Main Board of the Stock Exchange, since October 2017. Mr. Tang was also an independent non-executive director of China All Nation International Holdings Group Limited (formerly known as KSL Holdings Limited) (Stock Code: 8170) from March 2017 to May 2018.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wong Ka Shing, aged 40, was appointed as an independent non-executive Director of our Group on 10 April 2015. Mr. Wong holds a Bachelor of Arts (Hon) degree in Accounting and Finance from The Leeds Metropolitan University. Mr. Wong is a member of The Association of Chartered Certified Accountants and a member of The Hong Kong Institute of Certified Public Accountants. Mr. Wong has extensive experience in accounting, auditing and financial management. Mr. Wong has been an executive director of Yuk Wing Group Holdings Limited (Stock Code: 1536), a company listed on the Main Board of the Stock Exchange, since January 2019. Mr. Wong was also an independent non-executive director of Long Success International (Holdings) Limited (a company previously listed on the GEM of the Stock Exchange) from October 2013 to February 2017.

SENIOR MANAGEMENT

Mr. Wong Thomas Wai Yuk, aged 56, the founder of our Group, was appointed as a Director on 24 February 2014 and redesignated as an executive Director of the Company on 10 April 2015. Mr. Wong has resigned as an executive Director of the Company on 20 September 2016 but remain as the chief executive officer of our Group. Mr. Wong is also a director of various subsidiaries of the Company.

Mr. Wong obtained a Higher Diploma in Mechanical Engineering from Hong Kong Polytechnic in November 1984. Mr. Wong worked at Fong's National Engineering Company Limited between 1987 and 1992 as an executive in production planning section, and subsequently as an assistant manager of sales and marketing department, of that company. Mr. Wong went to Australia for study in around 1993 and obtained a Bachelor of Manufacturing Management from University of Technology, Sydney in April 1996. Mr. Wong was appointed as a director of Tycon Alloy Industries (Hong Kong) Company Limited and Tycon Alloy Industries (Shenzhen) Company Limited, both of which were the then subsidiaries of Fong's National Engineering Company Limited, in 1996. Mr. Wong resigned his directorships and ceased his employment with Fong's National Engineering Company Limited in the early 2003.

Mr. Wong has over 28 years of experience in the metal casting industry in the PRC.

REPORT OF DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2018.

CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 24 February 2014 under the Companies Law of the Cayman Islands. Pursuant to a reorganisation (the "Reorganisation") in preparation for the listing of the shares of the Company (the "Listing") on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 23 April 2015 (the "Prospectus"). The Company's shares were listed on GEM on 30 April 2015 (the "Listing Date").

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries are set out in note 26 to the financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and indication of likely future development in the Group's business, can be found in the Management Discussion and Analysis set out on pages 4 to 10 of this report. This discussion forms part of this directors' report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of profit or loss and other comprehensive income. The Board does not recommend the payment of a dividend for the year ended 31 December 2018.

DISTRIBUTABLE RESERVES

Details of distributable reserves of the Company as at 31 December 2018 are set out in note 27 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 27 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group, as extracted from the Prospectus and the consolidated financial statements of the Company for the years ended 31 December 2014, 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018, is set out on page 92 of this report. This summary does not form part of the audited financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2018, the Company did not redeem any of its shares, and neither did the Company nor any of its subsidiaries purchase or sell any of the Company's shares.

SHARE OPTION SCHEME

The Company has a share option scheme (the "Share Option Scheme") which was approved and adopted pursuant to the written resolutions of the Shareholders passed on 10 April 2015 (the "Adoption Date"). The following is a summary of the principal terms and conditions of the Share Option Scheme.

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide incentives or rewards to Participants (as defined below) for their contribution to our Group and/or to enable our Group to recruit and retain high-calibre employees and attract human resources that are valuable to our Group.

(b) Participants

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part time), director, consultant or adviser of the Group, or any shareholder of the Group, or supplier, customer, business partner or service provider of the Group.

(c) Total number of Shares available for issue under the Share Option Scheme

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme shall not in aggregate exceed 10% of all the shares in issue as at the Listing Date (i.e. a total of 350,000,000 shares representing 10% of the issued share capital of the Company as at the date of this report).

(d) Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of options granted to each participant (including both exercised and outstanding options) under the Share Option Scheme or any other share option schemes of the Company, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting.

(e) Term of subscription of Shares upon exercise of the options

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant.

REPORT OF DIRECTORS

(f) Minimum period for which an option must be held before it can be exercised

The Board may in its absolute discretion set a minimum period for which an option must be held before an option can be exercised.

(g) Time of acceptance and the amount payable on acceptance of the option

An offer for the grant of options must be accepted within twenty one days from the date on which the option is granted. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK\$1.

(h) Basis of determining the subscription price

The subscription price of a share of the Company (the "Share") in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.

(i) Life of the Share Option Scheme

The Share Option Scheme will remain in force for a period of ten year commencing on the Adoption Date and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by the Shareholders in general meeting.

Since the adoption of the Share Option Scheme up to the date of this report, no share options have been granted pursuant to the Share Option Scheme.

There is no option outstanding, granted, cancelled and lapsed during the year.

DIRECTORS

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

Executive Directors

Mr. Choi Chiu Ming Jimmy

Independent Non-executive Directors

Ms. Leung Shuk Lan

Mr. Tang Yiu Wing

Mr. Wong Ka Shing

By virtue of article 84 of the articles of association of the Company, Mr. Choi Chiu Ming Jimmy and Ms. Leung Shuk Lan, shall hold office until the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election at such meeting.

The Company has received annual confirmation of independence from each of the Independent Non-executive Directors pursuant to Rule 5.09 of the GEM Listing Rules. As at the date of this report, the Board considers them to be independent.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of three years and will continue thereafter until terminated by either party giving not less than three months' prior written notice to the other. They are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's articles of association.

Each of the Independent Non-executive Directors has entered into a letter of appointment with the Company for a term of three years, subject to retirement by rotation and re-election at annual general meeting and until terminated by not less than three months' notice in writing served by either party on the other.

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

EMOLUMENT POLICY

In order to attract and retain high quality staff and to enable smooth operation within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis.

The emoluments of the Directors are recommended by the remuneration committee of the Company, having regard to the Group's operating results, market competitiveness, individual performance and achievement, to the Board for determination.

Details of the Directors' remuneration and the five highest paid individuals are set out in note 7 and 8 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this report, no contracts of significance to which the company, any of its subsidiaries, fellow subsidiaries or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 24 to 25 of this report.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's articles of association, every director of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. The Company maintains directors and officers liability insurance, which gives appropriate cover for any legal action brought against its directors. The level of the coverage is reviewed annually.

REPORT OF DIRECTORS

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

As at 31 December 2018, interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules are as follows:

Long positions in shares of the Company:

| Name of Director/Chief Executive | Capacity | Number of shares held | Percentage of the Company's issued share capital |
|--|--------------------------------------|-------------------------|--|
| Mr. Choi Chiu Ming Jimmy ("Mr. Choi") | Interest of a controlled corporation | 181,500,000 (Note 1) | 5.18% |

Long positions in shares of associated corporation:

| Name of Director | Name of associated corporation | Capacity | Percentage of the associated corporation's issued share capital |
|------------------|-----------------------------------|--------------------------------------|---|
| Mr. Choi | Bravo Luck Limited ("Bravo Luck") | Directly beneficially owned (Note 1) | 100% |

Note:

- These 181,500,000 shares are held by Bravo Luck, which in turn is wholly and beneficially owned by Mr. Choi. As such, Mr. Choi is deemed under the SFO to be interested in these 181,500,000 shares held by Bravo Luck.

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executives of the Company had registered an interest or short position in the shares, underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the standard of dealings by directors set out in Rules 5.46 to 5.67 of the GEM Listing Rules.

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

So far as the Directors are aware, as at 31 December 2018, other than the director and chief executive of the Company, the following persons/entities have an interest or a short position in the shares or the underlying shares of the Company as recorded in the register of the Company required to be kept under section 336 of the SFO:

Long position in shares of the Company:

| Name | Note | Nature of interests | Number of shares held | Percentage of the Company's issued share capital |
|-----------------|------|---------------------|-----------------------|--|
| Bravo Luck | 1 | Beneficial interest | 181,500,000 | 5.18% |
| Ms. Chan Suk Ha | 2 | Interest of spouse | 181,500,000 | 5.18% |
| Mr. Fang Jinhua | | Personal interest | 739,240,000 | 21.12% |

Notes:

1. Bravo Luck is wholly-owned by Mr. Choi.
2. Ms. Chan Suk Ha is the spouse of Mr. Choi. Under the SFO, Ms. Chan Suk Ha is deemed under the SFO, to be interested in all the shares in which Mr. Choi is interested.

