TEM Holdings Limited
創新電子控股有限公司*

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 8346

2019
Annual Report

* For identification purpose only

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lau Man Tak *(Chairman)*
Mr. Vincent Ho Pang Cheng *(Chief Executive Officer)*
Mr. Kan Wai Kee
Ms. Koay Lee Chern

Independent Non-Executive Directors

Mr. Lum Chor Wah Richard
(Resigned on 19 September 2019)
Mr. Ma Yiu Ho Peter
Mr. Lee Hon Man Eric
Mr. Cheung Wai Kuen (Appointed on 19 September 2019)

AUDIT COMMITTEE

Mr. Ma Yiu Ho Peter *(Chairman)*
Mr. Lum Chor Wah Richard
(Resigned on 19 September 2019)
Mr. Lee Hon Man Eric
Mr. Cheung Wai Kuen (Appointed on 19 September 2019)

NOMINATION COMMITTEE

Mr. Lee Hon Man Eric *(Chairman)*
Mr. Lau Man Tak
Mr. Vincent Ho Pang Cheng
Mr. Lum Chor Wah Richard
(Resigned on 19 September 2019)
Mr. Ma Yiu Ho Peter
Mr. Cheung Wai Kuen (Appointed on 19 September 2019)

REMUNERATION COMMITTEE

Mr. Lum Chor Wah Richard *(Chairman)*
(Resigned on 19 September 2019)
Mr. Cheung Wai Kuen *(Chairman)*
(Appointed on 19 September 2019)
Mr. Lau Man Tak
Mr. Vincent Ho Pang Cheng
Mr. Ma Yiu Ho Peter
Mr. Lee Hon Man Eric

COMPANY SECRETARY

Ms. Ng Ka Wai

AUTHORISED REPRESENTATIVES

Mr. Lau Man Tak
Mr. Kan Wai Kee

COMPLIANCE OFFICER

Mr. Kan Wai Kee

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking
Corporation Limited
Citibank N.A.

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited
P. O. Box 1350, Clifton House
75 Fort Street
Grand Cayman, KY1-1108
Cayman Islands

REGISTERED OFFICE

P. O. Box 1350, Clifton House
75 Fort Street
Grand Cayman, KY1-1108
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1706, Tower 1
China Hong Kong City
33 Canton Road
Tsim Sha Tsui
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited
Room 2103B, 21/F, 148 Electric Road
North Point
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

COMPANY'S WEBSITE

http://ir.tem-group.com

STOCK CODE

8346

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of TEM Holdings Limited (the "**Company**"), I hereby present the audited annual result of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 30 June 2019.

FINANCIAL REVIEW

For the year ended 30 June 2019, the Group achieved revenue of approximately HK$96,163,000, representing a decrease of 9.4% as compared to approximately HK$106,165,000 for the year ended 30 June 2018. Gross profit for the year ended 30 June 2019 was approximately HK$13,457,000, decreased by 16.2% from approximately HK$16,062,000 for the year ended 30 June 2018. Gross profit margin dropped from 15.1% to 14.0% when compared to the year ended 30 June 2018. Loss for the year ended 30 June 2019 was approximately HK$10,763,000. The Group also recorded a loss in the amount of approximately HK$9,176,000 for the year ended 30 June 2018.

The Board does not recommend the payment of any final dividend for the year ended 30 June 2019.

PROSPECT

Looking ahead, the global economic environment remains challenging but we will continue to explore business opportunities and cost control measures.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my heartfelt gratitude to all of our shareholders, customers and business partners for their support over the past year, and thank my fellow Directors, all management and employees for their tireless efforts and contributions.

Lau Man Tak
Chairman
Hong Kong, 19 September 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in the manufacture and sale of wire/cable harnesses and power supply cords assembled products, with our manufacturing operations in Malaysia and the People's Republic of the China (the "**PRC**") and has more than 20 years of experience in the wire/cable harness industry. We also sell terminals and connectors. The customers of the Group are generally global brand name home/consumer appliances manufacturers and original equipment manufacturers in the home/consumer appliances and industrial products industries that mainly based in the Asia Pacific region.

For the year ended 30 June 2019, the Group recorded a revenue of approximately HK$96,163,000, a drop of approximately 9.4% from the last year. Gross profit declined by 16.2% from approximately HK$16,062,000 for the year ended 30 June 2018 to HK$13,457,000. The decline in gross profit was mainly caused by (i) the revenue of the Group declined while the unit of the manufacturing overhead increased that led to a decrease in the gross margin compared with that of last year; and (ii) the provision of write-down of inventories included in the cost of sales. The loss for the year was approximately HK$10,763,000, increased from HK$9,176,000 for the year ended 30 June 2018.

Segment information

The Group manages its business by three operating segments which are (i) manufacture and sale of wire/cable harnesses, (ii) manufacture and sale of power supply cords assembled products and (iii) trading of terminals, connectors and others.

The following is an analysis of the Group's revenue by operating segments:

	For the year ended 30 June					
	2019		2018		Decrease	
	HK$'000	%	HK$'000	%	HK$'000	%
Manufacture and sale of wire/cable harnesses	**82,713**	**86.0**	89,979	84.8	7,266	8.1
Manufacture and sale of power supply cords assembled products	**9,506**	**9.9**	11,573	10.9	2,067	17.9
Trading of terminals, connectors and others	**3,944**	**4.1**	4,613	4.3	669	14.5
	96,163	**100.0**	106,165	100.0	10,002	9.4

The revenue of manufacture and sale of wire/cable harnesses decreased to approximately HK$82,713,000 for the year ended 30 June 2019 from approximately HK$89,979,000 for the year ended 30 June 2018. The gross profit of this segment was approximately HK$11,234,000 for the year ended 30 June 2019. The revenue of manufacture and sale of power supply cords assembled products was approximately HK$9,506,000 for the year ended 30 June 2019, representing a fall of 17.9% as compared to approximately HK$11,573,000 for the year ended 30 June 2018. The gross profit of this segment was approximately HK$1,458,000 for the year ended 30 June 2019. The revenue of trading of terminals, connectors and others was approximately HK$3,944,000 for the year ended 30 June 2019, representing a fall of 14.5% as compared to approximately HK$4,613,000 for the year ended 30 June 2018. The gross profit of this segment was approximately HK$765,000 for the year ended 30 June 2019.

Geographical information

The Group's revenue by the geographical location of the customers, determined based on the location to which the Group bills the customers, is detailed below:

	For the year ended 30 June					
	2019		2018		Increase/(Decrease)	
	HK$'000	%	HK$'000	%	HK$'000	%
The PRC	**27,499**	**28.6**	37,016	34.9	(9,517)	(25.7)
Asia Pacific region (excluding the PRC)	**51,595**	**53.7**	54,596	51.4	(3,001)	(5.5)
Western Europe	**11,381**	**11.8**	12,746	12.0	(1,365)	(10.7)
North & South America	**5,688**	**5.9**	1,807	1.7	3,881	214.8
	96,163	**100.0**	106,165	100.0	(10,002)	(9.4)

The revenue from the PRC recorded HK$27,499,000 for the year ended 30 June 2019, accounted for 28.6% of the Group's total revenue which represented a decline of 25.7% as compared to approximately HK$37,016,000 for the year ended 30 June 2018. The revenue from Asia Pacific region (excluding the PRC) was approximately HK$51,595,000 for the year ended 30 June 2019 and accounted for 53.7% of the Group's total revenue, representing a decrease of 5.5% as compared to approximately HK$54,596,000 for the year ended 30 June 2018. The revenue from Western Europe was approximately HK$11,381,000 for the year ended 30 June 2019 and accounted for 11.8% of the Group's revenue, representing a decrease of 10.7% as compared to approximately HK$12,746,000 for the year ended 30 June 2018. The revenue from North & South America was approximately HK$5,688,000 for the year ended 30 June 2019 and accounted for 5.9% of the Group's total revenue, representing a substantial increase of 214.8% as compared to approximately HK$1,807,000 for the year ended 30 June 2018.

Generally speaking, the weak performance trend of the global home/consumer appliances industry as a result of the US-China trade war coupled with the gloomy economic outlook within the European Union had caused adverse impacts on the purchases from certain customers. Their purchase momentum particularly for customers in the PRC and the Western Europe had been affected. The revenue generated from the PRC was significantly affected despite of new business crystalised after the Group's continuous efforts in developing new customers during the financial year of 2019.

Moreover, the drop in the revenue was attributable to (i) reduction of sales orders owing to fierce price competition in the PRC & Asia Pacific market and US-China trade war and (ii) decrease in the completed orders resulted from the continuous shortage of supply and tight delivery of raw materials from a major supplier.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, the Group continued to strive for business opportunities in the market and had participated the electronica 2018 in Munich, Germany between November 13 and 16, 2018 and customers' visits in Western Europe have been carried out thereafter. The Group also attended the Appliance & Electronics World Expo 2019 (http://en.awe.com.cn/) and electronica China 2019 (https://electronica-china.com/) in Shanghai PRC in March 2019. Other than taking part in these trade shows, regular visits and meetings with existing and potential customers and suppliers were conducted throughout the year with a view to further strengthen the relationships with customers so as to maintain a consistent growth of a sizable customer base.

In order to further develop the market in the Americas, the Group started to manufacture and sell cable/wire and harnesses to the Brascabos Group from July 2018. Since then, the revenue from the Americas had been constantly increased. And in April 2019, the Group decided to enter into the Master Sales Agreement with the Brascabos Group. For details of the aforesaid Agreement with the Brascabos Group, please refer to Company's announcement dated 18 April 2019. As a result, the revenue of North & South America region increased by approximately 214.8% to approximately HK$5,688,000 when compared to that of last year.

Furthermore, during the year, the management has put effort on cost control by lean manufacturing and several streamlining measures with an aim to further enhance operation efficiency and lower business administration cost.

Our PRC factory was qualified as a 高新技術企業 (High-New Technology Enterprise) in the PRC in November 2018. The Group's commitment in R&D investment improved both the human capital and technological knowhow. The Group's technology focused strategy should steer the operations towards the goal of industry 4.0. At the same time, we continued to invest in automations to accelerate the Group's goal of more lean manufacturing process implementation to offset the increase in labour costs and minimise the reliance on manual labour processing during production. Our PRC factory had also implemented the Manufacturing Execution System (MES) in March 2019 which will equip us with more accurate capture of cost-information, manufacturing operations traceability and incorporate paperless workflow activities.

OUTLOOK AND PROSPECTS

As mentioned previously, the escalation of the trade war between the PRC and United States together with both the exchange and interest rates movements are becoming increasingly challenging, The Group will closely monitor how such developments will affect our operations and will utilise our utmost efforts to work around these issues and mitigate those impacts.

In view of the uncertainties and poor market sentiment in the worldwide economy, the Group will strive to provide value-added service and products with high quality to our customers. The Group will, as always, keep on looking for opportunities and actively seeking viable business expansion opportunities.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group's revenue decreased from approximately HK$106,165,000 for the year ended 30 June 2018 to approximately HK$96,163,000 for the year ended 30 June 2019. Such drop is attributable to (i) decrease in the completed orders resulted from the continuous shortage of supply and tight delivery of raw material from a major supplier; (ii) reduction of sales orders owing to fierce price competitions in the PRC & Asia Pacific market and US-China trade war; (iii) the fluctuation in the exchange rate of Renminbi and Euro against Hong Kong dollars ("HK$").

Cost of sales and gross profit

The Group's cost of sales decreased by 8.2% from approximately HK$90,103,000 for the year ended 30 June 2018 to approximately HK$82,706,000 for the year ended 30 June 2019. Due to the increase in the cost of direct materials and manufacturing overheads arising from the continuous shortage supply and tight delivery of raw materials from a major supplier in Western Europe, the gross profit margin decreased from 15.1% for the year ended 30 June 2018 to 14.0% for the year ended 30 June 2019. As a result of the drop in gross profit margin, the gross profit of the Group fell by 16.2% from approximately HK$16,062,000 for the year ended 30 June 2018 to approximately HK$13,457,000 for the year ended 30 June 2019.

Other income

Other income increased by 46.3% from approximately HK$557,000 for the year ended 30 June 2018 to approximately HK$815,000 for the year ended 30 June 2019. Reason for the increase mainly included (i) a government grant of approximately HK$115,000 from 江門市科學技術局 (Jiangmen Science and Technology Bureau), following the government's strategy to promote innovative technology at Enterprises and when our factory in the PRC was certified as one of 高新技術企業 (High-New Technology Enterprise); and (ii) the increase in bank interest income.

Selling and distribution costs

The Group's selling and distribution costs mainly consisted of freight outwards, travelling expenses and storage costs, amounted to approximately HK$2,897,000 for the year ended 30 June 2019 and slightly decreased from approximately HK$3,154,000 for the year ended 30 June 2018. The decrease was a result of the decrease in freight outwards which was in line with the drop of revenue during the year.

Administrative expenses

The Group's administrative expenses, mainly comprised of staff costs, rental expenses and professional and compliance fees, increased by HK$1,171,000 from approximately HK$22,122,000 for the year ended 30 June 2018.

Other gains and losses

Other gains and losses mainly comprised of (i) net exchange gains and (ii) gain on disposal of property, plant and equipment, which amounted to net other gains of approximately HK$494,000 for the year ended 30 June 2019. This mainly represented a net exchange gains of approximately HK$315,000 and a gain on disposal of motor vehicle of approximately HK$179,000.

Income tax credit (charge)

The Group recorded approximately HK$628,000 income tax credit for the year ended 30 June 2019 which is a reversal from approximately HK$432,000 income tax charge for the year ended 30 June 2018. The change was mainly because tax loss incurred in previous year, but recognised in this year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2019, the Group had a financial position with net assets amounted to approximately HK$125,994,000 (2018: approximately HK$139,077,000) and net current assets stood at approximately HK$109,243,000 (2018: approximately HK$121,946,000).

As at 30 June 2019, shareholders' fund amounted to approximately HK$125,994,000 (2018: approximately HK$139,077,000) and current assets amounted to approximately HK$124,501,000 (2018: approximately HK$135,860,000), mainly comprising of bank balances and cash, trade receivables, prepayments and deposits inventories and tax recoverable. Current liabilities amounted to approximately HK$15,258,000 (2018: approximately HK$13,914,000) mainly comprising of trade and other payables and tax payable. The Group's bank balances and cash amounted to approximately HK$45,212,000 (2018: approximately HK$57,256,000). Net asset value per share was HK$0.21 (2018: HK$0.23).

Gearing Ratio

The Group's gearing ratio as at 30 June 2019 and 2018, which was calculated by dividing its total borrowings by its total equity as at those dates, were both nil due to the absence of borrowings as at those dates.

Capital Structure

The share capital of the Company only comprises of ordinary shares. There was no change in the Company's capital structure during the year.

As at 30 June 2019, the Company's issued share capital was HK$6,000,000 and the number of its issued ordinary shares was 600,000,000 of HK$0.01 each (the "Share(s)").

Foreign Exchange Exposure

The revenue of the Group is mainly denominated in United States dollars ("US$"), while several subsidiaries of the Company have foreign currency sales and purchases transactions denominated in Malaysian Ringgit ("MYR"), Euro and Renminbi, which exposes the Group to foreign currency risk. The Group currently does not have a foreign exchange hedging policy to eliminate the currency exposures. The management will from time to time review and adjust the Group's hedging and financial strategies based on exchange rate movement.