Save as disclosed above, as at 31 December 2018, no other persons had any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 336 of the SFO.

MANAGEMENT CONTRACTS

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

CHARITABLE DONATIONS

Charitable donations made by the Group for the year amounted to HK\$2,028,000.

MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2018, sales to the Group's five largest customers accounted for 80.0% of the total sales for the year and sales to the largest customer included therein amounted to 33.3%. Purchases from the Group's five largest suppliers accounted for 47.1% of the total purchases for the year and purchase from the largest supplier included therein amounted to 13.8%.

REPORT OF DIRECTORS

Save as disclosed, none of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in these major suppliers or customers.

MATERIAL RELATED PARTY TRANSACTION

The material related party transactions in relation to the key management personnel remuneration as disclosed in note 7 to the financial statements are connected transactions exempt from reporting, announcement and independent shareholders' approval requirements pursuant to Rule 20.93 of the GEM Listing Rules.

Save as disclosed above, the Directors consider that those material related party transactions disclosed in note 25 to the financial statements did not fall under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 20 of the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the GEM Listing Rules.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION

During the year ended 31 December 2018, the Group had not entered into any connected transactions or continuing connected transactions that are not exempted under Rule 20.71 of the GEM Listing Rules.

USE OF PROCEEDS FROM THE COMPANY'S PLACING

The proceeds from the Company's issue of 150,000,000 new shares (the "Placing") at the time of the Listing amounted to approximately HK\$8.6 million, net of underwriting fees and other related expenses. Details of the use of proceeds from the placing are set out on page 10 of the annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float required by the GEM Listing Rules as at the date of this report.

CORPORATE GOVERNANCE

Details of the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 11 to 19 of the this report.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 6 May 2019 to Friday, 10 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the annual general meeting to be held on Friday, 10 May 2019, all share transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Friday, 3 May 2019.

EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period are set out in note 25 to the consolidated financial statements.

AUDITORS

The consolidated financial statements for the year ended 31 December 2018 were audited by Baker Tilly Hong Kong Limited, who will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-appointment.

Baker Tilly Hong Kong Limited has been appointed as auditor of the Company with effect from 9 December 2016 to fill the casual vacancy arising from the resignation of SHINEWING (HK) CPA Limited.

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

On behalf of the Board

Jete Power Holdings Limited

Choi Chiu Ming Jimmy

Chairman

Hong Kong, 26 March 2019

INDEPENDENT AUDITOR'S REPORT



**Independent auditor's report to the shareholders of
Jete Power Holdings Limited**
(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Jete Power Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 40 to 92, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

The Key Audit Matter***Impairment of trade receivables***

Refer to Note 2(h)(i), 2(j), 13 and 28(b) of the audited consolidated financial statements

As at 31 December 2018, the Group had significant trade receivables of HK\$9,346,000 (2017: HK\$6,111,000). No impairment was recognised during the year.

The management has to apply judgement to assess the level of loss allowance required to adjust the value of trade receivables to their recoverable amounts. The Group's credit risk policy requires analysis of individual receivable account balances, taking into account receivables that are past due for more than 60 days.

The level of judgement involved in determining whether a loss allowance should be recognised and how it should be measured, coupled with the fact that loss allowance movements impact earnings, results in this being one of the key judgmental areas that our audit focused on.

How the matter was addressed in our audit

Our audit procedures in this area included:

- assessing the robustness of management's impairment evaluation process and the appropriateness of their decision not to make an impairment adjustment to trade receivables;
- assessing the appropriateness of the Group's expected credit losses model, with reference to the ageing of the customer balances, economic conditions, concentration of counterparty risk and the past due analysis; and
- reviewing subsequent settlement records and understanding from management about their reasons for not considering a provision against unsettled past-due balances.

INDEPENDENT AUDITOR'S REPORT

The Key Audit Matter

Valuation of inventories

Refer to Note 2(i), 12 and 28(c) of the audited consolidated financial statements

The Group operates in an industry in which developments in its cast metal products may result in inventories becoming slow moving or obsolete. Its customers may modify their products orders or shift their orders to other manufacturers which would result in changes in product and stock lines. These factors, in turn, may mean that affected inventories cannot be sold or sales prices are discounted to less than the inventory carrying value.

The value of inventories as at 31 December 2018 was HK\$16,350,000 (2017: HK\$19,414,000) which is significant for the consolidated statement of financial position. No write-down of inventories was recognised for the year ended 31 December 2018.

How the matter was addressed in our audit

Our audit procedures in this area included:

- assessing the appropriateness of the Group's methodology for determining its inventory provision in the light of our understanding of the business and the industry, including our professional judgement of the age and nature of inventory, past usage and new product launches;
- assessing the appropriateness of management's decision on provisioning by examining the history or outcome of reversal of previously recorded provisions;
- testing the carrying value of inventories by comparing the carrying values to latest sales invoices for a representative sample of items to assess whether those items were held at the lower of cost or net realisable value; and
- assessing the adequacy of the disclosures concerning management's judgements in their determining the carrying value of inventories.

The Key Audit Matter**How the matter was addressed in our audit****Valuation and impairment of plant and equipment**

Refer to Note 2(f), 2(h)(ii) and 11 of the audited consolidated financial statements

The Group has plant and equipment with aggregate carrying value of HK\$13,000,000 (2017: HK\$13,503,000) as at 31 December 2018. Management has performed an impairment review on the plant and equipment with reference to a review of the business, the outlook for the industry and the Group's operating plans. Management concluded that the recoverable amount was higher than the carrying values and consequently they did not make an impairment provision. These management decision are dependent upon significant judgements, including assessments of estimated utilisation of the assets, disposal values and discount rates applied to future cash flows.

Our audit procedures in this area included:

- assessing the methodologies used by management to estimate value in use;
- checking on a sample basis the accuracy and relevance of the input data used by management to estimate value in use;
- assessing management's key assumptions used to estimate value in use based on our understanding of the industry of cast metal product manufacturing; and
- considering the potential impact of reasonably possible downside-changes in the key assumptions.

We found management assumptions in relation to their calculations of fair value less costs of disposal and of value in use to be reasonable.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our 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 identified above 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 have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report the fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of 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. This report is made solely to you as a body and for no other purpose. We do assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT

- 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 director on the audit resulting in this independent auditor's report is Tong Wai Hang.

Baker Tilly Hong Kong Limited

Certified Public Accountants

Hong Kong, 26 March 2019

Tong Wai Hang

Practising Certificate Number P06231

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018
(Expressed in Hong Kong dollars)

| | Note | 2018 HK\$'000 | 2017 HK\$'000 |
|--|------|------------------|------------------|
| Revenue | 3 | 67,438 | 47,643 |
| Cost of sales | | (55,685) | (36,503) |
| Gross profit | | 11,753 | 11,140 |
| Gain on bargain purchase | 23 | 8 | — |
| Gain on disposal of a subsidiary | 24 | — | 1,322 |
| Other income | 4 | 92 | 269 |
| Selling and distribution expenses | | (5,102) | (3,533) |
| Administrative expenses | | (16,126) | (13,654) |
| Loss from operations | | (9,375) | (4,456) |
| Finance costs | 5(a) | (45) | (73) |
| Share of losses of associates | | — | (176) |
| Loss before taxation | 5 | (9,420) | (4,705) |
| Income tax | 6 | (291) | (230) |
| Loss for the year attributable to owners of the Company | | (9,711) | (4,935) |
| Other comprehensive income for the year | | | |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | | |
| — Exchange differences on translation of financial statements of a foreign operation, net of nil tax | | (522) | 1,486 |
| — Share of other comprehensive loss of associates, net of nil tax | | — | (62) |
| — Exchange reserve reclassified to profit or loss upon disposal of a subsidiary, net of nil tax | | — | 62 |
| | | (522) | 1,486 |
| Total comprehensive loss for the year attributable to owners of the Company | | (10,233) | (3,449) |
| | | HK cents | HK cents |
| Loss per share | 9 | | |
| Basic | | (0.28) | (0.14) |
| Diluted | | (0.28) | (0.14) |

The notes on pages 44 to 91 form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018
(Expressed in Hong Kong dollars)

| | Note | 2018 HK\$'000 | 2017 HK\$'000 |
|-----------------------------|-------|------------------|------------------|
| Non-current assets | | | |
| Plant and equipment | 11 | 13,000 | 13,503 |
| Rental deposits | 13 | 467 | 480 |
| | | 13,467 | 13,983 |
| Current assets | | | |
| Inventories | 12 | 16,350 | 19,414 |
| Trade and other receivables | 13 | 12,014 | 13,210 |
| Pledged bank deposits | 15 | — | 1,507 |
| Cash and cash equivalents | 15 | 8,876 | 13,441 |
| | | 37,240 | 47,572 |
| Current liabilities | | | |
| Trade and other payables | 16 | 11,409 | 11,672 |
| Tax payable | 14 | 194 | 546 |
| | | 11,603 | 12,218 |
| Net current assets | | 25,637 | 35,354 |
| NET ASSETS | | 39,104 | 49,337 |
| CAPITAL AND RESERVES | | | |
| Share capital | 18(a) | 7,000 | 7,000 |
| Reserves | | 32,104 | 42,337 |
| TOTAL EQUITY | | 39,104 | 49,337 |

Approved and authorised for issue by the board of directors on 26 March 2019.

Mr. Choi Chiu Ming Jimmy
Director

Mr. Wong Ka Shing
Director

The notes on pages 44 to 91 form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018
(Expressed in Hong Kong dollars)

| | Share capital HK\$'000 (note 18(a)) | Share premium HK\$'000 (note 18(c)(i)) | Exchange reserve HK\$'000 (note 18(c)(ii)) | Capital reserve HK\$'000 (note 18(c)(iii)) | Warrant reserve HK\$'000 (note 18(c)(iv)) | Other reserve HK\$'000 (note 18(c)(v)) | Accumulated losses HK\$'000 | Total HK\$'000 |
|--|---|--|--|--|---|--|--------------------------------|-------------------|
| At 1 January 2017 | 7,000 | 18,418 | 1,904 | (7,045) | 13,720 | 27,650 | (8,861) | 52,786 |
| Changes in equity for 2017: | | | | | | | | |
| Loss for the year | — | — | — | — | — | — | (4,935) | (4,935) |
| Exchange differences on translation of financial statements of a foreign operation, net of nil tax | — | — | 1,486 | — | — | — | — | 1,486 |
| Share of other comprehensive loss of associates, net of nil tax | — | — | (62) | — | — | — | — | (62) |
| Exchange reserve reclassified to profit or loss upon disposal of a subsidiary, net of nil tax | — | — | 62 | — | — | — | — | 62 |
| Total comprehensive income/(loss) for the year | — | — | 1,486 | — | — | — | (4,935) | (3,449) |
| At 31 December 2017 | 7,000 | 18,418 | 3,390 | (7,045) | 13,720 | 27,650 | (13,796) | 49,337 |
| At 1 January 2018 | 7,000 | 18,418 | 3,390 | (7,045) | 13,720 | 27,650 | (13,796) | 49,337 |
| Changes in equity for 2018: | | | | | | | | |
| Loss for the year | — | — | — | — | — | — | (9,711) | (9,711) |
| Exchange differences on translation of financial statements of a foreign operation, net of nil tax | — | — | (522) | — | — | — | — | (522) |
| Total comprehensive loss for the year | — | — | (522) | — | — | — | (9,711) | (10,233) |
| At 31 December 2018 | 7,000 | 18,418 | 2,868 | (7,045) | 13,720 | 27,650 | (23,507) | 39,104 |

The notes on pages 44 to 91 form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2018
(Expressed in Hong Kong dollars)

| | Note | 2018 HK\$'000 | 2017 HK\$'000 |
|---|------|------------------|------------------|
| Operating activities | | | |
| Loss before taxation | | (9,420) | (4,705) |
| Adjustments for: | | | |
| — Gain on bargain purchase | 23 | (8) | — |
| — Gain on disposal of a subsidiary | 24 | — | (1,322) |
| — Fair value changes on contingent consideration assets for acquisition of associates | 4 | — | (74) |
| — Interest income | 4 | (6) | (30) |
| — Finance costs | 5(a) | 45 | 73 |
| — Depreciation | 5(c) | 2,635 | 2,528 |
| — Loss on disposal of plant and equipment | 5(c) | 4 | 111 |
| — Share of losses of associates | | — | 176 |
| Operating loss before changes in working capital | | (6,750) | (3,243) |
| Decrease/(increase) in inventories | | 2,714 | (3,036) |
| Increase in trade and other receivables | | (3,797) | (953) |
| (Decrease)/increase in trade and other payables | | (27) | 975 |
| Cash used in operations | | (7,860) | (6,257) |
| Hong Kong Profits Tax (paid)/refunded | | (380) | 899 |
| PRC Enterprise Income Tax paid | | (257) | (126) |
| Net cash used in operating activities | | (8,497) | (5,484) |
| Investing activities | | | |
| Net cash inflow from acquisition of a subsidiary | 23 | 8 | — |
| Net cash inflow from disposal of a subsidiary | 24 | 4,950 | 6,050 |
| Payment for purchase of plant and equipment | | (2,456) | (435) |
| Proceeds from disposal of plant and equipment | | — | 52 |
| Decrease in pledged bank deposits | | 1,507 | 1,998 |
| Interest received | | 6 | 30 |
| Net cash generated from investing activities | | 4,015 | 7,695 |
| Financing activities | | | |
| New bank borrowings | | — | 1,326 |
| Repayment of bank borrowings | | — | (1,785) |
| Repayment to a shareholder | | — | (1,403) |
| Interest paid | | (45) | (73) |
| Net cash used in financing activities | | (45) | (1,935) |
| (Decrease)/increase in cash and cash equivalents | | (4,527) | 276 |
| Cash and cash equivalents at 1 January | | 13,441 | 13,062 |
| Effect of foreign exchange rate changes | | (38) | 103 |
| Cash and cash equivalents at 31 December | 15 | 8,876 | 13,441 |

The notes on pages 44 to 91 form part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 COMPANY INFORMATION

Jete Power Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 24 February 2014 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at Factory Unit 13A, 9th Floor, Vanta Industrial Centre, Nos. 21–33 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong.

The Company’s shares have been listed on the GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 30 April 2015 (the “Listing”).

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”). Other than the major subsidiaries, G. Force (Hong Kong) Limited and KTech (Huizhou) Limited, of which the functional currency is United States dollars (“USD”) and Renminbi (“RMB”) respectively, the functional currency of the Company and other subsidiaries is HK\$.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements for year ended 31 December 2018 comprise the Company and its subsidiaries (together the “Group”).

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”).

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

A summary of significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the consolidated financial statements

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the consolidated financial statements (Continued)

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

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 28.

(c) Changes in accounting policies

(a) Overview

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Company. Of these, the following developments are relevant to the Company's financial information:

- | | |
|-------------------------------|---|
| • HKFRS 9 | Financial Instruments |
| • HKFRS 15 | Revenue from Contracts with Customers |
| • HK(IFRIC) Interpretation 22 | Foreign Currency Transactions and Advance Consideration |

The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 29).

This note explains the impact of the adoption of HKFRS 9, HKFRS 15 and HK(IFRIC) Interpretation 22 on the Company's interim financial information and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different from those applied in prior periods.

(b) HKFRS 9, Financial Instruments

HKFRS 9 replaces HKAS 39, Financial Instruments: Recognition and Measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. There is no significant impact on the Group's financial position and financial performance upon initial application at 1 January 2018.

Further details of the nature and effect of the changes of accounting policies and the transition approach are set out below:

(i) Classification and measurement

HKFRS 9 largely retains the existing requirements in HKAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(b) HKFRS 9, Financial Instruments (Continued)

(i) Classification and measurement (Continued)

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Under HKFRS 9, the classification for all of the Group's financial assets and financial liabilities measured at amortised cost remain the same. The carrying amounts for all financial assets and financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Company applies simplified approach to measure ECL for all financial assets at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the end of the reporting period as well as the forecast of future conditions. Impairment is made on expected credit losses which are present value of the cash shortfalls over the expected life of the financial assets.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

For further details on the Group's accounting policy for accounting for impairment, see note 2(h)(i).

There is no impact of transition to HKFRS 9 on retained earnings and other reserves as at 1 January 2018.

(c) HKFRS 15, Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for revenue from construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(c) HKFRS 15, Revenue from Contracts with Customers (Continued)

Further details of new significant accounting policies and effect of the changes are set out below:

(i) Timing of revenue recognition

Previously, revenue arising from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identified 3 situations in which control of the promised good or service is regarded as being transferred over time:

- When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced; and
- When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach does not materially affect the point in time when revenue is recognised under the Company's current contract terms, business practice and accounting policy.

The Company has assessed that revenue from sales of cast metal products continues to be recognised at a point in time. Currently the Company recognises revenue upon the point in time when the risks and rewards of ownership of the cast metal products have been transferred to the customer.

The Company has assessed that under the transfer-of-control approach in the new standard revenue is generally recognised in accordance with shipping terms stipulated in contracts, which is the point in time when the customer has the ability to direct the use of the finished goods and obtain substantially all of the remaining benefits of the finished goods.