Significant Investment Held

As at 30 June 2019 and 2018, the Group did not hold any significant investments.

Contingent Liabilities

As at 30 June 2019 and 2018, the Group did not have any material contingent liabilities.

Capital Commitments

As at 30 June 2019, the Group had approximately HK$637,000 (2018: approximately HK$464,000) capital commitments mainly related to acquisition of machines.

Employee and Remuneration Policies

As at 30 June 2019, the Group had a total workforce of 437 (2018: 400) employees. Total staff costs for the year ended 30 June 2019 amounted to approximately HK$32,912,000 (2018: approximately HK$33,060,000). Remuneration packages including staff benefits are maintained at a competitive level and reviewed on a periodical basis with reference to their performance, qualifications, experience, positions and the performance of the Group.

Staff benefits include share option scheme, contributions to statutory mandatory provident fund schemes and social insurance together with housing provident funds to its employees in Hong Kong, Singapore, Malaysia and the PRC. In addition to on-the-job training, the Group adopts policies of continuous professional training programs.

Pledge of the Group's Assets

As at 30 June 2019, the bank deposits of approximately HK$565,000 (2018: approximately HK$567,000) were pledged to a bank to secure bank guarantee to a subsidiary of the Group.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the year, the Group did not have any material acquisition nor disposal of subsidiaries or affiliated companies.

Future Plans for Material Investments and Capital Assets

As at 30 June 2019, the Group did not have other plans for material investments and capital assets.

MANAGEMENT DISCUSSION AND ANALYSIS

Use of Proceeds

The net proceeds from the listing of the shares of the Company on GEM of the Stock Exchange on 18 May 2016 (the "**Listing**"), after deducting listing related expenses, were approximately HK$56,600,000. These proceeds are intended to be applied as described in the section headed "Future Plans and Use of Proceeds" in the prospectus dated 29 April 2016 (the "Prospectus"). As at 30 June 2019, the unutilised proceeds from the Listing in the amount of approximately HK$39,513,000 has been placed as interest bearing deposits with licensed banks in Hong Kong. The Company intends to continue to apply the remaining net proceeds in accordance with the proposed applications set out below.

An analysis of the utilisation of the net proceeds from the Listing up to 30 June 2019 is set out below:

	Planned use of net proceeds (Adjusted in the same manner as stated in Prospectus) HK$'000	Actual use of net proceeds up to 30 June 2019 HK$'000	Unutilised balance as at 30 June 2019 HK$'000
Upgrade and increase our production capacity	40,978	11,731	29,247
Enhance our manufacturing, information technology and human resources management capabilities	4,528	2,949	1,579
Strengthen our sales and marketing efforts	6,226	2,407	3,819

As at the date of this annual report, the Directors do not anticipate any material change to the plan as to the use of proceeds.

EVENTS AFTER THE REPORTING PERIOD

There is no significant event after the reporting period of the Group.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. LAU Man Tak ("Mr. Lau"), aged 50, is the Chairman and an executive Director of the Company. Mr. Lau also holds directorships in all the subsidiaries of the Company. He is also a member of each of the Remuneration Committee and the Nomination Committee. His role and responsibility in the Group is corporate development and strategic planning. Mr. Lau joined the Group in April 2010.

Mr. Lau graduated from the Hong Kong Polytechnic University with a bachelor's degree of arts in accountancy in November 1991. He has more than 18 years of experience in finance and accounting. He has been an associate member of the Hong Kong Institute of Certified Public Accountants since September 1997, a fellow member of the Association of Chartered Certified Accountants since July 2002, a fellow member of the Hong Kong Institute of Directors since August 2012 and a member and a fellow member of the Hong Kong Securities and Investment Institute since April 2000 and November 2015, respectively.

Mr. Lau is currently the chairman and a non-executive director of REF Holdings Limited ("**REF**") (stock code: 1631), an independent non-executive director of each of Kingston Financial Group Limited (stock code: 1031) and Synergis Holdings Limited (stock code: 2340), which are companies listed on the Main Board of the Stock Exchange. He is also an independent non-executive director of Chinese Food and Beverage Group Limited (stock code: 8272), a company listed on GEM. Mr. Lau was an independent non-executive director of Sincere Watch (Hong Kong) Limited (stock code: 444) from June 2012 to December 2016, a company listed on the Main Board of the Stock Exchange.

Mr. Vincent HO Pang Cheng ("Mr. Ho"), aged 62, is an executive Director and the chief executive officer of the Company, the general manager of the Group and a director of TEM Group Limited, SEAP Trading Pte. Ltd., TEM Malaysia (M) Sdn. Bhd. ("**TEM Malaysia**") and 江門創新科電業有限公司 (TEM Electronics (Jiangmen) Co Ltd) ("**TEM Jiangmen**"). He is also a member of each of the Remuneration Committee and the Nomination Committee. Mr. Ho joined the Group in December 1998 and is responsible for the Group's overall management, corporate development and strategic planning. Mr. Ho obtained a master's degree in business administration from the University of Strathclyde in the United Kingdom in July 1992 through distance learning.

Mr. Ho has more than 20 years of experience in the manufacturing industry. From March 1993 to December 1998, Mr. Ho worked at Stocko Singapore Pte Ltd in Singapore, a manufacturing company set up by Stocko Metallwarenfabriken Henkels und Sohn GmbH & Co (later renamed as STOCKO CONTACT GmbH & Co KG), and his last position was the group general manager responsible for overseeing the overall operations of the group.

Mr. KAN Wai Kee ("Mr. Kan"), aged 53, is an executive Director of the Company and a director of BAP Trading Company Limited, TEM Jiangmen and SEAP (HK) Limited. Mr. Kan joined the Group in November 2010 and is responsible for the Group's overall management, corporate development and strategic planning. Mr. Kan graduated from the City University of Hong Kong with a bachelor's degree in accounting in November 1991.

Mr. Kan has more than 20 years of experience in the manufacturing industry and in auditing and accounting. Prior to joining our Group, Mr. Kan served as the head of financial operation of a Hong Kong listed company, principally engaged in the manufacture of wires and cables, for almost 10 years from 2001 to 2010. Prior to that, Mr. Kan was an auditor with Deloitte Touche Tohmatsu from 1991 to 1993. Subsequently, he was appointed variously as the accounting manager of Wah Hing Group Company Limited from 1993 to 1996 and as the Group Accounting Manager of Pacific Millennium Company Limited from 1996 to 2001.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. KOAY Lee Chern, ("Ms. Koay') aged 50, is the financial controller and an executive Director of the Company. Ms. Koay joined the Group in November 2010 and is responsible for overseeing the overall administration, human resources affairs and financial control of the Group. Ms. Koay graduated from the Association of Chartered Certified Accountants in February 1997 through distance learning.

Ms. Koay has been in the manufacturing industry for over 10 years and has over 15 years of experience in auditing and accounting. Ms. Koay has been a member and a fellow member of the Association of Chartered Certified Accountants since September 1997 and September 2002, respectively. From February 1993 to June 1994, Ms. Koay worked at BDO Binder, an audit firm in Malaysia, as an audit assistant responsible for audit assessment and maintenance of accounting records. From January 1995 to October 1999, Ms. Koay worked at PricewaterhouseCoopers in Malaysia, as an assistant manager responsible for providing auditing services and advising on internal control system. From January 2000 to June 2004, Ms. Koay worked at Uptown Alliance (M) Sdn Bhd in Malaysia, a wholly owned subsidiary of Tiffany & Co., a company listed on the New York Stock Exchange (NYSE: TIF) engaging in high-end retailing, as a finance manager responsible for overseeing the daily accounting operations and human resources affairs. From January 2006 to October 2006, Ms. Koay worked at SH Yeoh & Co., an audit firm in Malaysia, as an audit manager responsible for supervising an audit team. From December 2006 to December 2008, Ms. Koay worked at a subsidiary of Pensonic Holdings Berhad in Malaysia, a company listed on the Bursa Malaysia (stock code: 9997) engaging in manufacturing, assembly and distribution of electrical and electronics appliances, as a group financial controller responsible for overseeing the accounts department and financial control.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. MA Yiu Ho Peter ("Mr. Ma"), aged 54, was appointed as an independent non-executive Director on 20 April 2016. He is the chairperson of the Audit Committee as well as a member of each of the Remuneration Committee and the Nomination Committee. Mr. Ma is currently the financial controller of Chyau Fwu Properties Limited, a company principally engaging in property development and hospitality. Mr. Ma is currently and has been an independent non-executive director and chairman of audit committee of China Packaging Holdings Development Limited (later renamed as Mobile Internet (China) Holdings Limited) (stock code: 1439) since December 2013, a company listed on the Main Board of the Stock Exchange. He is also an independent non-executive director of Royal Catering Group Holdings Company Limited (stock code: 8300) since July 2016 and Indigo Star Holdings Limited (stock code: 8373) since October 2017, both of which are companies listed on the GEM of the Stock Exchange. From July 2014 to May 2015, Mr. Ma was an independent non-executive director of Rising Power Group Holdings Limited (later renamed as China Ocean Fishing Holdings Limited), a company listed on the GEM of Stock Exchange (stock code: 8047). Mr. Ma was also an independent non-executive director and chairman of audit committee of Huisheng International Holdings Limited (stock code: 1340) from February 2014 to July 2017 and Convoy Financial Services Holdings Limited (later renamed as Convoy Global Holdings Limited) (stock code: 1019) from March 2010 to July 2018, both of which are companies listed on the Main Board of Stock Exchange. Mr. Ma obtained a master's degree in business administration from the Hong Kong University of Science and Technology in November 1995.

Mr. Ma has over 20 years of experience in the finance and accounting industry. Mr. Ma has been a member of the Hong Kong Institute of Certified Public Accountants since February 1990, a fellow member of the Chartered Association of Certified Accountants since April 1994 and an associate member and a member of the Hong Kong Institute of Directors since July 2010 and December 2015, respectively. From June 2005 to September 2007, Mr. Ma was the chief financial officer of Superior Fastening Technology Limited, a Singapore listed company engaging in manufacturing and surface treatment business. From February 2008 to June 2008, Mr. Ma was the financial controller of VODone Limited (later renamed as V1 Group Limited), a media company listed on the Main Board of the Stock Exchange (stock code: 82). From June 2008 to August 2012, Mr. Ma was the financial controller and company secretary of Hong Kong Parkview Group Limited (later renamed as Joy City Property Limited), a company listed on the Main Board of the Stock Exchange (stock code: 207) engaging in real estate business.

Mr. LEE Hon Man Eric ("Mr. Lee"), aged 52, was appointed as an independent non-executive Director on 20 April 2016. He is the chairperson of the Nomination Committee as well as a member of each of the Audit Committee and the Remuneration Committee. Mr. Lee is currently an independent non-executive director of Synergis Holdings Limited (stock code: 2340) and REF (stock code: 1631), which are companies listed on the Main Board of the Stock Exchange, and is employed by Orient Capital (Hong Kong) Limited as managing director of investment banking department. Mr. Lee graduated from the University of Birmingham, the United Kingdom with a bachelor's degree of engineering in electronic and electrical engineering in July 1988, and obtained a master's degree in business administration from the Chinese University of Hong Kong in December 1993.

Mr. Lee has over 20 years of experience in the corporate finance industry. From August 2015 to February 2017, Mr. Lee worked at LY Capital Limited, a company engaging in advising on corporate finance, as a director. From April 2002 to November 2014, Mr. Lee worked at First Shanghai Capital Limited, a company engaging in advising on corporate finance, and his last position was managing director. From July 1997 to March 2002, Mr. Lee worked at DBS Asia Capital Limited, a company engaging in advising on corporate finance, and his last position was vice president.

Mr. Cheung Wai Kuen ("Mr. Cheung"), aged 51, was appointed as an independent non-executive Director on 19 September 2019. He is the chairperson of the Remuneration Committee and members of the Audit Committee and Nomination Committee. Mr. Cheung graduated from The Hong Kong Polytechnic University with a bachelor's degree of arts in accountancy in November 1991 and obtained his MBA from The University of Manchester in June 2012. Mr. Cheung is a member of the Hong Kong Institute of Certified Public Accountants since January 1997 and a fellow member of the Association of Chartered Certified Accountants since April 2000.

Mr. Cheung has more than 25 years of experience in accounting, auditing, financial, general management and direct investment in international accounting firm, private equity, public and private companies, focusing in Hong Kong and emerging markets including People's Republic of China and Brazil. He is currently the director of a consulting and advisory firm.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. LEE Ewe Chee ("Mr. Lee"), aged 54, is a manager of the Group and the general manager and a director of TEM Malaysia. Mr. Lee joined the Group in July 2015 and is responsible for the operations and general management of TEM Malaysia. Mr. Lee graduated from Tunku Abdul Rahman College in Malaysia with a diploma in technology in May 1990, and obtained a master's degree in business administration from Anglia Ruskin University in the United Kingdom in July 2016 through distance learning.

Mr. Lee has over 26 years of experience in mechanical engineering, and 25 years of experience in the manufacturing industry. From June 1992 to December 2013, Mr. Lee worked at MS Elevators Sdn Bhd in Malaysia, a joint venture company set up by Toshiba Elevator and Building Systems Corporation and associated with Toshiba Corporation, a company listed on the Tokyo Stock Exchange (stock code: 65020) engaging in design, manufacturing, assembly and sales of elevators, and Mr. Lee's last position was an operation general manager responsible for overseeing the daily operation of the company. From December 2013 to July 2015, Mr. Lee worked at EITA Elevator (Malaysia) Sdn Bhd in Malaysia, which was wholly-owned by EITA Resources Berhad, a company listed on the Bursa Malaysia (stock code: 5208) engaging in sales, design, assembly, installation and maintenance of elevator systems, as a chief operating officer responsible for overseeing the entire business operation and strategic planning.

Mr. WONG Kok Ming ("Mr. Wong"), aged 47, is a manager of the Group and the general manager of TEM Jiangmen. Mr. Wong joined the Group in February 2018 and is responsible for plant operations, include sales and marketing and general management of TEM Jiangmen. Mr. Wong graduated from Staffordshire University, United Kingdom with a bachelor's degree of engineering in mechanical engineering in July 1994, and obtained a master's degree in business administration in marketing from the Trinity College and University, London in June 1999.

Mr. Wong has over 20 years of working experience covering engineering, quality, operation and sales and marketing assurance of manufacturing industry in the PRC. From September 2012 to January 2018, Mr. Wong worked at JCH Hardware Manufactory Ltd., a company engaging in high quality grade stainless steel hardware fabrication for ship, boat and automotive which export to USA market, as a factory director responsible for overseeing factory operation. From September 2008 to January 2011, Mr. Wong worked at NingBo Neutrik Electronics Co Ltd in ZheJiang, the PRC, a company engaging in manufacturing innovative electrical and electronic interconnection products, cable assembly and systems, as a technical manager responsible for overseeing the manufacturing department. From May 2005 to June 2008, he worked as group engineering manager of CKK Plastic & Metal Manufactory Limited. From January 2003 to February 2005, he worked as program manager of Peak Metal & Plastic Manufactory Ltd. From August 1999 to December 2002, he worked as sales account manager of Dynacraft Industries Sdn Bhd. From August 1994 to June 1998, he worked as technical support engineer of Philips Audio Electronics Sdn Bhd.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. CHUI Chi Ho ("Mr. Chui"), aged 42, is the business manager of the Group and a director of Optimum Electronics Sdn. Bhd.. Mr. Chui joined the Group in November 2010 and is responsible for the daily business management and operations of the Group. Mr. Chui graduated from Monash University in Australia in November 2003 with a bachelor's degree in commerce majoring in accounting and finance.