The adoption of HKFRS 15 does not have a significant impact on when the Company recognises revenue from sale of goods and this change in accounting policy has no material impact on opening balances as at 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(c) HKFRS 15, Revenue from Contracts with Customers (Continued)

(ii) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Previously, the Company only applied such a policy when payments were significantly deferred, which was not common in the Company's arrangements with its customers. The Company did not apply such a policy when payments were received in advance.

It is not common for the Company to receive payments significantly in advance of revenue recognition in the Company's arrangements with its customers.

The adoption of HKFRS 15 does not have a significant impact on when the Company recognises financing component from sale of goods and this change in accounting policy had no material impact on opening balances as at 1 January 2018.

(iii) Sales with a right of return

When the customers are allowed to return the products, the Company estimates the level of returns and makes an adjustment against revenue and cost of sales.

The Company does not apply sales with a right to return with the customers except for quality defects. Based on the past experience, sales return due to quality defects is not material.

The adoption of HKFRS 15 does not materially affect how the Company recognises revenue and cost of sales when the customers have a right of return.

(iv) Presentation of contract liabilities

Under HKFRS 15, a contract liability, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Company recognises the related revenue, or when the Company receives consideration from a customer and expects to refund some or all of that consideration to the customer (i.e. refund liability). To reflect this change in presentation, contract liabilities, including receipts in advance from customers, with amount of approximately HK\$260,000 (1.1.2018: HK\$282,000) are now separately presented under trade and other payables as at 31 December 2018, as a result of the adoption of HKFRS 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(c) HKFRS 15, Revenue from Contracts with Customers (Continued)

(v) Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018

| | Amounts reported in accordance with HKFRS 15 HK\$ | Hypothetical amounts under HKAS 18 HK\$ | Difference: Estimated impact of adoption of HKFRS 15 HK\$ |
|---|---|--|--|
| Line item in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15: | | | |
| Trade and other payables | | | |
| – Trade creditors | 6,402 | 6,402 | – |
| – Accrued charges and other payables | 4,747 | 5,007 | (260) |
| – Contract liabilities | 260 | – | 260 |

The differences arise as a result of the changes in accounting policies described above.

(vi) Transition

The Company has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity as at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 18. As allowed by HKFRS 15, the Company has applied the new requirements only to contracts that were not completed before 1 January 2018 (if any). There is no impact of transition to HKFRS 15 on retained earnings as at 1 January 2018.

(d) HK(IFRIC) Interpretation 22, Foreign Currency Transactions and Advance Consideration

This interpretation provides guidance on determining “the date of the transaction” for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that “the date of the transaction” is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial performance of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries

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

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (see note 2(h)(ii)).

(e) Goodwill

Goodwill represents the excess of:

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(h)(ii)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Plant and equipment

Items of plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(h)(ii)).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Plant and equipment (Continued)

Depreciation is calculated to write off the cost of items of plant and equipment, less their estimated residual value, if any, over their estimated useful lives at the following annual rates:

| | |
|------------------------|-----------------------|
| Leasehold improvements | Over the lease term |
| Plant and machinery | 9% straight line |
| Office equipment | 10%–20% straight line |
| Motor vehicles | 18%–20% straight line |

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(h) Credit losses and impairment of assets

(i) Credit losses from financial instruments

(A) Policy applicable from 1 January 2018

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

Measurement of ECLs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Measurement of ECLs (Continued)

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;

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

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

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the group in full, without recourse by the group to actions such as realising security (if any is held); or (ii) the financial asset is 60 days past due. The group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk (Continued)

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

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the group.

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

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

Basis of calculation of interest income

Interest income recognised in accordance with note 2(p)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Basis of calculation of interest income (Continued)

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

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

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

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an “incurred loss” model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables). Under the “incurred loss” model, an impairment loss was recognised only when there was objective evidence of impairment.

Objective evidence of impairment included:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) Credit losses from financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

If any such evidence existed, an impairment loss was determined and recognised as follows:

- For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

(ii) Impairment of other non-current assets

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

- plant and equipment;
- goodwill; and
- investments in subsidiaries in the Company's statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) Impairment of other non-current assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

(i) Inventories

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Inventories (Continued)

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

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(h)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(k) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(o), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(m) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

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

Contributions to mandatory provident fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and to retirement benefit schemes for the employees of the Group's subsidiaries in The People's Republic of China (the "PRC") are recognised as an expense in profit or loss as incurred.

(n) Income tax

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Income tax (Continued)

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

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

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

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

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

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Income tax (Continued)

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Financial guarantees issued, provisions and contingent liabilities

(i) *Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantees (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm’s length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees is made available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(o)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Financial guarantees issued, provisions and contingent liabilities (Continued)

(ii) Other provisions and contingent liabilities

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

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

(p) Revenue recognition

The Group recognises revenue when a performance obligation is satisfied, i.e. when control over a product underlying the particular performance obligation is transferred to the customers, at the amount of promised consideration to which the Group is expected to be entitled. Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Concerts and events income

Revenue from the promotion and production of a event is recognised after the event occurs.

Revenue collected in advance of the event is recorded as contract liabilities until the event occurs. Revenue collected from sponsorships and other revenue, which is not related to any single event, is classified as contract liabilities and generally amortised over the operating season or the term of the contract.

(iii) Interest income

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

(iv) Government grants

Government grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same period in which the expenses are incurred.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

**NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS**

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)**(q) Translation of foreign currencies (Continued)**

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

(r) Interest-bearing borrowings

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

(s) Borrowing costs

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

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

(t) Warrants

Warrants issued by the Company that will be settled by a fixed amount of cash for a fixed number of the Company's own equity instruments are equity instruments. The net proceeds received from the issue of warrants are recognised in equity in warrant reserve. The warrant reserve will be transferred to share capital and share premium accounts upon the exercise of the warrants. When the warrants are still not exercised at the expiry date, the amount previously recognised in the warrant reserve will be transferred to retained earnings/accumulated losses.

(u) Related parties

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

- (i) has control or joint control of the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Related parties (Continued)

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

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (i).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(v) Segment reporting

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

3 REVENUE

| | 2018 HK\$'000 | 2017 HK\$'000 |
|------------------------------|------------------|------------------|
| Sales of cast metal products | 61,346 | 47,643 |
| Concerts and events income | 6,092 | — |
| | 67,438 | 47,643 |

Revenue from sales of cast metal products represents the sales value of goods supplied to customers, net of discounts, returns and value added tax or other sales taxes.

4 OTHER INCOME

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|------------------|------------------|
| Bank interest income | 6 | 30 |
| Fair value changes on contingent consideration assets for acquisition of associates | — | 74 |
| Government grants | 11 | 17 |
| Sundry income | 75 | 148 |
| | 92 | 269 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 LOSS BEFORE TAXATION

Loss before taxation is arrived after charging:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--|------------------|------------------|
| (a) Finance costs: | | |
| Interest on bank borrowings and overdrafts | 45 | 73 |
| (b) Staff costs (including directors' remuneration (note 7): | | |
| Salaries, wages and other benefits | 17,462 | 14,490 |
| Contributions to defined contribution retirement plan | 1,037 | 978 |
| | 18,499 | 15,468 |
| (c) Other items: | | |
| Auditor's remuneration | 450 | 410 |
| Cost of inventories sold* | 51,380 | 36,503 |
| Depreciation | 2,635 | 2,528 |
| Loss on disposal of plant and equipment | 4 | 111 |
| Net exchange loss/(gain) | 311 | (419) |
| Operating lease charges in respect of property rental | 2,897 | 1,659 |

* Cost of inventories includes HK\$13,103,000 (2017: HK\$11,490,000) relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--|------------------|------------------|
| Current tax — Hong Kong Profits Tax | | |
| Provision for the year (note 14(a)) | — | 36 |
| Current tax — PRC Enterprise Income Tax | | |
| Provision for the year (note 14(a)) | 206 | 64 |
| Under-provision in respect of prior years | 85 | 130 |
| | 291 | 194 |
| Income tax expense | 291 | 230 |

Pursuant to the income tax rule and regulations of Cayman Islands and British Virgin Islands (“BVI”), the Group is not subject to income tax in the respective jurisdictions.

In March 2018, the Hong Kong Government introduced a two-tiered profits tax rate regime by enacting the Inland Revenue (Amendment) (No. 3) Ordinance 2018 (the “Ordinance”). Under the two-tiered profits tax rate regime, the first HK\$2,000,000 of assessable profits of a qualifying corporation, which only one qualifying corporation within the Group is selected, is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The Ordinance is effective from the year of assessment 2018 — 2019.

Accordingly, the provision for Hong Kong Profits Tax for the qualifying corporation for the year ended 31 December 2018 is calculated in accordance with the two-tiered profits tax rate regime (2017: a single tax rate of 16.5% was applied) whereas the provision for other Hong Kong incorporated corporations are charged at 16.5% (2017: 16.5%).

Taxation of a PRC subsidiary is calculated using the applicable income tax rate of 25% (2017: 25%).

(b) Reconciliation between income tax expense and accounting loss at the applicable tax rates:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|------------------|------------------|
| Loss before taxation | (9,420) | (4,705) |
| Notional tax on loss before taxation, calculated at the rates applicable to profit or loss in the jurisdictions concerned | (1,496) | (734) |
| Tax effect of non-deductible expenses | 1,213 | 1,056 |
| Tax effect of non-taxable income | — | (222) |
| Tax effect of tax losses and other temporary differences not recognised | 489 | — |
| Under-provision in respect of prior years | 85 | 130 |
| Actual tax expense | 291 | 230 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance, Part 2 of the Companies (Disclosure of information about Benefits of Directors) Regulation and the GEM Listing Rules are as follows:

| Year ended 31 December 2018 | Directors' fees HK\$'000 | Salaries, allowances and benefits in kind HK\$'000 | Discretionary bonuses HK\$'000 | Retirement scheme contributions HK\$'000 | Total HK\$'000 |
|---|-----------------------------|---|-----------------------------------|---|-------------------|
| Executive directors | | | | | |
| Mr. Choi Chiu Ming Jimmy | 780 | — | — | — | 780 |
| Mr. Johnny Huang (resigned on 31 May 2018) | — | — | — | — | — |
| Independent non-executive directors | | | | | |
| Ms. Leung Shuk Lan | 200 | — | — | — | 200 |
| Mr. Tang Yiu Wing | 200 | — | — | — | 200 |
| Mr. Wong Ka Shing | 200 | — | — | — | 200 |
| | 1,380 | — | — | — | 1,380 |

| Year ended 31 December 2017 | Directors' fees HK\$'000 | Salaries, allowances and benefits in kind HK\$'000 | Discretionary bonuses HK\$'000 | Retirement scheme contributions HK\$'000 | Total HK\$'000 |
|--|-----------------------------|---|-----------------------------------|---|-------------------|
| Executive directors | | | | | |
| Mr. Choi Chiu Ming Jimmy | 780 | — | — | — | 780 |
| Mr. Johnny Huang | — | — | — | — | — |
| Independent non-executive directors | | | | | |
| Ms. Leung Shuk Lan | 200 | — | — | — | 200 |
| Mr. Tang Yiu Wing | 200 | — | — | — | 200 |
| Mr. Wong Ka Shing | 200 | — | — | — | 200 |
| | 1,380 | — | — | — | 1,380 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2017: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2017: three) individuals are as follows:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---------------------------------|------------------|------------------|
| Salaries and other emoluments | 2,006 | 1,980 |
| Retirement scheme contributions | 54 | 54 |
| | 2,060 | 2,034 |

The emoluments of the other three (2017: three) individuals with the highest emoluments are within the following band:

| | Number of individuals | |
|-------------------------------|-----------------------|------|
| | 2018 | 2017 |
| HK\$Nil — HK\$1,000,000 | 2 | 3 |
| HK\$1,000,001 — HK\$1,500,000 | 1 | — |

9 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK\$9,711,000 (2017: HK\$4,935,000) and the weighted average number of 3,500,000,000 (2017: 3,500,000,000) ordinary shares in issue during the year.

(b) Diluted loss per share

The diluted loss per share for the year ended 31 December 2018 and 2017 is the same as the basic loss per share as the assumed exercise of the outstanding warrants (see note 19) has anti-dilutive effect. There were no other potential dilutive ordinary shares in issue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

10 SEGMENT REPORTING

(a) Operating segment information

(i) Continuing operations

The Group is principally engaged in the manufacture and sales of cast metal products in previous years. During the year, the Group diversified its business to entertainment business which primarily relate to concerts and events organisation. Accordingly, the Group's operating activities are attributable to two operating segments. The directors assess the performance of the operating segments based on a measure of revenue and results of each segment and do not assess the performance based on segment assets and liabilities. There were no inter-segment sales in the reporting period.

| | Metal Casting | | Entertainment | | Total | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2018 HK\$'000 | 2017 HK\$'000 | 2018 HK\$'000 | 2017 HK\$'000 | 2018 HK\$'000 | 2017 HK\$'000 |
| Segment revenue (all from external customers) | 61,346 | 47,643 | 6,092 | — | 67,438 | 47,643 |
| Segment results | (1,827) | 735 | (1,036) | — | (2,863) | 735 |
| Unallocated operating costs | | | | | (6,512) | (6,513) |
| Gain on disposal of a subsidiary | | | | | — | 1,322 |
| Share of losses of associates | | | | | — | (176) |
| Finance costs | | | | | (45) | (73) |
| Loss before income tax | | | | | (9,420) | (4,705) |
| Other segment information: | | | | | | |
| Depreciation | 2,635 | 2,528 | — | — | 2,635 | 2,528 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

10 SEGMENT REPORTING (Continued)

(a) Operating segment information (Continued)

(ii) Segment assets and liabilities

The chief operating decision maker makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the chief operating decision maker does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

(b) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue and (ii) the Group's plant and equipment ("specified non-current assets"). The geographical location of customers is based on the location at which the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in case of plant and equipment and the location of operations, in case of interests in associates.

| | 2018 | | 2017 | |
|-------------------|---------------------|--|---------------------|--|
| | Revenue HK\$'000 | Specified non-current assets HK\$'000 | Revenue HK\$'000 | Specified non-current assets HK\$'000 |
| Germany | 54,476 | — | 40,015 | — |
| Hong Kong | 6,519 | 1,624 | 4,462 | 83 |
| The PRC | 2,120 | 11,376 | 1,815 | 13,420 |
| The United States | 3,591 | — | 1,279 | — |
| Others | 732 | — | 72 | — |
| | 67,438 | 13,000 | 47,643 | 13,503 |

Note: Others mainly cover Taiwan, Australia and Switzerland.

(c) Major customers

Revenue from major customers, each of whom accounted for 10% or more of the total revenue, is set out below:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|------------|------------------|------------------|
| Customer A | 20,397 | 12,880 |
| Customer B | 16,627 | 12,950 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

11 PLANT AND EQUIPMENT

| | Leasehold improvements HK\$'000 | Plant and machinery HK\$'000 | Office equipment HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
|----------------------------------|---------------------------------------|------------------------------------|---------------------------------|-------------------------------|-------------------|
| Cost: | | | | | |
| At 1 January 2017 | 8,456 | 12,376 | 627 | 570 | 22,029 |
| Exchange adjustments | 675 | 950 | 47 | 6 | 1,678 |
| Additions | 243 | 192 | — | — | 435 |
| Disposals | — | (908) | — | — | (908) |
| At 31 December 2017 | 9,374 | 12,610 | 674 | 576 | 23,234 |
| At 1 January 2018 | 9,374 | 12,610 | 674 | 576 | 23,234 |
| Exchange adjustments | (243) | (327) | (16) | (2) | (588) |
| Additions | 1,837 | 619 | — | — | 2,456 |
| Disposals | — | (43) | — | — | (43) |
| At 31 December 2018 | 10,968 | 12,859 | 658 | 574 | 25,059 |
| Accumulated depreciation: | | | | | |
| At 1 January 2017 | 1,677 | 4,840 | 442 | 379 | 7,338 |
| Exchange adjustments | 163 | 406 | 36 | 5 | 610 |
| Charge for the year | 876 | 1,454 | 97 | 101 | 2,528 |
| Written back on disposals | — | (745) | — | — | (745) |
| At 31 December 2017 | 2,716 | 5,955 | 575 | 485 | 9,731 |
| At 1 January 2018 | 2,716 | 5,955 | 575 | 485 | 9,731 |
| Exchange adjustments | (81) | (170) | (15) | (2) | (268) |
| Charge for the year | 922 | 1,536 | 94 | 83 | 2,635 |
| Written back on disposals | — | (39) | — | — | (39) |
| At 31 December 2018 | 3,557 | 7,282 | 654 | 566 | 12,059 |
| Carrying value: | | | | | |
| At 31 December 2018 | 7,411 | 5,577 | 4 | 8 | 13,000 |
| At 31 December 2017 | 6,658 | 6,655 | 99 | 91 | 13,503 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

12 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|------------------|------------------|------------------|
| Raw materials | 2,994 | 2,462 |
| Work in progress | 6,115 | 7,919 |
| Finished goods | 7,241 | 9,033 |
| | 16,350 | 19,414 |

13 TRADE AND OTHER RECEIVABLES

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|------------------|------------------|
| Trade receivables | 9,346 | 6,111 |
| Other tax recoverable | 779 | 767 |
| Deposits, prepayments and other receivables | 2,356 | 6,812 |
| | 12,481 | 13,690 |
| Rental deposits included under non-current assets | (467) | (480) |
| | 12,014 | 13,210 |

(a) Ageing analysis

The ageing analysis of trade debtors as of the end of the reporting period, based on invoice date, is as follows:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|-----------------------------------|------------------|------------------|
| Within 30 days | 1,537 | 3,669 |
| 31 to 60 days | 3,727 | 1,646 |
| 61 to 90 days | 2,655 | 756 |
| Over 90 days but less than 1 year | 1,427 | 40 |
| | 9,346 | 6,111 |

The Group allows an average credit period of 30 to 90 days to its trade customers. Further details on the Group's credit policy are set out in note 21(a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

13 TRADE AND OTHER RECEIVABLES (Continued)

(b) Trade receivables that are not impaired

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$3,519,000 which are past due as at the reporting date. None of the past due balance has been past due 365 days or more.