Mr. Chui has over 15 years of experience in auditing and accounting. Mr. Chui has been a member of CPA Australia since June 2011. From July 2003 to February 2005, Mr. Chui worked at an accounting firm in Hong Kong. From March 2005 to January 2014, Mr. Chui worked at a subsidiary of a company listed on the Main Board principally engaging in manufacture of wires and cables and his last position was an accounting manager responsible for overseeing the daily accounting operations.

COMPANY SECRETARY

Ms. NG Ka Wai ("Ms. Ng"), aged 54, was appointed as the company secretary of the Company in September 2018. Ms. Ng holds a Bachelor Degree of Business Administration in Accounting from the Chinese University of Hong Kong. She is a fellow member of the Association of Chartered Certified Accountants since October 2000 and a member of the Hong Kong Institute of Certified Public Accountants since December 1995. She has over 25 years of professional experience in financial management and auditing.

COMPLIANCE OFFICER

Mr. KAN Wai Kee is the compliance officer of the Company. Please refer to the paragraph headed "Executive Directors" above for his biography.

CORPORATE GOVERNANCE REPORT

Pursuant to Rule 18.44 of the GEM Listing Rules, the Board is pleased to present this corporate governance report for the year ended 30 June 2019. This report highlights the key corporate governance practices of the Company.

CORPORATE GOVERNANCE PRACTICES

The Directors and the management of the Company recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability.

The Company has applied the principles and code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules. In the opinion of the Board, the Company has complied with the CG Code for the year ended 30 June 2019.

SECURITIES TRANSACTIONS

The Company adopted the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding Directors' securities transactions in securities of the Company. Based on specific enquiry with the Directors, all Directors confirmed that they had fully complied with the required standard of dealings and there was no event of non-compliance during the year ended 30 June 2019.

The Company, having made specific enquiry of all the Directors, was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors during the year ended 30 June 2019.

THE BOARD OF DIRECTORS

Up to the date of this annual report, the Board composed of seven Directors, four being executive Directors and three being independent non-executive Directors as set out below:

Executive Directors

Mr. Lau Man Tak *(Chairman)*
Mr. Vincent Ho Pang Cheng *(Chief Executive Officer)*
Mr. Kan Wai Kee
Ms. Koay Lee Chern

Independent Non-Executive Directors

Mr. Lum Chor Wah Richard (Resigned on 19 September 2019)
Mr. Ma Yiu Ho Peter
Mr. Lee Hon Man Eric
Mr. Cheung Wai Kuen (Appointed on 19 September 2019)

The biographical details of the Directors are set out in the section headed "Biographical Details of the Directors and Senior Management" of this annual report.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the chairman and the chief executive officer are held by separate individuals. The role and responsibilities of the chairman is separate from that of the chief executive officer. Mr. Lau Man Tak has been the Chairman and an executive Director of the Company since 20 April 2016. His role and responsibility in the Group are corporate development and strategic planning.

Mr. Vincent Ho Pang Cheng, is the chief executive officer and an executive Director of the Company and the general manager of the Group. He joined the Group in December 1998 and is responsible for the Group's overall management, corporate development and implementing the corporate strategic.

INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with rules 5.05(1) and (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 at least one of whom has appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received from each of the independent non-executive Directors' written confirmation of his independence, and the Company considers such Directors to be independent in accordance with the criteria set out in rule 5.09 of the GEM Listing Rules.

TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company and until terminated by not less than three months' notice in writing served by either party on the other. Each of the independent non-executive Directors has entered into a letter of appointment with the Company and until terminated by not less than one months' notice in writing by either party on the other. Their appointments are subject to retirement by rotation and re-election at the Company's annual general meeting ("**AGM**") in accordance with the articles of association of the Company (the "**Articles**").

According to the Articles, one-third of the Directors for the time being shall retire from office by rotation at every AGM of the Company, provided that every Director shall retire from office by rotation and are subject to re-election at AGM at least once every three years. Directors who are appointed to fill casual vacancies shall hold office only until the next following general meeting after their appointment, and are subject to re-election by shareholders of the Company (the "**Shareholders**").

The Company has taken out directors and officers liability insurance to cover liabilities arising from legal action against the Directors.

FUNCTIONS OF THE BOARD AND MANAGEMENT

The Board supervises the management of the business and affairs of the Company and ensures that it is managed in the best interests of the Shareholders as a whole while taking into account the interest of other stakeholders. The Board is primarily responsible for formulating the overall strategies, reviewing and monitoring the management performance of the Group, approving the financial statements and annual budgets as well as directing and supervising the management of the Company. Execution of operational matters and the powers thereof are delegated to the management by the Board with clear directions. The Board is regularly provided with management update report to give a balanced and understandable assessment of the performance, position, recent development and prospect of the Group in sufficient details.

The Board is also responsible for the corporate governance functions under code provision D.3.1 of the Code. The Board has reviewed and discussed the corporate governance policy of the Group and is satisfied with the effectiveness of the corporate governance policy.

With the various experience of both the executive Directors and the independent non-executive Directors and the nature of the Group's business, the Board considered that the Directors have a balance of skills and experience for the business of the Group.

DIRECTORS' CONTINUOUS TRAINING AND 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, each of the Directors, namely Mr. Lau Man Tak, Mr. Vincent Ho Pang Cheng, Mr. Kan Wai Kee, Ms. Koay Lee Chern, Mr. Lum Chor Wah Richard (resigned on 19 September 2019), Mr. Ma Yiu Ho Peter and Mr. Lee Ho Man Eric, received from the Company from time to time the updates on laws, rules and regulations which might be relevant to their roles, duties and functions as director of a listed company.

All the Directors have been updated with the latest developments regarding the GEM Listing Rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. In addition, continuing briefing and professional development to Directors will be arranged whenever necessary.

BOARD COMMITTEE

The Board has established three Board committees, namely, the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**") and the nomination committee (the "**Nomination Committee**"), for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are posted on the GEM's website www.hkgem.com and the Company's website at http://ir.tem-group.com. All the Board committees should report to the Board on their decisions or recommendations made. The practices, procedures and arrangements in conducting meetings of Board committees follow in line with, so far as practicable, those of the Board meetings set out above.

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

The Board is responsible for performing the corporate governance duties set out in the CG Code which included developing and reviewing the Company's policies and practices on corporate governance, training and continuous professional development of Directors, and reviewing the Company's compliance with the code provision in the CG Code and disclosures in this annual report.

Audit Committee

The Company has established the Audit Committee pursuant to a resolution of the Directors passed on 20 April 2016 in compliance with Rule 5.28 of the GEM Listing Rules. Written terms of reference in compliance with C.3.3 of the CG Code have been adopted. The primary duties of the Audit Committee are mainly to make recommendations to the Board on appointment or reappointment and removal of external auditor; review financial statements and material advice in respect of financial reporting; and oversee internal control procedures of the Company. With effect from 19 September 2019, as Mr. Lum Chor Wah Richard has resigned as an independent non-executive Director and the member of the Audit Committee, Mr. Cheung Wai Kuen has been appointed as an independent non-executive Director and the member of the Audit Committee. At present, the Audit Committee of the Company consists of three independent non-executive Directors as members who are Mr. Ma Yiu Ho Peter, Mr. Cheung Wai Kuen and Mr. Lee Hon Man Eric. Mr. Ma Yiu Ho Peter who has the appropriate accounting and financial related management expertise, is the chairman of the Audit Committee.

During the year ended 30 June 2019, the Audit Committee held four meetings to review the quarterly, interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and relevant scope of work.

Remuneration Committee

The Company has established the remuneration committee on 20 April 2016 with written terms of reference in compliance with Rule 5.34 of the GEM Listing Rules and B.1.2 of the CG Code. The primary duties of the Remuneration Committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group; review performance based remuneration; and ensure that none of the Directors determine their own remuneration. With effect from 19 September 2019, as Mr. Lum Chor Wah Richard has resigned as an independent non-executive Director and the chairman of the Remuneration Committee, Mr. Cheung Wai Kuen has been appointed as an independent non-executive Director and the chairman of the Remuneration Committee. At present, the Remuneration Committee consists of five members with three independent non-executive Directors and two executive Directors who are Mr. Cheung Wai Kuen, Mr. Lee Hon Man Eric, Mr. Ma Yiu Ho Peter, Mr. Lau Man Tak and Mr. Vincent Ho Pang Cheng. Mr. Cheung Wai Kuen is the chairman of the Remuneration Committee.

During the year ended 30 June 2019, the Remuneration Committee held one meeting to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the Directors and senior management and other related matters.

Remuneration of directors and senior management

The Directors and senior management receive compensation in the form of salaries, allowances, bonuses and other benefits-in-kind, including the contribution to the pension scheme. The Remuneration Committee determines the salaries of the Directors based on each Director's qualification, position and seniority.

Particulars of the Directors' remuneration for the year ended 30 June 2019 are set out in note 10 to the consolidated financial statements.

Pursuant to code provision B.1.5. of the CG Code, the remuneration of the members of the senior management of the Group (other than the Directors) whose particulars are contained in the section headed "Biographical Details of Directors and Senior Management" of this annual report for the year ended 30 June 2019 by band is set out below.

Remuneration band	Number of individual
Nil to HK$1,000,000	4

Nomination Committee

The Company has established the Nomination Committee on 20 April 2016 with written terms of reference in compliance with A.5.2 of the CG Code. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board on a regular basis; identify qualified individuals to become Board members; assess the independence of independent non-executive Directors; make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors; and monitor the implementation of the board diversity policy on an ongoing basis.

To facilitate sustainable and balanced development of the Company, the Nomination Committee has adopted a board diversity policy (the "**Diversity Policy**"), which sets out the approach to achieve diversity of the Board. Under the Diversity Policy, the appointment and/or recommendation for appointment will be based on objective criteria, having due regard to the benefits of diversity on the Board, including, among others, the candidates' gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. Decisions of the Nomination Committee are made based on the merits and contribution of the selected candidates.

The Nomination Committee has also adopted a nomination policy (the "**Nomination Policy**") which sets out the selection criteria and procedure of appointment and re-appointment of Directors.

Procedure and Process for Nomination of Directors

The Nomination Committee will recommend to the Board for the appointment of a Director including an independent non-executive Director in accordance with the following selection criteria and nomination procedures:

Selection Criteria

The Nomination Committee shall consider the following criteria in evaluating and selecting candidates for directorships:

(a) Diversity in the aspects, amongst others, of gender, age, cultural and educational background, professional experience, skills, knowledge and length of service;

(b) The number of directorships in other listed/public companies;

(c) Commitment for responsibilities of the Board in respect of available time and relevant interest;

(d) Qualifications, including accomplishment and experience in the relevant industries in which the Group's business is involved;

(e) Experience in the Group's principal business and/or the industry in which the Group operates;

(f) Independence;

(g) Reputation for integrity; and

(h) Potential contributions that the individual can bring to the Board.

Nomination Procedures

The Nomination Committee will recommend to the Board for the appointment of a Director in accordance with the following procedures and process:

i. The Nomination Committee and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agents, and may seek independent professional advice to access a wider range of potential candidates.

ii. The secretary of the Nomination Committee shall invite nomination of candidates from the Board members (if any) for consideration by the Nomination Committee. The Nomination Committee may also put forward candidates who are not nominated by the Board.

iii. Upon considering a candidate suitable for the directorship, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment.

iv. The Nomination Committee will provide the relevant information of the selected candidate to the Remuneration Committee for consideration of the remuneration package of such selected candidate.

v. The Nomination Committee will thereafter make the recommendation to the Board in relation to the proposed appointment, and the Remuneration Committee will make the recommendation to the Board on the policy and structure for the remuneration.

vi. All appointment of Directors will be confirmed by the filing of the consent to act as Director of the relevant Director (or any other similar filings requiring the relevant Director to acknowledge or accept the appointment as Director, as the case may be) to be filed with the relevant regulatory authorities, if required.

vii. For any person that is nominated by a Shareholder for election as a Director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

viii. The Nomination Committee and/or the Board should make recommendation to the Shareholders in respect of the proposed election of Director at the general meeting.

With effect from 19 September 2019, as Mr. Lum Chor Wah Richard has resigned as an independent non-executive Director and the member of the Nomination Committee, Mr. Cheung Wai Kuen has been appointed as an independent non-executive Director and the member of the Nomination Committee. At present, the Nomination Committee consists of five members with three independent non-executive Directors and two executive Directors who are Mr. Lee Hon Man Eric, Mr. Cheung Wai Kuen, Mr. Ma Yiu Ho Peter. Mr. Lau Man Tak and Mr. Vincent Ho Pang Cheng, Mr. Lee Hon Man Eric is the chairman of the Nomination Committee.

During the year ended 30 June 2019, the Nomination Committee held one meeting for, inter alia, considering the retirement and re-election of the Directors at the AGM and to assess, review and make recommendations on the structure, size and composition of the Board.

PRACTICES AND CONDUCT OF MEETINGS

Schedules and agendas for regular Board meetings are normally agreed with the Directors in advance in order to facilitate them to attend. Notice of at least 14 days is given for a regular Board meeting. For other Board meetings, reasonable notice is given. Board papers together with appropriate, complete and reliable information are circulated to all Directors not less than 3 days before the date of the Board meetings to enable them to make informed decisions.

All Directors are supplied in a timely manner with all relevant documentation and financial information. The company secretary of the Company (the "Company Secretary") is responsible to keep minutes of all Board meetings. Draft minutes are normally circulated to all Directors for comments within a reasonable time after each meeting and the final version is open for their inspection.

The individual attendance record of the Board meetings, committee meetings and annual general meeting for the year ended 30 June 2019 is set out as follows.

	Attendance Record of Meetings held during the year				
Name of Directors	Board	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
Number of total meetings	7	4	1	1	1
Executive Directors					
Mr. Lau Man Tak	7/7	N/A	1/1	1/1	1/1
Mr. Vincent Ho Pang Cheng	6/7	N/A	1/1	1/1	0/1
Mr. Kan Wai Kee	7/7	N/A	N/A	N/A	1/1
Ms. Koay Lee Chern	7/7	N/A	N/A	N/A	1/1
Independent Non-Executive Directors					
Mr. Lum Chor Wah Richard (Resigned on 19 September 2019)	7/7	4/4	1/1	1/1	1/1
Mr. Ma Yiu Ho Peter	7/7	4/4	1/1	1/1	1/1
Mr. Lee Hon Man Eric	7/7	4/4	1/1	1/1	1/1
Mr. Cheung Wai Kuen (Appointed on 19 September 2019)	0/0	0/0	0/0	0/0	0/0

The Board was satisfied with the attendance of the Directors as they have committed sufficient time and attention to the affairs of the Company. Each Director shall disclose to the Company at the time of the materiality of interest and be required to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

CORPORATE GOVERNANCE REPORT

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

All Directors acknowledges their responsibility to prepare the Group's consolidated financial statements for the year ended 30 June 2019 to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that year. 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 Group'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 Group's consolidated financial statements for the year ended 30 June 2019 set out in this annual report.

AUDITOR'S REMUNERATION

For the year ended 30 June 2019, the remuneration paid or payable to Deloitte Touche Tohmatsu 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 (including statutory audit services)	1,188
Non-audit services	141
	1,329

RISK ASSESSMENT AND INTERNAL CONTROLS

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the strategic objectives of the Group, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems.

The Group's risk management framework sets out the process of identification, evaluation and management of the principal risks affecting the business.

1. Each division is responsible for identifying, evaluating and managing risks within its divisions taking into account the objective of such division on an ongoing basis with mitigation plans to manage those risks.

2. The management is responsible for overseeing the risk management and internal control activities of the Group through meetings with each division to ensure principal risks are properly managed and new or changing risks and material internal control defects have been identified and addressed.

3. The Board is responsible for reviewing and approving the effectiveness of the Group's risk management and internal control systems through meetings with the management.

The risk management framework, coupled with our internal controls, ensures that the risk associated with different divisions of the Group are effectively controlled and in line with the Group's risk appetite. Nevertheless, the Group's risk management and internal control systems are designed to manage, but not eliminate, the risk of failing to achieve business objectives entirely, and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

As the business of the Group does not involve complex operations, maintaining an internal audit department may divert resources from the Group's major business and was thus not set up in view of the cost benefit tradeoff. As an alternative, the Group had engaged an external internal control consultant, CT Partners Consultants Limited, to conduct a review on its internal control system during the Year. The review had covered a set of business cycles and had included recommendations for the improvement and strengthening of the internal control system. No significant control failings or weaknesses have been identified by CT Partners Consultants Limited during the review.

The Board considered the internal controls system of the Group to be adequate and effective for the year ended 30 June 2019. The Board also conducted a review of the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget which are considered to be adequate for the year ended 30 June 2019.

COMPANY SECRETARY

For the year ended 30 June 2019, Ms. Ng Ka Wai ("**Ms. Ng**") was the Company Secretary who was appointed on 28 September 2018 following the resignation of Mr. Wong Yiu Hung. The biographical details of Ms. Ng are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report. Pursuant to Rule 5.15 of the GEM Listing Rules, Ms. Ng has taken no less than 15 hours of relevant professional training during the year ended 30 June 2019.

DIVIDEND POLICY

The Company has adopted a dividend policy (the "**Dividend Policy**"). According to the Dividend Policy, in considering the declaration and payment of dividends, the Board shall take into account the following factors of the Group:

- results of operations;
- cash flows;
- financial condition;
- Shareholders' interests;
- general business conditions and strategies;
- capital requirements;
- the payments by subsidiaries of cash dividends; and
- other factors that the Board may deem relevant.

The payment of dividend is also subject to compliance with applicable laws and regulations including the laws of the Cayman Islands and the Articles. The Board will continually review the Dividend Policy from time to time and there can be no assurance that dividends will be paid in any particular amount for any given period.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("**EGM**").

Procedures and right for Shareholders to convene EGM

The following procedures for Shareholders to convene an extraordinary general meeting are subject to the Articles (as amended from time to time), and the applicable legislation and regulation, in particular the GEM Listing Rules (as amended from time to time):

(a) Pursuant to Article 64 of the Articles, 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 (the "**Eligible Shareholder(s)**") having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition.

(b) The written requisition (the "**Requisition**") must state the purposes of the meeting, signed by the Eligible Shareholder(s) and deposit it to the Board or the Company Secretary at the Company's principal place of business at Suite 1706, Tower 1, China Hong Kong City, 33 Canton Road, Tsim Sha Tsui, Hong Kong, and such may consist of several documents in like form, each signed by one or more requisitionists.

(c) The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding, the reason(s) to convene an EGM and the details of the business(es) proposed to be transacted in the EGM, and must be signed by the Eligible Shareholder(s) concerned together with a deposit of a sum of money reasonable sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement submitted by the Shareholders concerned in accordance with the statutory requirements to all the registered Shareholders.

(d) The Requisition will be verified with Hong Kong branch share registrar and transfer office of the Company and upon their confirmation that the Requisition is proper and in order, the Board will convene an EGM by serving sufficient notice in accordance with the requirements under the Articles to all the registered Shareholders. On the contrary, if the Requisition has been verified as not in order or the Shareholders concerned have failed to deposit sufficient money to meet the Company's expenses for the said purposes, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM.

(e) If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the Eligible Shareholder(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by Eligible Shareholder(s) as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) by the Company.

Right to put enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. Shareholders may send their enquiries or requests in respect of their rights to the Company's principal place of business in Hong Kong.

Procedures for shareholders to put forward proposals at shareholders' meetings

There are no provisions allowing shareholders to move new resolutions at the general meetings under the Companies Law (Revised) of Cayman Islands. However, pursuant to the Articles of Association, Shareholders who wish to move a resolution may by means of Requisition convene an EGM following the procedures set out above.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company has established a range of communication channels between itself and its Shareholders, investors and other stakeholders. These include the annual general meeting, the annual report, interim report and quarterly reports, notices, announcements and circulars that are available on Company's website at http://ir.tem-group.com.

CONSTITUTIONAL DOCUMENTS

For the year ended 30 June 2019, there had been no significant change in the Company's constitutional documents.

DIRECTORS' REPORT

The Directors hereby present their report and the audited consolidated financial statements for the year ended 30 June 2019.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are manufacture and sale of wire/cable harnesses and power supply cords assembled products; and trading of terminals, connectors and others.

An analysis of the principal activities and geographical locations of the operations of the Group during the financial year is set out in note 5 to the consolidated financial statements of the Group.

SEGMENT INFORMATION

During the year under review, manufacturing of wire/cable harnesses, manufacturing of power supply cords assembled products and trading of terminals, connectors and others account for approximately 86.0%, 9.9% and 4.1% of the Group's total sales respectively.

BUSINESS REVIEW

The business review of the Group for the year ended 30 June 2019 is set out in the "Management Discussion and Analysis" of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers collectively accounted for approximately 74.9% of the total turnover for the year ended 30 June 2019 (2018: approximately 79.4%) and the largest customer accounted for approximately 45.2% of the total turnover for the year ended 30 June 2019 (2018: approximately 42.6%).

The five largest suppliers accounted for approximately 42.9% of the total purchases for the year ended 30 June 2019 (2018: approximately 44.8%) and the largest supplier accounted for approximately 20.4% of the total purchases for the year ended 30 June 2019 (2018: approximately 19.8%).

Brascabos Componentes Eletricos e Eletronicos Ltda, is indirectly wholly owned by Brascabos International Group Limited ("**Brascabos**"), was one of the Group's five largest customers during the year ended 30 June 2019 whereas Brascabos is indirectly wholly owned by Mr. Lau Man Tak, an executive Director and a controlling shareholder of the Company. Save as disclosed above, none of the Directors and their respective close associates (within the meaning of the GEM Listing Rules) or any holder of Shares who, to the knowledge of the Directors, owns more than 5% of the Company's issued Shares has any interest in any of the Group's five largest customers or the Group's five largest suppliers in respect of the year ended 30 June 2019.

DIRECTORS' REPORT

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 58 of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The Group believes that the risk management practices are important and use its best effort to ensure it is sufficient to mitigate the risks present in the operations and financial position as efficiently and effectively as possible.

Reliance on a number of major customers

The Group derives a substantial portion of the revenues from a number of major customers. The concentration of the sales among a number of major customers exposes us to a variety of risks that could have a material adverse impact on the revenues and profitability, including the reduced demand from a single major customer for the products or loss of a single major customer's business could result in a significant decrease in the revenues.

Fluctuations in the prices of the major raw materials

Some of the raw materials are subject to price volatility as a result of changes in levels of global demand, supply disruptions and other factors. In particular, connectors and terminals, which constitute a large portion of the raw materials requirements and are made of metal and plastic that are considered as commodities. If there is an increase in the prices, the Group is not able to shift such corresponding price increase to the customers in a timely manner, and this many have a material and adverse effect on the business, financial conditions and results of operations.

Foreign exchange risk management

The revenue of the Group is mainly denominated in US$, while several subsidiaries of the Company have foreign currency sales and purchases transactions denominated in MYR, Euro and Renminbi, which exposes the Group to foreign currency risk. Management will from time to time review and adjust the Group's hedging and financial strategies based on exchange rate movement.

DIVIDEND

The Board does not recommend any payment of a final dividend for the year ended 30 June 2019 (2018: nil).

DONATIONS

No charitable donations was made by the Group during the year ended 30 June 2019 (2018: nil).

RESERVES

Details of movements in the reserves of the Group are set out in the consolidated statement of changes in equity in the consolidated financial statements of the Group. Details of the movements in the reserves of the Company's individual components of equity are set out in note 28 to the consolidated financial statements of the Group.

DISTRIBUTABLE RESERVES

At as 30 June 2019, the Company's reserves available for distribution to equity holders comprising share premium and retained profits amounted to approximately HK$119,994,000 (2018: approximately HK$133,077,000) calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

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

During the year ended 30 June 2019, 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.

PRE-EMPTIVE RIGHTS

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 30 June 2019 are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year ended 30 June 2019 in the share capital of the Company are set out in note 19 to the consolidated financial statements of the Group in this annual report.

ANALYSIS OF KEY FINANCIAL PERFORMANCE INDICATORS

Details of the key financial performance indicators to the performance the Group's business, please refer to "Management Discussion and Analysis" on page 8 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to acting in an environmentally responsible manner. Recycling and use of eco-friendly stationery, plus a series of measures to save paper and energy, resulted in more efficient use of resources, as well as reduction of waste.

COMPLIANCE WITH LAW AND REGULATIONS

There was no material breach of or non-compliance with the applicable laws and regulations such as the Hong Kong Companies Ordinance (Cap. 622), the GEM Listing Rules, and other applicable local laws and regulations in various jurisdictions.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Remuneration packages are generally structured with reference to prevailing market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Apart from salary payments, there are other staff benefits including mandatory provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees of the Group.

Relationship is the fundamentals of business. The Group fully understand this principal and thus maintain close relationship with the customers to fulfil their immediate and long-term need.

The Group encompasses working relationships with suppliers to meet our customer's needs in an effective and efficient manner. The Group work closely and well-communicated to suppliers before the commencement of a project.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 30 June 2019, the Group had the following continuing connected transactions, details of which were disclosed in compliance with the requirements of the GEM Listing Rules.

1. Master Sales Agreement

As disclosed in the announcement of the Company dated 18 April 2019 (the "**Announcement**"), Brascabos International Group Limited ("**Brascabos**", together with its subsidiaries, "**Brascabos Group**") entered into the framework agreement with the Company (the "**Master Sales Agreement**") in relation to the sale of power cords, cable/wire and harnesses. Jumbo Planet Group Limited, which is indirect wholly owned by Mr. Lau, holds 450,000,000 Shares, representing 75% of the issued shares capital of the Company. Mr. Lau is an executive Director and indirectly owns the entire share capital of Brascabos. Mr. Lau is a connected person of the Company and the transactions contemplated under the Master Sales Agreement constitute continuing connected transaction for the Company under the GEM Listing Rules. As the highest applicable percentage ratio calculated with reference to the annual caps was less than 25% and each of the relevant annual caps was less than HK$10,000,000, the Master Sales Agreement and the transactions contemplated thereunder are subject to annual review and disclosure requirements, but are exempt from the independent Shareholders' approval requirement under the GEM Listing Rules.

Pursuant to the Master Sales Agreement, the member(s) of the Group and the member(s) of the Brascabos Group shall enter into individual agreement(s) or order(s) from time to time to relation to sale of power cords, cable/wire and harnesses by the Group to the Brascabos Group during the term. The relevant transactions would be conducted in the usual and ordinary course of business of the Group, on normal commercial terms and based on the prevailing market rates. The prevailing market price shall be made with reference to products of comparable quality, specifications and quantities and applicable foreign exchange rates based on market information collected by the Group's sales and technical departments and reviewed by the senior management of the Group from time to time; and where applicable, the terms agreed with the Group's independent third party customers for products of comparable quality, specifications and quantities and applicable foreign exchange rates in recent transactions such that the price shall be no less favourable than those available to the Group's independent third party customers. The senior management of the Group would also carry out the internal control procedures in relation to the Master Sales Agreement.

As disclosed in the Announcement, the Company estimated the transaction amount for the transactions contemplated under the Master Sales Agreement for the three years ending 30 June 2021 would not exceed HK$4.5 million, HK$6.0 million and HK$8.0 million, respectively.

The transaction amounts between the Group and the Brascabos Group for the year ended 30 June 2019 was approximately HK$3,511,000 (being approximately 78.0% of the annual cap of HK$4.5 million for the year ended 30 June 2019).

During the year ended 30 June 2019, the senior management of the Group has monitored and ensured that (a) the continuing connected transactions have been conducted in accordance with the pricing policies or mechanisms (if applicable) under the Master Sales Agreement, as appropriate; and (b) the Company's internal control procedures (including those disclosed in the Announcement) are adequate and effective to ensure that continuing connected transactions are so conducted.

2. Financial Printing Services Agreement

On 6 January 2016 and 29 May 2018 respectively, the Company entered into a financial printing services agreements (the "**Financial Printing Services Agreements**") with REF Financial Press Limited (the "**REF Financial**"), an indirect wholly-owned subsidiary of REF, regarding the provision of financial printing services. The terms of the Financial Printing Services Agreement expired on 30 June 2019. In order for REF Financial to continue provide the financial printing services to the Company, on 4 July 2019, the Company entered into another one-year financial printing services agreement (the "**New Financial Printing Services Agreement**") with REF Financial for financial printing service from 1 July 2019 to 30 June 2020.

The transaction amount incurred for the financial printing services was approximately HK$177,000 for the year ended 30 June 2019 (2018: approximately HK$224,000).

Mr. Lau is an executive Director, Chairman and controlling shareholder, was indirectly interested in 75% of the total issued share capital in REF Financial. Accordingly, REF Financial is an associate of Mr. Lau and thus a connected person of the Company under the GEM Listing Rules.

Given each of the applicable percentage ratios (other than the profits ratio), as defined under the GEM Listing Rules, in respect of the New Financial Printing Services is expected to be less than 5% on an annual basis and the total annual consideration is less than HK$3,000,000, the transaction contemplated under the New Financial Printing Services Agreement is exempt from the reporting, announcement, annual review, circular and independent Shareholders' approval requirements under the GEM Listing Rules.

All Independent Non-executive Directors of the Company had reviewed and confirmed that the above transactions for the year ended 30 June 2019 were entered into:

(i) in the ordinary and usual course of business of the Group:

(ii) on normal commercial terms or better; and

(iii) according to the relevant agreements governing them on terms that are fair and reasonable and in the interest of the Shareholders as a whole.

The Company's auditor was engaged to report on the Company's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Company as above in accordance with Rule 20.54 of the GEM Listing Rules.