The ageing analysis of trade receivables as at 31 December 2017 that are neither individually nor collectively considered to be impaired is as follows:

| | 2017 HK\$'000 |
|-------------------------------|------------------|
| Neither past due nor impaired | 3,657 |
| Within 30 days past due | 1,500 |
| 31 to 60 days past due | 954 |
| Amounts past due | 2,454 |
| | 6,111 |

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

As at 31 December 2017, receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

14 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Tax payable/(recoverable) in the consolidated statement of financial position represents:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--|------------------|------------------|
| Provision for the year (note 6(a)) | | |
| — Hong Kong Profits Tax | — | 36 |
| — PRC Enterprise Income Tax | 206 | 64 |
| | 206 | 100 |
| Provisional tax paid | | |
| — PRC Enterprise Income Tax | (111) | — |
| | (111) | — |
| | 95 | — |
| Balance of income tax provisions relating to prior years | 99 | 446 |
| Tax payable | 194 | 546 |

(b) Deferred taxation

At 31 December 2018, the Group has HK\$3,179,000 unused tax losses (2017: HK\$135,000) that may arise deferred tax assets. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

As 31 December 2018, the aggregate amount of temporary differences associated with the PRC subsidiary's undistributed retained profits for which deferred tax liabilities has not been recognised is approximately HK\$128,000 (2017: HK\$114,000). No deferred tax liabilities have been recognised in respect of these differences as the Company is in a position to control the dividend policies of the PRC subsidiary and no distribution of such profits is expected to be declared by the PRC subsidiary in the foreseeable future.

At 31 December 2018, the Group have HK\$453,000 (2017: HK\$516,000) deductible temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. No provision for deferred tax assets has been made (2017: HK\$Nil) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

15 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---|------------------|------------------|
| Pledged bank deposits | — | 1,507 |
| Cash at bank and in hand | 8,876 | 13,441 |
| | 8,876 | 14,948 |
| Pledged bank deposits | — | (1,507) |
| Cash and cash equivalents in the consolidated statement of financial position | 8,876 | 13,441 |

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group and have been pledged to secure short-term bank borrowings and undrawn facilities.

At 31 December 2018, the cash and cash equivalents of the Group denominated in Renminbi amounted to HK\$3,646,000 (2017: HK\$624,000). The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(b) **Reconciliation of liabilities arising from financing activities**

There is no movement in the Group's liabilities from financing activities for the year ended 31 December 2018.

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes for the year ended 31 December 2017. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Amount due to a shareholder HK\$'000 | Bank borrowings HK\$'000 | Total HK\$'000 |
|---|--|--------------------------------|-------------------|
| At 1 January 2017 | 1,403 | 459 | 1,862 |
| Changes from financing cash flows: | | | |
| New bank borrowings | — | 1,326 | 1,326 |
| Repayment of bank borrowings | — | (1,785) | (1,785) |
| Repayment to a shareholder | (1,403) | — | (1,403) |
| At 31 December 2017 | — | — | — |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

16 TRADE AND OTHER PAYABLES

(b) Reconciliation of liabilities arising from financing activities (Continued)

| | 2018 HK\$'000 | 2017 HK\$'000 |
|------------------------------------|------------------|------------------|
| Trade payables | 6,402 | 6,196 |
| Accrued charges and other payables | 4,747 | 5,476 |
| Contract liabilities (note) | 260 | — |
| | 11,409 | 11,672 |

Note: As a result of adoption of HKFRS 15, receipts in advance are included in contract liabilities (note 2(c)(c)(iv)) and 2(c)(c)(v).

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

The ageing analysis of trade creditors as of the end of the reporting period, based on invoice date, is as follows:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|-----------------------------------|------------------|------------------|
| Within 30 days | 3,600 | 2,845 |
| 31 to 60 days | 1,427 | 1,539 |
| 61 to 90 days | 760 | 610 |
| Over 90 days but less than 1 year | 615 | 1,202 |
| | 6,402 | 6,196 |

17 DEFINED CONTRIBUTION RETIREMENT PLANS

The Group operates the Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance (the "Ordinance"). The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the plan vest immediately upon the completion of service in the relevant service period.

The Group's PRC subsidiary also participates in defined contribution retirement schemes covering its full-time PRC employees. The schemes are administered by the relevant government authorities in the PRC. The Group and the PRC employees are required to make contributions based on certain percentages of the applicable payroll costs as stipulated under the requirements in the PRC and the relevant government authorities undertake to assume the retirement benefit obligations of all existing and future retired employees of the PRC subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

(i) Authorised and issued share capital

| | Note | 2018 | | 2017 | |
|---|-----------|--------------------------|----------|--------------------------|----------|
| | | Number of shares '000 | HK\$'000 | Number of shares '000 | HK\$'000 |
| Authorised: | | | | | |
| At 1 January | | 50,000,000 | 100,000 | 5,000,000 | 10,000 |
| Increase in authorised share capital | 18(a)(ii) | — | — | 45,000,000 | 90,000 |
| At 31 December | | 50,000,000 | 100,000 | 50,000,000 | 100,000 |
| Ordinary shares, issued and fully paid | | | | | |
| At 1 January and 31 December | | 3,500,000 | 7,000 | 3,500,000 | 7,000 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Increase in authorised share capital in 2017

By an ordinary resolution passed on 26 May 2017, the Company's authorised share capital was increased from HK\$10,000,000 divided into 5,000,000,000 ordinary shares of HK\$0.002 each to HK\$100,000,000 divided into 50,000,000,000 ordinary shares of HK\$0.002 each by creation of additional 45,000,000,000 ordinary shares of HK\$0.002 each.

(b) Dividend

The directors do not recommend the payment of a dividend for the year ended 31 December 2018 (2017: HK\$Nil).

(c) Nature and purpose of reserves

(i) Share premium reserve

Under the Companies Laws of the Cayman Islands where a company issues shares at a premium, whether for cash for otherwise, a sum equal to the aggregate amount of the value of the premiums on their shares shall be transferred to share premium account. The application of the share premium account is governed by the Companies Laws of the Cayman Islands.

No distribution or dividend may be paid to shareholders of the Company out of the share premium account unless immediately following the date on which the distribution or the dividend is proposed to be paid, the Company will be in a position to pay its debts as they fall due in the ordinary course of business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Nature and purpose of reserves (Continued)

(ii) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with accounting policy set out in note 2(q).

(iii) *Capital reserve*

The capital reserve represents the difference between the nominal value of the 47% issued capital of a subsidiary, G. Force (Hong Kong) Limited, previously held by Mr. Wong Thomas Wai Yuk, a substantial shareholder of the Group, acquired pursuant to the group reorganisation in preparation for the Listing and the consideration for acquiring 47% of the issued capital of the subsidiary from Mr. Wong Thomas Wai Yuk.

(iv) *Warrant reserve*

The warrant reserve represents the net proceeds received from the issue of unlisted warrants of the Company. This reserve will be transferred to the share capital and the share premium account upon exercise of the unlisted warrants, where the unlisted warrants remain unexercised at the expiry date, the amount recognised in the warrant reserve will be released to the accumulated losses.

(v) *Other reserve*

The other reserve represents the difference between the nominal amount of the share capital and share premium of a subsidiary, XETron Group Limited and the nominal amount of the share capital issued by the Company pursuant to the group reorganisation.

(d) Distributability of reserves

At 31 December 2018, the Company did not have any reserves available for distribution to owners (2017: HK\$Nil).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes judgements to the capital structure in light of changes in economic conditions.

The capital structure on the basis of net debt-to-capital ratio of the Group consists of net debt, which includes trade and other payables less cash and cash equivalents; and capital, which comprises all components of equity.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors consider the cost of debt and cost of capital. Based on the recommendation of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

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(Expressed in Hong Kong dollars unless otherwise indicated)

19 WARRANTS

On 8 August 2016, the Company issued 700,000,000 unlisted warrants at the subscription price of HK\$0.02 per warrant, which entitled the holder of each warrant to subscribe for one ordinary share of the Company at an exercise price of HK\$0.36 per warrant share at any time during a period of 36 months commencing from the date immediately after three months from the date of the subscription agreement. No warrant has been exercised up to the date of approval of these consolidated financial statements.