Based on work performed, the auditor has confirmed to the Board to the effect that nothing has come to its attention that causes it to believe that the above transactions:

(a) have not been approved by the Board;

(b) were not, in all material respects, in accordance with the pricing policies of the Group;

(c) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and

(d) have exceeded the annual caps disclosed in the relevant announcements, if applicable.

A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Save as disclosed above, there was no other connected transaction and related party transaction entered into by the Group for the year ended 30 June 2019 that was required to be disclosed in accordance with the GEM Listing Rules. The Company further confirms that it has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules during the year ended 30 June 2019.

DIRECTORS

The Directors of the Company during the year ended 30 June 2019 and up to the date of this annual report were as follows:

Executive Directors

Mr. Lau Man Tak *(Chairman)*
Mr. Vincent Ho Pang Cheng *(Chief Executive Officer)*
Mr. Kan Wai Kee
Ms. Koay Lee Chern

Independent non-executive Directors

Mr. Lum Chor Wah Richard (Resigned on 19 September 2019)
Mr. Ma Yiu Ho Peter
Mr. Lee Hon Man Eric
Mr. Cheung Wai Kuen (Appointed on 19 September 2019)

Brief biographical details of Directors and senior management are set out on pages 11 to 15 of this annual report.

Information regarding directors' emoluments is set out in note 10 to the consolidated financial statements.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors annual confirmation of his independence from the Group and the Company considers each of them to be independent pursuant to Rule 5.09 of the GEM Listing Rules.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save for the related party transaction disclosed in note 23 to the consolidated financial statements, no transaction, arrangement and contract of significance to which the Company, its holding company, or any of its subsidiaries was a party and in which a Director or a connected entity of a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year ended 30 June 2019 or at any time during the year ended 30 June 2019.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in this annual report, there was no contract of significance (whether for the provision of services to the Group or not) in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any controlling shareholder (as defined in the GEM Listing Rules) of the Company or any of its subsidiaries or controlled entities had a material interest, whether directly or indirectly, subsisted at the end of the year ended 30 June 2019 or at any time during the year ended 30 June 2019.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service contract or an appointment letter (as the case may be) with the Company which may only be terminated in accordance with the provision of the service contract or the appointment letter (as the case may be) or by (i) the Company giving to any Director not less than three months' prior notice in writing or (ii) by any Director giving to the Company not less than one month's prior notice in writing.

No Director proposed for re-election at the forthcoming annual general meeting of the Company ("**AGM**") has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation. The independent non-executive Director of the Company was appointed for a fixed period but subject to retirement from office and re-election at the AGM in accordance with the memorandum of association and the Articles of Association.

Pursuant to article 108(a) of the Articles, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, 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 three 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. In accordance with the Articles, Mr. Lau and Mr. Kan Wai Kee will retire at the AGM and, being eligible, offer themselves for re-election at the AGM.

Pursuant to article 112 of the Articles, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the Shareholders in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Any Director appointed under Article 112 shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting. Mr. Cheung Wai Kuen was appointed by the Board as an independent non-executive Director on 19 September 2019 to fill a causal vacancy on the Board. In accordance with article 112 of the Articles, Mr. Cheung Wai Kuen shall hold office until the forthcoming annual general meeting and, being eligible, offer himself for re-election at the AGM.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, the changes in information of Directors of the Company subsequent to the date of the interim report for the six months ended 31 December 2018 of the Company are set out below:

— Mr. Lau Man Tak was appointed as an independent non-executive director of Chinese Food and Beverage Group Limited, a company listed on GEM of the Stock Exchange (Stock Code: 8272) with effect from 19 February 2019.

— Mr. Lum Chor Wah Richard has resigned as an independent non-executive Director, the chairman of the Remuneration Committee and members of Audit Committee and Nomination Committee, all with effective from 19 September 2019.

— Mr. Cheung Wai Kuen has been appointed as an independent non-executive Director, the chairman of the Remuneration Committee and members of Audit Committee and Nomination Committee, all with effective from 19 September 2019.

— Mr. Lee Hon Man Eric was appointed as an independent non-executive director of REF, a company listed on Main Board of the Stock Exchange (Stock Code: 1631) with effect from 19 September 2019.

In respect of the change in emoluments of Directors, please refer to note 10 to the financial statements.

Save as disclosed above and elsewhere in this report, there is no other information required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules.

PERMITTED INDEMNITY PROVISION

At no time during the year ended 30 June 2019 and up to the date of this annual report was any permitted indemnity provision being in force for the benefit of any of the Directors.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 30 June 2019.

COMPETING BUSINESS AND CONFLICT OF INTERESTS

The Directors are not aware of any business or interest of the Directors nor the controlling shareholder of the Company nor any of their respective associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the year ended 30 June 2019.

EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 10 to the consolidated financial statements in this annual report.

EMOLUMENT POLICY

As at 30 June 2019, the Group employed 437 full time management, administrative and production staff worldwide. The Group follows market practice on remuneration packages. Employee's remuneration is reviewed and determined by senior management annually depending on the employee's performance, experience and industry practice. The Directors and employees who have made valuable contribution to the Group may also receive options to be granted under the share option scheme adopted by the Company on 20 April 2016 ("**Share Option Scheme**").

RETIREMENT SCHEMES

Particulars of the retirement schemes of the Group are set out in note 22 to the consolidated financial statements in this annual report.

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

As at 30 June 2019, the Directors and chief executive of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules:

Long positions in the Shares

Ordinary Shares of HK$0.01 each of the Company

Name of director	Capacity/ Nature of Interest	Number of ordinary Shares held *(Note 1)*	Approximate shareholding percentage in the issued share capital of the Company (%)
Mr. Lau Man Tak ("**Mr. Lau**")	Interest in a controlled corporation *(Note 2)*	450,000,000 Shares (L)	75

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) Mr. Lau, the chairman and the executive Director, 450,000,000 Shares were held by Jumbo Planet Group Limited ("**Jumbo Planet**"). Jumbo Planet is a direct wholly-owned subsidiary of New Universe Industries Limited ("**New Universe**"). New Universe is a direct wholly-owned subsidiary of Perfect Asset Investments Limited ("**Perfect Asset**"), which in turn is wholly-owned by Mr. Lau. . By virtue of the SFO, Mr. Lau is deemed, or taken to be, interested in the Shares held by Jumbo Planet in the Company. Mr. Lau is a director of Jumbo Planet, New Universe and Perfect Assets

Save as disclosed above, as at 30 June 2019, none of the Directors or the chief executive of the Company or any of their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of SFO or the GEM Listing Rules.

SHARE OPTION SCHEME

The Company conditionally adopted the Share Option Scheme on 20 April 2016 which became unconditional upon Listing for a period of 10 years from 18 May 2016.

The Share Option Scheme is valid and effective for a period of 10 years from 18 May 2016 and its purpose is to reward eligible participants who have contributed or will contribute to the Group and to encourage eligible participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its Shareholders as a whole, and to maintain or attract business relationships with participants whose contributions are or may be beneficial to the growth of the Group.

Eligible participants of the Share Option Scheme include (collectively "**Eligible participants**"):

(i) any Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of any member of the Group; and

(ii) any advisers, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group, whom the Board considers, in its sole discretion, to have contributed or will contribute to the Group.

The total number of Shares of the Company available for issue under the scheme is 60,000,000 Shares, representing 10% of the total number of Shares in issue as at the date of this report. The total number of Shares of the Company to be issued upon exercise of the share options granted to each eligible participant under the Scheme in any 12-month period must not exceed 1% of the total Shares of the Company then in issue, unless approved by Shareholders of the Company in general meeting in the manner prescribed under the GEM Listing Rules. The number of Shares to be issued in respect of which options may be granted to a substantial shareholder or an independent non-executive Director of any of their respective close associates (within the meaning of the GEM Listing Rules) representing in aggregate over 0.1% of the total number of the Company's Issued Shares on the date of such grant or with an aggregate value in excess of HK$5,000,000 must be approved by Shareholders in general meeting.

An offer of a grant of share options shall be deemed to have been accepted when the duplicate letter comprising acceptance of the share option (the "**Share Option**") duly signed by the grantee together with a remittance in favour of our Company of HK$1.00 by way of consideration for the grant thereof is received by our Company within the period specified in the letter containing the offer of the grant of the Share Option. Once the acceptance is made, the Share Option shall be deemed to have been granted and to have taken effect from the offer date. The period for the exercise of a share option is determined by the Board in its sole discretion, but such period shall not be more than 10 years from the date of grant of the option.

Under the Share Option Scheme, the subscription price payable upon exercise of any options granted is determined by the Board but in any event it shall be at least the highest of: (i) the nominal value of the Company's Shares; (ii) the closing price of the Company's Shares as stated in the Stock Exchange's daily quotation sheets on the date on which the option is offered to a participant; and (iii) the average of the closing prices of the Company's Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer of the option.

No share option has been granted since the adoption of the Share Option Scheme and there was no share option outstanding as at 30 June 2019.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme as disclosed above, no equity-linked agreements that (i) will or may result in the Company issuing Shares or (ii) require the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company during the year or subsisted at the end of the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Other than the Share Option Scheme, at no time during the year ended 30 June 2019 was the Company, any of its holding company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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

As at 30 June 2019, so far is known to the Directors the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long positions in the Shares

Ordinary Shares of HK$0.01 each of the Company

Name of Shareholder	Nature of Interest	Number of ordinary Shares held *(Note 1)*	Approximate shareholding percentage in the issued share capital of the Company (%)
Jumbo Planet	Beneficial owner *(Note 2)*	450,000,000 Shares (L)	75
New Universe	Interest in a controlled corporation *(Note 2)*	450,000,000 Shares (L)	75
Perfect Asset	Interest in a controlled corporation *(Note 2)*	450,000,000 Shares (L)	75
Ms. Lim Youngsook ("**Ms. Lim**")	Interest of a spouse *(Note 3)*	450,000,000 Shares (L)	75

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) 450,000,000 Shares were held by Jumbo Planet. Jumbo Planet is a direct wholly-owned subsidiary of New Universe. New Universe is a direct wholly-owned subsidiary of Perfect Asset, which in turn is wholly-owned by Mr. Lau. By virtue of the SFO, each of New Universe and Perfect Asset and Mr. Lau is deemed, or taken to be, interested in the Shares held by Jumbo Planet in the Company.

(3) Ms. Lim is the spouse of Mr. Lau. By virtue of the SFO, Ms. Lim is deemed to be interested in the same number of Shares in which Mr. Lau is deemed to be interested.

Saved as disclosed above, as at 30 June 2019, the Directors were not aware of any persons who had or deemed or taken to have any interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of interests required to be kept by the Company under Section 336 of the SFO.

NON-COMPETITION UNDERTAKINGS

A non-competition undertaking (the "Non-competition Undertaking") was entered into by Mr. Lau and Jumbo Planet (collectively, the "Controlling Shareholders") in favour of the Company, under which each of the Controlling Shareholders has irrevocably and unconditionally, jointly and severally, warranted and undertaken to the Company (for the Company and as trustee for each of its subsidiaries) that, amongst other matters, he/it will not, and will procure any Controlling Shareholder and his/its associates and any company directly or indirectly controlled by the Controlling Shareholder not to, except through any member of the Group, directly or indirectly (whether on its own account or with each other in conjunction with or on behalf of any person or company, or as principal or agent, through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise), carry on, engage in, invest or be interested or otherwise involved in any business that is similar to or in competition with or is likely to be in competition with any business carried on or contemplated to be carried on by any member of the Group from time to time or in which any member of the Group is engaged or has invested or is otherwise involved in any territory that the Group carries on the business from time to time.

The Company has received a written confirmation from the Controlling Shareholders in respect of the compliance with and the enforcement of the terms of the Non-competition Undertaking by the Controlling Shareholders during the year ended 30 June 2019.

The independent non-executive Directors have also reviewed and were satisfied that each of the Controlling Shareholders of the Company had complied with the Non-Competition Undertakings.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's issued shares was held by the public as at 19 September 2019, being the latest practicable date prior to the issue of this annual report, in accordance with Rule 11.23 of the GEM Listing Rules.

DIRECTORS' REPORT

CORPORATE GOVERNANCE

The Company's corporate governance report is set out on pages 16 to 28 of this annual report.

AUDITOR

The financial statements for the year ended 30 June 2019 have been audited by Messrs. Deloitte Touche Tohmatsu who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Messrs. Deloitte Touche Tohmatsu as the auditor of the Company is to be proposed at the forthcoming AGM.

Since the incorporation of the Company and up to the date of this annual report, there has been no change in the Company's auditor.

EVENTS AFTER THE REPORTING PERIOD

There is no significant event after the reporting period of the Group.

By order of the Board

Lau Man Tak
Chairman
Hong Kong, 19 September 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

The Group is pleased to report its achievements in the Environmental, Social and Governance ("**ESG**") aspects for the year ended 30 June 2019. The scope of the report includes the Group's operations in China, Malaysia, the Hong Kong Special Administrative Region, and Singapore. The principal activities of the Group is the manufacture and supply of wire/cable harnesses and power supply cords assembled products.

Continuing the Group's commitment to adhere to a high standard of ESG responsibility and strict compliance with all the applicable laws and regulations to its operations, in the year ended 30 June 2019 the Group participated in more and more eco-friendly activities and social charities.

In the course of achieving its business objectives and maximising value creation for its stakeholders, the Group also strives to achieve a balance between its operation needs and the environment by using resources wisely and minimize pollutants from its operation.

In the following, the Group would like to share with you its ESG achievements separately under the "Environment" and the "Social" sections.

ENVIRONMENT

Environmental Policy and the Group's Products

At the Group's operating subsidiary in Malaysia, it recognises its responsibility to contribute towards environmentally sustainable development as reflected by its policy statement:

- Towards full compliance with environmental legislation and other applicable requirements.

- Environmentally clean, use energy and raw materials efficiently.

- Move to prevent pollution by applying environmentally friendly technologies, sound waste management and work practices.

At the Group's operating subsidiary in China, its environmental policy requires the subsidiary to regularly update its knowledge about the applicable national and European Union ("**EU**") environmental law and regulations relevant to its product and ensure strict compliance with the policies.

The Group manufactures its products in compliance with the directive on the restriction of the use of certain hazardous substances in electrical and electronic equipment ("**ROHS**") as adopted by the EU. The directive specified limitations on the usage of certain chemicals such as lead, mercury and cadmium.

Furthermore, the Group complies with "REACH" by identifying and managing the risks linked to the substances it manufactures and markets in the EU. "REACH" is a regulation adopted by the EU to improve the protection of human health and the environment from the risks that can be posed by chemicals.

By ensuring its product does not contain any harmful substances to the environment, the Group minimises any possible negative impact of its manufacturing activities to the environment.

Waste Management

The Group's production plant in Malaysia manages its production wastes, such as paper carton boxes and plastics, in accordance with the local environmental laws and regulations. To promote environmental protection, most of the production wastes would be recycled for reuse. The subsidiary's management also ensures employees responsible for sorting and handling the waste have received relevant training.

The Group's production plant in China also complies with local environmental laws and regulations when disposing wastes. Most of the production wastes would be collected by recycling companies from the plant warehouse. Plant management is required to timely update its knowledge of the local environmental laws and regulations in order to ensure environmental compliance of its production.

Via the above policies and practices, the Group minimizes the impact of its activities on the environment and natural resources.

The following presents the Group's non-hazardous wastes produced for the year ended 30 June 2019. They mainly composed of paper and plastic:

Non-hazardous wastes produced:

Aspects 1.4	Unit	2018	2019
Non-hazardous waste	kg	5,337.50	4,200.00
Non-hazardous waste intensity	kg/office	1,334.38	1,050.00

Greenhouse gas ("GHG") emissions

In the year ended 30 June 2019, the Group did not use any gas in production and therefore have no relevant GHG emissions to report. The Group neither produce any hazardous wastes from its operations by complying with "ROHS" and "REACH".

The production plants of the Group do not emit any air pollutants or GHG into the environment in their production processes thanks to their light industry nature. Its limited sources of GHG emissions would be from the use of Group vehicles and air travel by management level employees.

The following presents the Group's GHG emissions for the year ended 30 June 2019:

GHG emissions from the use of Group vehicles:

Aspects 1.1	Unit	2018	2019
Nitrogen oxides	Gram	7,766.48	7,879.01
Sulphur oxides	Gram	160.41	131.75
Respiratory suspended particles	Gram	585.32	599.75

GHG emissions from mobile combustion sources:

Aspects 1.2	Unit	2018	2019
Scope 1			
Carbon dioxide	CO2 equivalent (kg)	25,752.72	21,151.10
Methane	CO2 equivalent (kg)	57.86	47.52
Nitrous oxide	CO2 equivalent (kg)	3,739.16	3,069.93

Indirect GHG emission from purchased electricity:

Aspects 1.2	Unit	2018	2019
Scope 2			
Indirect GHG Emissions	CO2 equivalent (kg)	736,364.04	847,885.10
Indirect GHG Emissions intensity	CO2 equivalent (kg)/office	184,091.01	211,971.27

GHG emissions from business air travel by employees:

Aspects 1.2	Unit	2018	2019
Scope 3			
Carbon dioxide	CO2 equivalent (kg)	24,301.80	24,643.60

For emission from mobile combustion sources and business air travel by employees, they are not directly related to production volume or number of offices. Hence, intensity calculations for the 2 aspects are not presented.

During the year ended 30 June 2019, the Group had no non-compliance cases in relation to laws and regulations relevant to environmental matters.

Use of Resources

To raise the Group's savings in electricity, in its Malaysia production plant and office, the Group's lightings are installed with LED fluorescent lights. The production plant had also installed smaller size compressor to save electricity during production. Instead of air conditioning at its plant areas, the Group uses air coolers for cooling. This helps further boost its savings on electricity.

In general, the Group's employees recycle used papers for daily printing and save up used envelope for internal communication or drafting. For using air-conditioning at the Group's office, employees are reminded to set the temperature at an eco-friendly level of 25 degree Celsius.

Water is not needed in the Group's production process and hence is restricted for office use only. Employees are reminded to cherish the use of water by reminder labels put besides water tap within the office area.

Concerning usage of package materials, to promote environmental protection and save costs, only the necessary packaging materials would be applied to finished goods.

The following presents the Group's usage in electricity, water and packaging materials for the year ended 30 June 2019:

Electricity consumption in total and intensity

Aspects 2.1	Unit	2018 In'000	2019 In'000
Electricity usage	kWh	1,120.63	1,293.04
Electricity usage intensity	kWh/office	280.16	323.26

Water consumption in total and intensity

Aspects 2.2	Unit	2018 In'000	2019 In'000
Water consumption	cu.m	27.43	20.09
Water consumption intensity	cu.m/office	6.86	5.02

Total packaging material used for finished products

Aspects 2.5	Unit	2018	2019
Paper	Tonnes	68.59	26.15
Plastic	Tonnes	5.47	3.80

The Group strives to make green purchasing decisions with selected office products and equipment as well as develop energy saving guidelines to reduce electricity consumption to mitigate any negative impacts to the environment.

SOCIAL

The Group's People

All levels of employees are required to abide by the Group's human resources policies, especially its expected code of conduct and high business ethics.

The Group offers remuneration packages to employees which are commensurate with their positions, duties, qualifications and experience to reward them for their contributions to its success. The Group offers competitive remuneration package comprising benefits including medical and dental allowance, paid paternity and marriage leave, retirement benefits, training and education subsidies. Furthermore, bonding events such as team building activities and annual dinner were organised to express the Group's gratitude to its employee every year.

To better monitor employees' career development progress, adequate appraisals are conducted. The Group would offer promotions and salary increment as rewards to outstanding employees, while at the same time employees who require further improvements in their performance would be timely and appropriately counselled. They are also welcomed to communicate their concerns with the Group's management at the appraisals or via the "opinion boxes" placed at production plants.

The Group emphasizes equal opportunities at the workplace. It builds a workplace with equity by a fair and just recruitment policy in which it would assess candidate based solely on their experience, skills and qualifications. An applicant's gender, religion, age or skin colour would not in any degree affect his or her chance of being recruited. The same principle applies to the Group's appraisal and counselling processes.

During the year, the Group had no non-compliance cases regarding violation of any employment laws and regulations.

Employee Composition

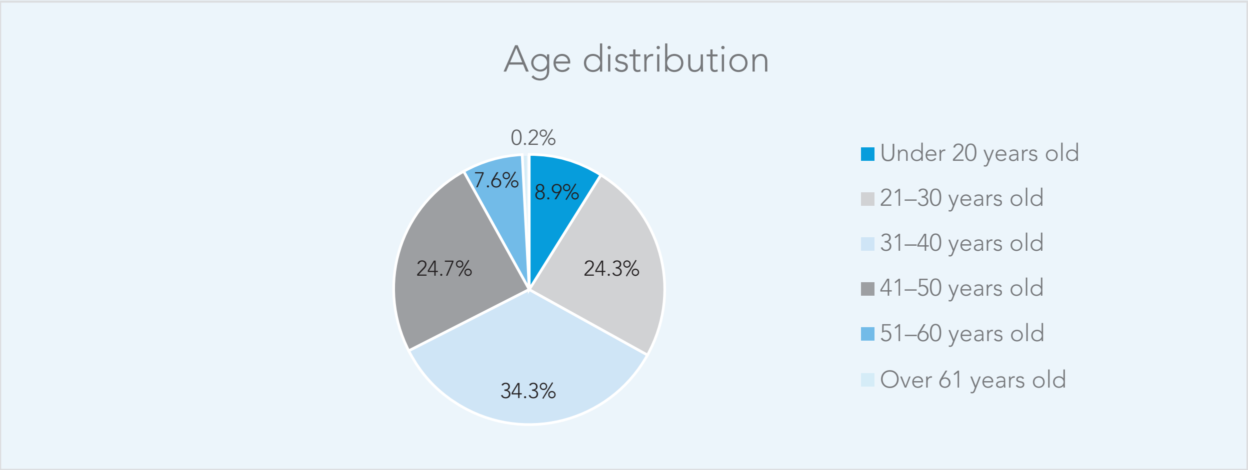

Figure 1 Age distribution (total no. of employee = 437)

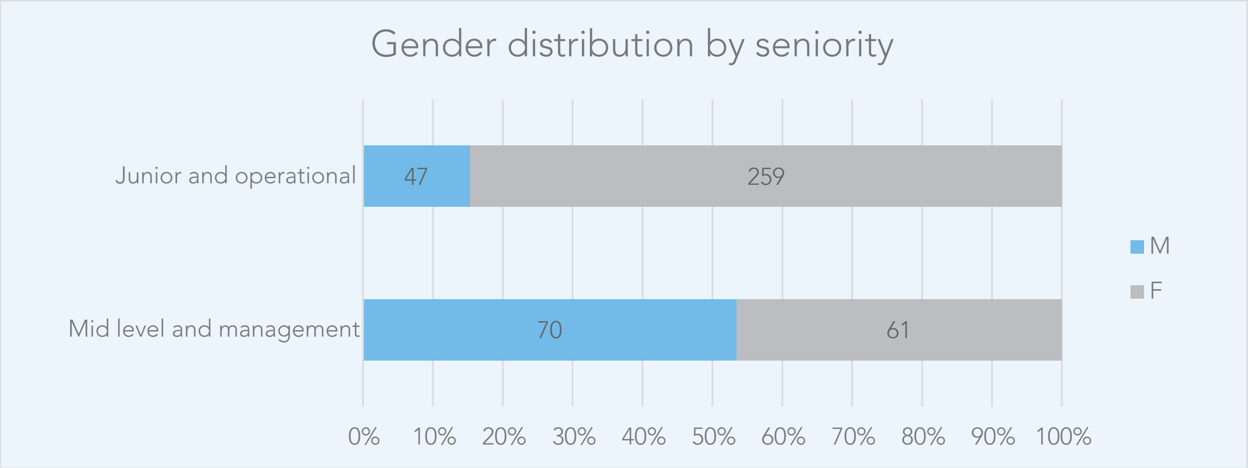

Figure 2 Gender distribution by seniority

Figure 1 represents the age distribution of the Group's entire employees, while figure 2 is a breakdown of the gender distribution by levels of seniority.

According to figure 1, the Group's workforce is mainly comprised of age groups of 21–30 years old, 31–40 years old and 41–50 years old. The age group demographics are consistent with the Group's principle of anti-age discrimination at its offices.

Figure 2 shows that ratio of male to female employee in "Mid-level and management" is close to 5:5. This reflects the Group's stance of anti-gender discrimination. As an industry norm, plant operators of the Group are mainly female. Hence, for "junior and operational" employees, the Group hired relatively more female employees.

Overall, the employee composition demonstrates that the Group values contributions from employees of different age and is firmly against discrimination based on age or gender.

Occupational Health and Safety

All of the Group's operating subsidiaries strictly comply with the relevant local labour laws and regulations in relation to occupational health and safety. The Group provides adequate protective gears and equipment to its operators to ensure they can work safely and healthily.

At the Group's production plant in Malaysia, the Group had specifically designated an Emergency Rescue Team (ERT) and a Safety and Health Committee to oversee employees' occupational health and safety. Safety meetings of the committee would be regularly held. Safety training concerning fire hazard prevention and first aid were provided to employees by relevant professionals.

At both the Group's China and Malaysia production plant, to ensure employees would be able to evacuate effectively and efficiently during fire hazard and at the same time assist in controlling the accident site, fire drills and trainings are organised.

Training and Development

The Group continues to nurture its employees via providing adequate trainings and raising their level of knowledge, skills and capabilities.

For trainings employees attend, effectiveness assessments are conducted to provide feedback to the trainee on their skills learned and proficiency in the relevant areas. Employees' professional development progresses are monitored with sufficient training records kept.

In the year ended 30 June 2019, courses related to product knowledge and safety were organised.

Labour Standards

All of our regional offices strictly comply with the local labour laws and regulations and do not hire any child labour or engaged in forced labour practices.

To prevent any hiring of child labour, the Group's human resources management departments are instructed to pay particular attention to such illegal practice and follow the Group's standardized recruitment procedures. The interviewer is responsible to check the personnel identification documents of the job applicant to ensure the applicant is over the legally authorised working age pertained to local labour laws.

To prevent forced labour practices, the human resources management functions would ensure sufficient rest days would be given to employees and all overtime work applications need to be authorised by the human resources management departments. The Group would not force any employees to work overtime against their will.

The plant production departments are responsible to detect any child labour and unauthorised overtime works at production plants.

During the year ended 30 June 2019, the Group had no non-compliance cases regarding violation of relevant child labour and forced labour laws.

Supply Chain Management

The Group practices a transparent and competitive bidding system and internal control measures to ensure that its tendering and procurement process is conducted in an open, fair and just manner.

When need to engage new suppliers, the Group would invite at least 2 to 3 suppliers to provide quotations. During the costing stage of a customer contract, departments involving marketing, production, planning, and customer service would participate to evaluate the pricing of the materials and parts to be purchased from suppliers. The departments' participation ensures the suppliers' pricing are fair and just from the Group's perspective.

Before engaging suppliers or subcontractors, the quality assurance department would use a "supplier quality system audit checklist" to check and assure supplier's performances in different aspects, including the supplier's management quality, process control, corrective actions in case of deficiencies, and environmental procedures.

Since the Group aims at full compliance with "REACH", it requires its suppliers to observe the same standard and provide a declaration letter to state their compliance with "REACH".

Product Responsibility

Regarding product responsibility, as mentioned, the Group manufactures its products in compliance with the directive on the restriction of the use of certain hazardous substances in electrical and electronic equipment (ROHS) as adopted by the EU. The directive specified limitations on the usage of certain chemicals such as lead, mercury and cadmium.

Furthermore, the Group complies with "REACH" by identifying and managing the risks linked to the substances it manufactures and markets in the EU. "REACH" is a regulation adopted by the EU to improve the protection of human health and the environment from the risks that can be posed by chemicals.

Due to the nature of the Group's business, only limited advertising activities, including participation in trading fairs and visits to potential customers, are conducted. It is the Group's policy that only employees of manager grade or above can represent the Group in participation of trading fairs and customer site visits. They are strictly prohibited to disclose confidential information of existing customers and of the Group in the engagement of any advertising activities.

During the year ended 30 June 2019, no products sold or shipped had been subjected to recalls for safety and health reasons. No products or service related or consumer data protection complaints which attracted legal liabilities to the Group were noted.

Anti-corruption and Best Practices

To ensure the Group's employees adhere to its code of conduct and best practices, the compliance manual sets out clear internal guidelines and best practices in terms of prevention of bribery, personal information protection, principles of corporate governance, and equal opportunities.

Over the years, the Group constructed a strong sense of anti-corruption and anti-fraudulent behaviour in its corporate governance framework. Its employees are acutely aware of the ever-changing landscape of corruption and fraud and would duly report on any suspected corruption or fraudulent behaviour.

To the best of the Group's knowledge, there had not been any non-compliance cases noted in relation to anti-corruption related laws and regulations as of 30 June 2019.

Community Involvement

The Group aims at building a workplace with equity and promote equal employment opportunities. The Group continues to employ people with disabilities during the Reporting Period and is willing to help people with disabilities to integrate into the community. As long as the candidate had the essential skills for the positions hiring, the Group's human resource department would consider his/her job application.

During the Reporting Period, 3 people with disabilities work at the Group's production plant in China.

Apart from promoting equal opportunities, the Group also offered internship programme to young people and nurture youth for societies.

INDEPENDENT AUDITOR'S REPORT

Deloitte.