20 COMMITMENTS

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | 2018 HK\$'000 | 2017 HK\$'000 |
|---------------------------------|------------------|------------------|
| Within 1 year | 2,951 | 1,525 |
| After 1 year but within 5 years | 9,121 | 4,604 |
| After 5 years | 9,161 | 5,851 |
| | 21,233 | 11,980 |

The Group is the lessee in respect of certain properties under operating leases. The leases typically run for an initial period of 2 to 17 years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased every 1 to 4 years to reflect market rental. None of the leases includes contingent rentals.

21 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. The Group's exposure to risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk and concentration risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to cash and cash equivalents, trade debtors and other receivables. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

Substantially all the Group's cash and cash equivalents are deposited in financial institutions in Hong Kong and the PRC. The credit risk is limited as the majority of counterparties are financial institutions with high credit ratings assigned by international credit rating agencies or stated-controlled financial institutions with good reputations.

**NOTES TO THE CONSOLIDATED
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(Expressed in Hong Kong dollars unless otherwise indicated)

21 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)**(a) Credit risk and concentration risk (Continued)**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which customers operate and therefore significant concentrations of credit risk primarily arise when the significant exposure to individual customers. At the end of the reporting period, the Group has a certain concentration of credit risk as 17% (2017: 9%) and 57% (2017: 64%) of the trade debtors was due from the largest customer and the five largest customers respectively.

In respect of trade debtors, management has a credit policy in place and the exposure to the credit risk is monitored on an ongoing basis. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group allows an average credit period of 30 to 90 days to its trade customers. Normally, the Group does not obtain collateral from customers. Management considers the aggregate risks arising from the possibility of credit losses are limited and to be acceptable.

The group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the group's different customer bases. The management estimated the expected loss rate is zero based on past experience and industrial data.

The credit risk of other receivables is considered to be normal as there is no information indicating that the other receivables had a significant increase in credit risk since initial recognition.

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 2(h)(i) — policy applicable prior to 1 January 2018). At 31 December 2017, none of trade receivables were determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired is stated in note 13 (b).

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade debtors are set out in note 13.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses. The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

21 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (Continued)

The following table details the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities which are based on the contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay:

| | 2018 | | | 2017 | | |
|--------------------------|-----------------------------|--|--|-----------------------------|--|--|
| | Carrying amount HK\$'000 | Total contractual undiscounted cash flow HK\$'000 | Within 1 year or on demand HK\$'000 | Carrying amount HK\$'000 | Total contractual undiscounted cash flow HK\$'000 | Within 1 year or on demand HK\$'000 |
| Trade and other payables | 9,939 | 9,939 | 9,939 | 11,100 | 11,100 | 11,100 |

In order to manage the liquidity demands above, at 31 December 2018, HK\$8,876,000 (2017: HK\$13,441,000) of the Group's assets, was held as cash that is considered readily realisable.

(c) Interest rate risk

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank deposits and variable-rate bank borrowings. To mitigate the impact of interest rate fluctuations, the Group continually assesses and monitors the exposure to interest rate risk.

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

(i) Interest rate risk

| | 2018 | | 2017 | |
|-----------------------------|------------------------------|----------|------------------------------|----------|
| | Effective interest rate % | HK\$'000 | Effective interest rate % | HK\$'000 |
| Variable rate bank deposits | 0.32% | 6,771 | 0.29% | 11,874 |

(ii) Sensitivity analysis

At 31 December 2018, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have no significant impact on the Group's loss after tax and accumulated losses.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for 2017.

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(Expressed in Hong Kong dollars unless otherwise indicated)

21 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(d) Foreign currency risk

(i) Foreign currency transactions

The functional currencies of the Group's major operating subsidiaries are USD and RMB. The Group's major operating subsidiaries have foreign currency sales and purchases, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(ii) Recognised assets and liabilities

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

(iii) The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

| | 2018 | | 2017 | |
|---|-------------------|----------------------------------|-------------------|----------------------------------|
| | Euros HK\$'000 | Hong Kong dollars HK\$'000 | Euros HK\$'000 | Hong Kong dollars HK\$'000 |
| Trade and other receivables | 2,428 | 52 | 2,412 | 54 |
| Pledged bank deposits | — | — | — | 1,507 |
| Cash and cash equivalents | 284 | 578 | 554 | 977 |
| Trade and other payables | (380) | — | (287) | — |
| Net exposure arising from recognised assets and liabilities | 2,332 | 630 | 2,679 | 2,538 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

21 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(d) Foreign currency risk

(iv) Sensitivity analysis

The following table indicates the approximate change in the Group's loss after tax and accumulated losses in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period.

| | 2018 | | 2017 | |
|-------|--|--|--|---|
| | Increase/ (decrease) in foreign exchange rate | (Decrease)/ increase in loss after tax and accumulated losses HK\$'000 | Increase/ (decrease) in foreign exchange rate | (Decrease)/ increase in loss after tax and accumulated losses HK\$'000 |
| Euros | 5% (5%) | (97) 97 | 5% (5%) | (112) 112 |

Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' loss after tax and accumulated losses measured in the respective functional currencies, translated into Hong Kong dollar at the exchange rate ruling as at the end of the reporting period for presentation purposes.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates occurred at the end of the reporting period and applied to each of the Group entities' exposure to currency risk for non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. The percentage of increase and decrease in foreign exchange rate represents the management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date. The analysis is performed on the same basis for 2017.

(e) Categories of financial instruments

| | 2018 HK\$'000 | 2017 HK\$'000 |
|--|------------------|------------------|
| Financial assets | | |
| Loan and receivables (including cash and cash equivalents) | 20,278 | 27,572 |
| Financial liabilities | | |
| Financial liabilities measured at amortised cost | 9,939 | 11,100 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

21 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(f) Fair value measurement

Financial assets/liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2018 and 2017.

22 MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group represents amounts paid to the Company's directors as disclosed in note 7.

| | 2018 HK\$'000 | 2017 HK\$'000 |
|------------------------------|------------------|------------------|
| Short-term employee benefits | 1,380 | 1,380 |
| Post-employment benefits | — | — |
| | 1,380 | 1,380 |

Total remuneration is included in "staff costs" (see note 5(b)).

(b) Other related party transactions

Other balances with related parties are disclosed in the Company's statement of financial position contained in note 27(a).

23 ACQUISITION OF A SUBSIDIARY/BUSINESS

On 2 February 2018, the Group acquired 100% of the issued share capital of Bright Alliance Culture and Recreation Limited for consideration of HK\$1. This acquisition has been accounted for using the purchase method. The amount of bargain purchasing arising as a result of the acquisition was HK\$7,579. Bright Alliance Culture and Recreation Limited is engaged in the service for concerts organisation and event activities. Bright Alliance Culture and Recreation Limited was acquired so as to diversify provision of the Group's operations.

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(Expressed in Hong Kong dollars unless otherwise indicated)

23 ACQUISITION OF A SUBSIDIARY/BUSINESS (Continued)

Assets acquired and liabilities recognised at the date of acquisition are as follows:

| | HK\$'000 |
|------------------------|----------|
| Bank balances and cash | 8 |
| | <u>8</u> |

Bargain purchase arising on acquisition:

| | HK\$'000 |
|---|------------|
| Consideration transferred | — |
| Less: net assets acquired | (8) |
| Bargain purchase arising on acquisition | <u>(8)</u> |

None of the bargain purchase arising on these acquisitions is expected to be taxable for tax purposes.

Net cash inflow on acquisition of Bright Alliance Culture and Recreation Limited

| | HK\$'000 |
|---|----------|
| Consideration paid | — |
| Cash and cash equivalents balances acquired | 8 |
| | <u>8</u> |

Included in the loss for the year is HK\$1,036,000 attributable to the additional business generated by Bright Alliance Culture and Recreation Limited. Revenue for the year includes HK\$6,092,000 generated from Bright Alliance Culture and Recreation Limited.

Had the acquisition been completed on 1 January 2018, total group revenue for the year would have been HK\$6,697,000, and loss for the year would have been HK\$1,139,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

24 DISPOSAL OF A SUBSIDIARY

On 6 October 2017, the Group disposed of the entire equity interest in Lucky Power and all the obligations, liabilities and debts owing or incurred by Lucky Power to the Company to the Purchaser for a total consideration of HK\$11,000,000. Immediately before the Disposal, Lucky Power owns the entire equity interest in New Way and 39% indirect equity interest in two associates, namely, Novel Sino Group Holdings Limited and 冠美旭(東台)能源科技有限公司 (collectively referred to as "LP Group").