德勤

TO THE MEMBERS OF TEM HOLDINGS LIMITED
創新電子控股有限公司
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of TEM Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as **the** "**Group**") set out on pages 58 to 111, which comprise the consolidated statement of financial position as at 30 June 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 30 June 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matters	How our audit addressed the key audit matters
Write-down of inventories	
We identified the write-down of inventories as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole and the management judgment involved in identification of obsolete and slow-moving inventories and measurement of the write-down of inventories by the management. As set out in the consolidated statement of financial position, the carrying amount of inventories is HK$44,833,000 (net of allowance for inventories of HK$1,900,000). Net reversal of inventories write-down of HK$81,000 was recognised in profit or loss for the year ended 30 June 2019 as disclosed in note 9 to the consolidated financial statements. As disclosed in note 4 to the consolidated financial statements, the management reviews the usability and saleability of inventories at the end of reporting period, and writes down for obsolete and slow-moving inventories. The identification of obsolete and slow-moving inventories is based on the ageing analysis. The current market demand and future sales plan of the inventories are taken into consideration for the measurement of write-down of those obsolete and slow-moving inventories by the management.	Our procedures in relation to assessing the write-down of inventories include: • Understanding the Group's policy in the identification of obsolete and slow-moving inventories and measurement of the write-down of inventories; • Testing the accuracy of the ageing analysis of inventories by tracing the ageing categories to the production reports or delivery notes, on a sample basis; • Testing the net realisable value of inventories with reference to the latest invoice prices in subsequent sales, on a sample basis; • Testing the usage of raw materials and work in progress subsequent to the end of the reporting period by tracing to the production reports, on a sample basis; • Discussing with the management and evaluating the basis of obsolete and slow-moving inventories identified by the management with reference to the ageing analysis, and the measurement of write-down of those obsolete and slow-moving inventories with reference to the current market demand and future sales plan of inventories; and • Assessing the historical accuracy of write-down of inventories to evaluate the appropriateness of the basis made by the management in the current year.

KEY AUDIT MATTERS (continued)

Key audit matters	How our audit addressed the key audit matters
Impairment assessment of trade receivables We identified impairment assessment of trade receivables as a key audit matter due to the significance of trade receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("**ECL**") of the Group's trade receivables at the end of the reporting period. As disclosed in notes 16 and 26(b) to the consolidated financial statements, the trade receivables carried at HK$28,376,000 (net of allowance for credit loss of HK$493,000) as at 30 June 2019. Net allowance for credit loss of HK$33,000 was reversed in profit or loss during the year ended 30 June 2019. As disclosed in note 4 to the consolidated financial statements, except for trade receivables with significant balances are assessed for ECL individually, the Group uses provision matrix to calculate the ECL for the remaining trade receivables collectively. The provision rates are based on past due analysis as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration both quantitative and qualitative information that is reasonable and supportable including forward-looking information that is available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. Details of the ECL are set out in note 26(b) to the consolidated financial statements.	Our procedures in relation to impairment assessment of trade receivables included: • Understanding key controls on how the management estimates the loss allowance for trade receivables; • Evaluating management's basis and judgement in determining credit loss allowance on trade receivables as at 1 July 2018 and 30 June 2019, including their identification of trade receivables with significant balance, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated provision rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information); and • Testing the integrity of information used by management to develop the provision matrix, including trade receivables ageing analysis as at 1 July 2018 and 30 June 2019, on a sample basis, by comparing individual items in the analysis with the relevant sales agreements, sales invoices and other supporting documents.

OTHER INFORMATION

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

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

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

In preparing the consolidated financial statements, the directors 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 solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

As part of an audit in accordance with HKSAs, we exercise professional judgment 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.

- 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.

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Luk Kam Fan.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
19 September 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	*5*	**96,163**	106,165
Cost of sales		**(82,706)**	(90,103)
Gross profit		**13,457**	16,062
Other income	*6*	**815**	557
Selling and distribution costs		**(2,897)**	(3,154)
Administrative expenses		**(23,293)**	(22,122)
Other gains and losses	*7*	**494**	(87)
Reversal of allowance for credit loss, net		**33**	–
Loss before tax		**(11,391)**	(8,744)
Income tax credit (charge)	*8*	**628**	(432)
Loss for the year	*9*	**(10,763)**	(9,176)
Other comprehensive (expense) income			
Item that will not be reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		**44**	117
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(1,838)**	3,442
Other comprehensive (expense) income for the year		**(1,794)**	3,559
Total comprehensive expense for the year		**(12,557)**	(5,617)
Loss per share — Basic (HK cents)	*12*	**(1.79)**	(1.53)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**15,882**	16,554
Deposits paid for acquisition of property, plant and equipment		**41**	321
Deferred tax assets	*14*	**828**	256
		16,751	17,131
CURRENT ASSETS			
Inventories	*15*	**44,833**	38,424
Trade receivables, prepayments and deposits	*16*	**32,822**	37,648
Tax recoverable		**1,069**	1,965
Pledged bank deposits	*17*	**565**	567
Bank balances and cash	*17*	**45,212**	57,256
		124,501	135,860
CURRENT LIABILITIES			
Trade and other payables	*18*	**15,258**	13,841
Tax payable		**–**	73
		15,258	13,914
NET CURRENT ASSETS		**109,243**	121,946
TOTAL ASSETS LESS CURRENT LIABILITIES		**125,994**	139,077
CAPITAL AND RESERVES			
Share capital	*19*	**6,000**	6,000
Reserves		**119,994**	133,077
TOTAL EQUITY		**125,994**	139,077

The consolidated financial statements on pages 58 to 111 were approved and authorised for issue by the Board of Directors on 19 September 2019 and are signed on its behalf by:

Lau Man Tak	Kan Wai Kee
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

	Share capital HK$'000	Share premium HK$'000	Exchange reserve HK$'000	PRC statutory reserve HK$'000 *(note)*	Retained profits HK$'000	Total equity HK$'000
At 1 July 2017	6,000	66,340	(5,921)	2,742	75,533	144,694
Loss for the year	–	–	–	–	(9,176)	(9,176)
Exchange differences arising on translation to presentation currency	–	–	117	–	–	117
Exchange differences arising on translation of foreign operations	–	–	3,442	–	–	3,442
Total comprehensive income (expense) for the year	–	–	3,559	–	(9,176)	(5,617)
At 30 June 2018	6,000	66,340	(2,362)	2,742	66,357	139,077
Adjustment *(note 2)*	–	–	–	–	(526)	(526)
At 1 July 2018 (restated)	6,000	66,340	(2,362)	2,742	65,831	138,551
Loss for the year	–	–	–	–	(10,763)	(10,763)
Exchange differences arising on translation to presentation currency	–	–	44	–	–	44
Exchange differences arising on translation of foreign operations	–	–	(1,838)	–	–	(1,838)
Total comprehensive expense for the year	–	–	(1,794)	–	(10,763)	(12,557)
At 30 June 2019	6,000	66,340	(4,156)	2,742	55,068	125,994

Note: The People's Republic of China (the "PRC") reserve is non-distributable and the transfer to this reserve is determined by the board of directors of the subsidiaries in the PRC in accordance with the relevant laws and regulations of the PRC. Appropriation to such reserve is made out of 10% of net profit after taxation reported in the statutory financial statements of the PRC subsidiaries annually. No appropriation is required if the balance at the statutory reserve has reached 50% of the registered capital of the relevant PRC subsidiaries. This reserve can be used to offset accumulated losses or to increase capital upon approval from the relevant authorities.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

	2019 HK$'000	2018 HK$'000
OPERATING ACTIVITIES		
Loss before tax	(11,391)	(8,744)
Adjustments for:		
(Gain) loss on disposal of property, plant and equipment	(179)	5
Depreciation of property, plant and equipment	4,252	3,887
Reversal of inventories write-down, net	(81)	(186)
Reversal of allowance for credit loss, net	(33)	–
Unrealised exchange loss	257	17
Bank interest income	(588)	(298)
Operating cash flows before movements in working capital	(7,763)	(5,319)
Increase in inventories	(6,990)	(9,580)
Decrease (increase) in trade receivables, prepayments and deposits	3,267	(4,304)
Increase in trade and other payables	1,817	1,195
Cash used in operations	(9,669)	(18,008)
Income taxes refunded (paid)	844	(612)
NET CASH USED IN OPERATING ACTIVITIES	(8,825)	(18,620)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(4,021)	(3,747)
Placement of pledged bank deposits	(14)	(453)
Deposits paid for acquisition of property, plant and equipment	(41)	(283)
Interest received	588	298
Withdrawal of pledged bank deposits	–	75
Proceeds from disposal of property, plant and equipment	399	12
NET CASH USED IN INVESTING ACTIVITIES	(3,089)	(4,098)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,914)	(22,718)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(130)	481
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	57,256	79,493
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	45,212	57,256

1. GENERAL

TEM Holdings Limited (the "**Company**") is an exempted company incorporated in the Cayman Islands with limited liability and its shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Prior to 18 June 2019, the Company's immediate and ultimate holding company was Jumbo Planet Group Limited, a limited liability company incorporated in British Virgin Islands. After 18 June 2019, the Company's immediate holding company is Jumbo Planet Group Limited and ultimate holding company is Perfect Asset Investments Limited, a company incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Lau Man Tak, who is also the Chairman and a director of the Company. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries are manufacture and sale of wire/cable harnesses and power supply cords assembled products; and trading of terminals, connectors and others.

The functional currency of the Company is United States dollars ("**US$**"). The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"). The directors of the Company have selected HK$ as the presentation currency because the shares of the Company are listed on the Stock Exchange.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Company and its subsidiaries (collectively referred to as the "**Group**") has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.1 HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 July 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 July 2018 and has used the practical expedient for all contracts modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Manufacture and sale of wire/cable harnesses
- Manufacture and sale of power cords assembled products
- Trading of terminals, connectors and others

Information about the Group's performance obligations and accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

Summary of effects arising from initial application of HKFRS 15

Based on the assessment by the directors of the Company, the application of HKFRS 15 has had no significant impact on the timing and amounts of revenue recognised in the current year and retained profits at 1 July 2018.

2.2 HKFRS 9 "Financial Instruments"

In the current year, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities; (ii) expected credit losses ("**ECL**") for financial assets and (iii) general hedge accounting.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.2 HKFRS 9 "Financial Instruments" (continued)

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 July 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 July 2018. The difference between carrying amounts as at 30 June 2018 and the carrying amounts as at 1 July 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 July 2018.

	Note	Trade receivables HK$'000	Retained profits HK$'000
Closing balance at 30 June 2018 — HKAS 39		32,007	66,357
Effect arising from initial application of			
— HKFRS 9: Remeasurement			
Impairment under ECL model	*(b)*	(526)	(526)
Opening balance at 1 July 2018		31,481	65,831

(a) *Classification and measurement*

The directors of the Company review and assess the Group's financial assets and financial liability as at 1 July 2018 based on the facts and circumstances that existed at that date, and consider that there is no change in classification and measurement on the Group's financial assets and financial liability.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.2 HKFRS 9 "Financial Instruments" (continued)

Summary of effects arising from initial application of HKFRS 9 (continued)

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, trade receivables have been assessed individually with outstanding significant balances exceeding HK$1,000,000 and the remaining balances are grouped based on past due analysis.

ECL for other financial assets at amortised cost, including pledged bank deposits and bank balances, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 July 2018, additional credit loss allowance of HK$526,000 has been recognised against retained profits. The additional loss allowance is charged against the respective asset.

All loss allowances for trade receivables as at 30 June 2018 reconciled to the opening loss allowances as at 1 July 2018 are as follows:

	HK$'000
As 30 June 2018 — HKAS 39	–
Amounts remeasured through opening retained profits	526
Balance at 1 July 2018	526

For the purposes of reporting cash flows from operating activities under indirect method for the year ended 30 June 2019, movements in working capital have been computed based on adjusted balances as at 1 July 2018 as disclosed above.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs and an interpretation that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

Except as described below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (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 for 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 operating lease payments 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 cash flows by the Group. Upfront prepaid lease payment will be presented as investing or operating cash flows in accordance to the nature as appropriate.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 30 June 2019, the Group has non-cancellable operating lease commitments of HK$2,617,000 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.

In addition, the Group currently considers refundable rental deposits paid of HK$1,147,000 paid 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 would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 16 "Leases" (continued)

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)–Int4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)–Int4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("**GEM Listing Rules**") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

Revenue recognition (prior to 1 July 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group’s activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation of which the retained interest becomes a financial asset), the exchange differences that arising on translation to presentation currency and translation of foreign operations accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to retained profit and profit or loss, respectively.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme in Hong Kong and retirement pension schemes for staff in the PRC and overseas which are defined contribution schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Taxation

Income tax charge represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment on tangible assets (continued)

The recoverable amount of tangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. For the Group's trading inventories, costs of inventories are determined on a first-in, first-out method. For the Group's manufacturing inventories, costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liability are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liability are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 July 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liability are added to or deducted from the fair value of the financial assets or financial liability, as appropriate, on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, pledged bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group'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 reporting date as well as the forecast of future conditions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) *Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instruments as at the reporting date with the risk of a default occurring on the financial instruments as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 60 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)

(i) *Significant increase in credit risk (continued)*

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) *Definition of default*

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the receivable is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) *Write-off policy*

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. trade receivables are assessed as separate group, pledged bank deposits and bank balances are assessed for ECL on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income 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 amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 July 2018)

Financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of HKFRS 9 on 1 July 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of HKFRS 9 on 1 July 2018) (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liability and equity

Debt and equity instruments are classified as either financial liability or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liability

Financial liability (representing trade payables) is subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liability

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going 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.

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

Write-down of inventories

At the end of each reporting period, the management reviews the usability and saleability of inventories, and writes down for obsolete and slow-moving inventories. The management identifies obsolete and slow-moving inventories with reference to ageing analysis, and determines the net realisable values of inventories based on current market demand and future sales plan of inventories. When the expectation of the net realisable value is less that the cost, a further allowance may arise.

As at 30 June 2019, the carrying amount of inventories is HK$44,833,000 (2018: HK$38,424,000), net of allowance for inventories of HK$1,900,000 (2018: HK$2,040,000).

Provision of ECL for trade receivables

Except for trade receivables with significant balances are assessed for ECL individually, the Group uses provision matrix to calculate ECL for the remaining trade receivables collectively. The provision rates are based on past due analysis as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration quantitative and qualitative information that is reasonable and supportable including forward-looking information that in available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 26(b) and 16 respectively.

As at 30 June 2019, the carrying amount of trade receivables are HK$28,376,000, net of allowance for credit loss HK$493,000.

5. REVENUE AND SEGMENT INFORMATION

Revenue

A. For the year ended 30 June 2019

Disaggregation of revenue from contracts with customers

	For the year ended 30 June 2019			
Segments	Wire/cable harnesses HK$'000	Power supply cords assembled products HK$'000	Terminals, connectors and others HK$'000	Total HK$'000
Types of goods				
Manufacture and sale of wire/cable harnesses	82,713	–	–	82,713
Manufacture and sale of power supply cords assembled products	–	9,506	–	9,506
Trading of terminals, connectors and others	–	–	3,944	3,944
Revenue from contracts with customers and segments revenue	82,713	9,506	3,944	96,163

All the revenue from contracts with customers are recognised at point in time.