The assets and liabilities of LP Group disposed at completion date comprise:

| | HK\$'000 |
|--|----------|
| Interests in associates | 7,276 |
| Contingent consideration asset for acquisition of associates | 2,340 |
| Net assets disposed of | 9,616 |

Gain on disposal of a subsidiary:

| | HK\$'000 |
|--|----------|
| Consideration | |
| — Consideration settled in cash on 6 October 2017 | 1,100 |
| — Consideration settled in cash on 10 November 2017 | 4,950 |
| — Consideration settled in cash in March 2018 | 4,950 |
| | 11,000 |
| Net assets disposed of | (9,616) |
| Cumulative exchange loss in respect of the net assets of LP Group reclassified from equity to profit or loss upon completion of the disposal | (62) |
| Gain on disposal | 1,322 |

Net cash flow on disposal of a subsidiary:

| | HK\$'000 |
|--|----------|
| Consideration settled in cash and cash equivalents in 2017 | 6,050 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25 EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period.

26 SUBSIDIARIES' INFORMATION

Particulars of the Company's subsidiaries as at 31 December 2018 and 2017 are as follows:

| Name of company | Place of incorporation/ operation | Particulars of issued and paid up capital | Proportion of ownership interest held by the Company | | | | Principal activities |
|--|--------------------------------------|---|--|------|----------|------|---|
| | | | Direct | | Indirect | | |
| | | | 2018 | 2017 | 2018 | 2017 | |
| XETron Group Limited | BVI | US\$10,000 | 100% | 100% | — | — | Investment holding |
| Jumbo Peace Limited (note i) | BVI | US\$1 | 100% | 100% | — | — | Investment holding |
| Bright Alliance Culture and Recreation Limited (note ii) | Hong Kong | HK\$1 | — | — | 100% | — | Provision of service for concerts organisation and event activities |
| Music Farm Edutainment Limited (note iii) | Hong Kong | HK\$1 | — | — | 100% | — | Dormant |
| XETron Enterprise Company Limited | Hong Kong | HK\$10,000 | — | — | 100% | 100% | Investment holding |
| G. Force (Hong Kong) Limited | Hong Kong | HK\$10,000 | — | — | 100% | 100% | Sales of cast metal products |
| KTech Industrial Technology (Huizhou) Limited | The PRC | HK\$16,000,000 | — | — | 100% | 100% | Manufacture and sales of cast metal products |

Note:

- (i) Incorporated during the year ended 31 December 2017.
- (ii) Acquired during the year ended 31 December 2018.
- (iii) Incorporated during the year ended 31 December 2018.

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(Expressed in Hong Kong dollars unless otherwise indicated)

27 FINANCIAL INFORMATION OF THE COMPANY

(a) Statement of financial position

| | 2018 HK\$'000 | 2017 HK\$'000 |
|-------------------------------|------------------|------------------|
| Non-current assets | | |
| Investments in subsidiaries | — | — |
| Loan to a subsidiary | — | — |
| | — | — |
| Current assets | | |
| Other receivables | 255 | 5,204 |
| Amounts due from subsidiaries | 7,306 | 1,224 |
| Loan to a subsidiary | 4,000 | 4,000 |
| Cash and cash equivalents | 2,686 | 9,864 |
| | 14,247 | 20,292 |
| Current liabilities | | |
| Other payables | 577 | 455 |
| Amounts due to subsidiaries | 1,916 | 1,916 |
| | 2,493 | 2,371 |
| Net current assets | 11,754 | 17,921 |
| NET ASSETS | 11,754 | 17,921 |
| CAPITAL AND RESERVES | | |
| Share capital | 7,000 | 7,000 |
| Reserves | 4,754 | 10,921 |
| TOTAL EQUITY | 11,754 | 17,921 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

27 FINANCIAL INFORMATION OF THE COMPANY (Continued)

(b) Details of changes in the Company's individual components of reserve during the year:

| | Share capital HK\$'000 | Share premium HK\$'000 | Warrant reserve HK\$'000 | Accumulated losses HK\$'000 | Total equity HK\$'000 |
|--|---------------------------|---------------------------|-----------------------------|--------------------------------|--------------------------|
| At 1 January 2017 | 7,000 | 18,418 | 13,720 | (16,635) | 22,503 |
| Changes in equity for 2017: | | | | | |
| Loss and total comprehensive loss for the year | — | — | — | (4,582) | (4,582) |
| At 31 December 2017 | 7,000 | 18,418 | 13,720 | (21,217) | 17,921 |
| At 1 January 2018 | 7,000 | 18,418 | 13,720 | (21,217) | 17,921 |
| Changes in equity for 2018: | | | | | |
| Loss and total comprehensive loss for the year | — | — | — | (6,167) | (6,167) |
| At 31 December 2018 | 7,000 | 18,418 | 13,720 | (27,384) | 11,754 |

(c) **Contingent liabilities**

As of 31 December 2018 and 2017, the Company has issued corporate guarantees in respect of bank borrowings made by financial institutions to a subsidiary. The fair value of these guarantees has not been provided for in the Company's financial statements as the directors of the Company consider the amount involved to be insignificant.

28 ACCOUNTING ESTIMATES AND JUDGEMENTS

The methods, estimates and judgements the directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. The critical accounting judgements in applying the Group's accounting policies are described below.

(a) **Useful lives of plant and equipment**

In applying the accounting policy on plant and equipment with respect to depreciation, management estimates the useful lives of various categories of plant and equipment according to the industrial experiences over the usage of plant and equipment and also by referenced to the relevant industrial norm. If the actual useful lives of plant and equipment is less than the original estimated useful lives due to change in commercial and technological environment, such difference will impact the depreciation charge for the remaining period. The carrying amounts of plant and equipment as at 31 December 2018 was approximately HK\$13,000,000 (2017: HK\$13,503,000).

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28 ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Impairment of trade and other receivables

The policy for making impairment loss on trade and other receivables of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss may be required. As at 31 December 2018, the carrying amount of trade receivables was approximately HK\$9,346,000 (2017: HK\$6,111,000) while the carrying amount of other receivables was approximately HK\$3,135,000 (2017: HK\$7,579,000). No impairment loss was recognised in respect of the Group's trade and other receivables as at 31 December 2018 (2017: HK\$Nil).

(c) Inventory provision

The management of the Group reviews the ageing of the inventories at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer salesable in the market. The identification of obsolete inventories requires the use of estimation of the net realisable value of items of inventory and judgements on the conditions and usefulness of items of inventories. Where the expected net realisable value is lower than the cost of certain items, a write-down of inventories may arise. As at 31 December 2018, the carrying amount of inventories was approximately HK\$16,350,000 (2017: HK\$19,414,000), no allowance was recognised in respect of inventories for both years.

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group:

| | |
|----------------------|--|
| HKFRS 16 | Leases ¹ |
| HK(IFRIC) 23 | Uncertainty over income tax treatments ¹ |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015–2017 Cycle ¹ |

¹ Effective for annual periods beginning on or after 1 January 2019.

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

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29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

HKFRS 16, Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date.

Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and financing/operating cash flows respectively by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16. As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK\$21,233,000 as disclosed in note 20. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)**HKFRS 16, Leases (Continued)**

In addition, the Group currently considers refundable rental deposits paid of HK\$655,000 and refundable rental deposits received of HK\$655,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

HK(IFRIC)-Int 23 Uncertainty over Income Tax Treatments

HK(IFRIC)-Int 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.

Amendments to HKFRSs Annual Improvements to HKFRSs 2015–2017 Cycle

The annual improvement packages amended the following four standards.

HKAS 12 Income Taxes

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

HKAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

HKFRS 3 Business Combinations

The amendments clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at fair value. The previously held interest to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

FIVE YEARS FINANCIAL SUMMARY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | 2014 HK\$'000 | 2015 HK\$'000 | 2016 HK\$'000 | 2017 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|------------------|------------------|------------------|
| Revenue | 61,194 | 54,328 | 57,461 | 47,643 | 67,438 |
| Loss for the year attributable to owners of the Company | (1,811) | (12,459) | (3,758) | (4,935) | (9,711) |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | 2014 HK\$'000 | 2015 HK\$'000 | 2016 HK\$'000 | 2017 HK\$'000 | 2018 HK\$'000 |
|-------------------|------------------|------------------|------------------|------------------|------------------|
| Total assets | 50,446 | 64,497 | 64,529 | 61,555 | 50,707 |
| Total liabilities | (18,196) | (20,582) | (11,743) | (12,218) | (11,603) |
| Total equity | 32,250 | 43,915 | 52,786 | 49,337 | 39,104 |