Performance obligations for contracts with customers

The Group manufactures and sells a range of wire/cable harnesses, power supply cords assembled products and trading of terminals, connectors and other related products. Revenue is recognised when the control of the products are transferred to the customers at a point in time, being at the point the products are delivered to the customers with specified shipping terms. Upon delivery, the customers have full discretion over the usage of the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customers, and either the customers have accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group have objective evidence that all criteria for acceptance have been satisfied. The credit terms are ranging from 30 days to 150 days.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Transaction price allocated to the remaining performance obligation for contracts with customers

Wire/cable harnesses, power supply cords assembled products, terminals, connectors and other related products are delivered within period less than one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5. REVENUE AND SEGMENT INFORMATION (continued)

Revenue (continued)

B. For the year ended 30 June 2018

	HK$'000
Sales of goods	106,165

Segment information

The Group's operating segments are determined based on information reported to the executive directors of the Company who are also directors of all operating subsidiaries, being the chief operating decision maker (the "**CODM**"), for the purposes of resource allocation and performance assessment. The CODM regularly reviews revenue and results analysis by (i) manufacture and sale of wire/cable harnesses, (ii) manufacture and sale of power supply cords assembled products and (iii) trading of terminals, connectors and others. No analysis of segment asset or segment liability is presented as such information is not regularly reviewed by the CODM.

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segment.

For the year ended 30 June 2019

	Manufacture and sale of wire/cable harnesses HK$'000	Manufacture and sale of power supply cords assembled products HK$'000	Trading of terminals, connectors and others HK$'000	Total HK$'000
Revenue				
External sales	82,713	9,506	3,944	96,163
Segment results	11,234	1,458	765	13,457
Other income				815
Selling and distribution costs				(2,897)
Administrative expenses				(23,293)
Other gains and losses				494
Reversal of allowance for credit loss, net				33
Loss before tax				(11,391)

5. REVENUE AND SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

For the year ended 30 June 2018

	Manufacture and sale of wire/cable harnesses HK$'000	Manufacture and sale of power supply cords assembled products HK$'000	Trading of terminals, connectors and others HK$'000	Total HK$'000
Revenue				
External sales	89,979	11,573	4,613	106,165
Segment results	12,478	2,305	1,279	16,062
Other income				557
Selling and distribution costs				(3,154)
Administrative expenses				(22,122)
Other gains and losses				(87)
Loss before tax				(8,744)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represent the results of each segment without allocation of other income, selling and distribution costs, administrative expenses, other gains and losses and reversal of allowance for credit loss, net. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Geographical information

The Group's revenue by the geographical location of the customers, determined based on the location to which the Group bills the customers, is detailed below:

	2019 HK$'000	2018 HK$'000
The PRC	**27,499**	37,016
Asia Pacific region (excluding the PRC)	**51,595**	54,596
Western Europe	**11,381**	12,746
North and South America	**5,688**	1,807
	96,163	106,165

Note: The Group's revenue from Asia Pacific region is mainly derived from customers located in Thailand.

5. REVENUE AND SEGMENT INFORMATION (continued)

Geographical information (continued)

The Group's business activities are conducted predominantly in the PRC and Malaysia. Information about the Group's non-current assets by the geographical location of the assets is detailed below:

	2019 HK$'000	2018 HK$'000
The PRC	**10,856**	11,810
Malaysia	**2,031**	2,463
Others	**3,036**	2,602
	15,923	16,875

Note: Non-current assets excluded deferred tax assets.

Information about major customers

Revenue from customers of corresponding years contributing over 10% of the Group's revenue are as follows:

	2019 HK$'000	2018 HK$'000
Customer A[1]	**43,449**	45,230
Customer B[2]	**9,833**	12,291
Customer C[2]	**10,592**	11,681

1 Revenue was related to all operating segments.

2 Revenue was related to manufacture and sale of wire/cable harnesses segment.

6. OTHER INCOME

	2019 HK$'000	2018 HK$'000
Bank interest income	**588**	298
Sales of scrap materials	**30**	28
Government grant *(note)*	**115**	–
Others	**82**	231
	815	557

Note: The government grant represents a subsidy received by a subsidiary of the Company. In the opinion of the management of the Group, there was no unfulfilled condition or contingency relating to the grant.

7. OTHER GAINS AND LOSSES

	2019 HK$'000	2018 HK$'000
Net exchange gain (loss)	315	(82)
Gain (loss) on disposal of property, plant and equipment	179	(5)
	494	(87)

8. INCOME TAX (CREDIT) CHARGE

	2019 HK$'000	2018 HK$'000
The income tax (credit) charge comprises:		
Current tax:		
Singapore corporate income tax	–	75
(Over)underprovision in prior years	(28)	169
	(28)	244
Deferred tax (credit) charge *(note 14)*	(600)	188
	(628)	432

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made as the group entities have no assessable profits for both years.

8. INCOME TAX (CREDIT) CHARGE (continued)

Under the Law of the PRC on enterprise income tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25%. Pursuant to the relevant law and regulation in the PRC, the PRC subsidiary is granted tax incentives as a High and New Technology Enterprise (高新技術企業) and is entitled to a concessionary tax rate of 15% for 3 years from 2018 to 2020.

No provision for PRC Enterprise Income Tax ("**EIT**") has been made as the group entity has no assessable profits for the both years.

The EIT Law requires withholding tax to be levied on distribution of profits earned by a PRC entity to an overseas company (which is the beneficial owner of the dividends received) for profits generated after 1 January 2008, at the rate of 10%.

The income tax rate applicable in Malaysia is 24% for both years. No provision for Malaysia corporate income tax has been made as the group entities have no assessable profits for the both year.

The income tax rate applicable in Singapore is 17% for both years. No provision for Singapore corporate income tax has been made as the group entity has no assessable profits for the current year. The subsidiary operating in Singapore is entitled to partial income tax exemption (75% exemption on first Singapore dollars ("**SGD**") 10,000 chargeable income and 50% exemption on next SGD290,000 chargeable income) for the year 2018.

The income tax charge (credit) for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2019 HK$'000	2018 HK$'000
Loss before tax	(11,391)	(8,744)
Tax at the average income tax rate of 15.4% (2018: 25%)	(1,756)	(2,186)
Tax effect of expenses not deductible for tax purpose	720	1,144
Tax effect of income not taxable for tax purpose	(81)	(176)
Tax effect of tax losses not recognised	1,240	1,786
Utilisation of tax losses previously not recognised	(734)	(98)
Effect of tax exemptions granted to a Singapore subsidiary	–	(144)
(Over)underprovision in prior years	(28)	169
Others	11	(63)
Income tax (credit) charge for the year	(628)	432

9. LOSS FOR THE YEAR

	2019 HK$'000	2018 HK$'000
Loss for the year has been arrived at after charging (crediting):		
Directors' remuneration:		
— Fees	**580**	580
— Salaries and other allowances	**2,941**	2,953
— Retirement benefit scheme contributions	**95**	96
	3,616	3,629
Other staff costs	**26,496**	26,471
Retirement benefit scheme contributions, excluding those of directors	**2,800**	2,960
Total staff costs (including directors' remuneration)	**32,912**	33,060
Capitalised in inventories	**(19,576)**	(20,746)
	13,336	12,314
Auditor's remuneration		
— Audit service	**1,201**	1,141
— Non-audit service	**141**	–
	1,342	1,141
Cost of inventories recognised as an expense	**53,580**	59,617
Depreciation of property, plant and equipment	**4,252**	3,887
Minimum lease payments for operating leases in respect of land and buildings	**3,564**	3,644
Reversal of inventories write-down, net	**(81)**	(186)

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

Directors' and chief executive's remuneration for the year disclosed pursuant to the applicable GEM Listing Rules and the Hong Kong Companies Ordinance, is as follows:

For the year ended 30 June 2019

Name of director	Fees HK$'000	Salaries and other allowances HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Executive directors				
Mr. Lau Man Tak	10	960	18	988
Mr. Vincent Ho Pang Cheng	10	939	44	993
Mr. Kan Wai Kee	10	488	18	516
Ms. Koay Lee Chern	10	554	15	579
Independent non-executive directors				
Mr. Lum Chor Wah Richard (resigned on 19 September 2019)	180	–	–	180
Mr. Ma Yiu Ho Peter	180	–	–	180
Mr. Lee Hon Man Eric	180	–	–	180
Mr. Cheung Wai Kuen (appointed on 19 September 2019)	–	–	–	–
	580	2,941	95	3,616

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' and chief executive's emoluments (continued)

For the year ended 30 June 2018

Name of director	Fees	Salaries and other allowances	Retirement benefit scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors				
Mr. Lau Man Tak	10	960	18	988
Mr. Vincent Ho Pang Cheng	10	952	45	1,007
Mr. Kan Wai Kee	10	480	18	508
Ms. Koay Lee Chern	10	561	15	586
Independent non-executive directors				
Mr. Lum Chor Wah Richard	180	–	–	180
Mr. Ma Yiu Ho Peter	180	–	–	180
Mr. Lee Hon Man Eric	180	–	–	180
	580	2,953	96	3,629

Mr. Vincent Ho Pang Cheng is the Chief Executive Officer of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive Officer.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

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

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

The five highest paid individuals of the Group during the year included three directors (2018: three directors), details of whose remuneration are set out in note 10(a) above. Details of the remuneration for the year of the remaining two (2018: two) highest paid individuals who are neither a director nor chief executive of the Company are as follows:

	2019 HK$'000	2018 HK$'000
Salaries and other allowances	1,067	992
Retirement benefit scheme contributions	114	84
	1,181	1,076

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following band is as follows:

	Number of employees 2019	2018
Nil to HK$1,000,000	2	2

No emoluments were paid by the Group to any of the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

11. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders by the Company during the years ended 30 June 2019 and 2018, nor has any dividend been proposed since the end of the reporting period.

12. LOSS PER SHARE

The calculation of the basic loss per share attributable to owners of the Company is based on the following data:

	2019 HK$'000	2018 HK$'000
Loss:		
Loss for the year attributable to owners of the Company	**(10,763)**	(9,176)

	2019 '000	2018 '000
Number of shares:		
Number of ordinary shares for the purpose of basic loss per share	**600,000**	600,000

No diluted loss per share is presented for the current and prior years as there were no potential ordinary shares in issue.

13. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery HK$'000	Furniture, fixtures, and moulds HK$'000	Office equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1 July 2017	11,959	5,761	4,609	4,449	4,634	5,883	37,295
Additions	1,289	1,508	197	391	351	17	3,753
Disposals	–	–	–	–	(171)	–	(171)
Reclassification	6,147	–	–	–	–	(6,147)	–
Exchange alignment	607	300	240	196	29	263	1,635
At 30 June 2018	20,002	7,569	5,046	5,036	4,843	16	42,512
Additions	758	71	545	243	1,476	1,238	4,331
Disposals	(236)	(142)	(44)	(5)	(713)	–	(1,140)
Reclassification	768	328	18	–	–	(1,114)	–
Exchange alignment	(700)	(248)	(168)	(154)	(25)	(5)	(1,300)
At 30 June 2019	**20,592**	**7,578**	**5,397**	**5,120**	**5,581**	**135**	**44,403**
DEPRECIATION							
At 1 July 2017	8,205	4,699	3,237	3,380	1,548	–	21,069
Provided for the year	1,379	729	530	613	636	–	3,887
Eliminated on disposals	–	–	–	–	(154)	–	(154)
Exchange alignment	518	271	189	163	15	–	1,156
At 30 June 2018	10,102	5,699	3,956	4,156	2,045	–	25,958
Provided for the year	1,553	709	477	593	920	–	4,252
Eliminated on disposals	(62)	(96)	(44)	(5)	(713)	–	(920)
Exchange alignment	(325)	(179)	(124)	(125)	(16)	–	(769)
At 30 June 2019	**11,268**	**6,133**	**4,265**	**4,619**	**2,236**	**–**	**28,521**
CARRYING VALUES							
At 30 June 2019	**9,324**	**1,445**	**1,132**	**501**	**3,345**	**135**	**15,882**
At 30 June 2018	9,900	1,870	1,090	880	2,798	16	16,554

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The cost of above items of property, plant and equipment, other than construction in progress, less their residual value are depreciated on a straight-line basis at rates as follows:

Plant and machinery	10%–50% per annum
Furniture, fixtures and moulds	10%–50% per annum
Office equipment	20%–50% per annum
Leasehold improvements	Over the period of the relevant lease
Motor vehicles	15%–30% per annum

14. DEFERRED TAXATION

The following are the major deferred tax (liabilities) assets recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation HK$'000	Allowance for inventories HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
At 1 July 2017	(559)	492	356	129	418
(Charge) credit to profit or loss	(99)	(54)	1	(36)	(188)
Exchange alignment	(16)	34	–	8	26
At 30 June 2018	(674)	472	357	101	256
Credit (charge) to profit or loss	69	(118)	338	311	600
Exchange alignment	48	(12)	(2)	(62)	(28)
At 30 June 2019	**(557)**	**342**	**693**	**350**	**828**

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by a PRC subsidiary from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiary amounting to HK$2,888,000 (2018: HK$4,700,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of the reporting period, the Group has unused tax losses of HK$31,936,000 (2018: HK$25,879,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$2,829,000 (2018: HK$1,428,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$29,107,000 (2018: HK$24,451,000) due to the unpredictability of future profit streams. Included in the unrecognised tax losses are tax losses of HK$362,000 (2018: HK$362,000) and HK$2,324,000 (2018: nil) which will lapse in 2022 and 2024, respectively, the remaining tax losses may be carried forward indefinitely.

15. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	33,201	25,608
Work in progress	3,660	2,958
Finished goods	7,972	9,858
	44,833	38,424

16. TRADE RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2019 HK$'000	2018 HK$'000
Trade receivables	28,869	32,007
Less: Allowance for credit loss	(493)	–
	28,376	32,007
Prepayments and deposits	4,446	5,641
	32,822	37,648

As at 30 June 2019 and 1 July 2018, trade receivables from contracts with customers amounted to HK$28,376,000 and HK$31,481,000 respectively.

Included in trade receivables are amounts due from related parties of HK$610,000 (2018: nil), which are unsecured, interest-free and repayable with credit period of 30 days.

The Group allows credit period ranging from 30 days to 150 days to its customers.

The following is an aged analysis of trade receivables net of allowance for credit loss presented based on the invoice date at the end of the reporting period:

	2019 HK$'000	2018 HK$'000
0–30 days	9,174	10,024
31–60 days	7,249	9,065
61–90 days	5,985	5,711
91–120 days	5,667	5,288
Over 120 days	301	1,919
	28,376	32,007

16. TRADE RECEIVABLES, PREPAYMENTS AND DEPOSITS (continued)

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributed to customers and credit terms granted to customers are reviewed regularly. As at 30 June 2018, the majority of the trade receivables that are neither past due nor impaired have no history of defaulting on repayments.

As at 30 June 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$5,317,000 which are past due as at the reporting date. Out of the past due balances, none of the trade receivables have been past due 90 days or more. The Group does not hold any collateral over these balances.

As at 30 June 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$3,711,000 which are past due as at the reporting date for which the Group has not provided for impairment loss as the Group considers such balances could be recovered based on historical experience. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired:

	2018 HK$'000
Overdue:	
1 to 30 days	2,562
31 to 60 days	1,009
61 to 90 days	64
Over 120 days	76
	3,711

In determining the recoverability of a trade receivable, the Group considers the historical settlement record, subsequent settlement, credit assessment and business relationship with the customers.

Trade receivables are denominated in currencies other than the functional currencies of the relevant group entities are:

	2019 **HK$'000**	2018 HK$'000
US$	**21,592**	14,791
Euro ("EUR")	**2,014**	1,530

Details of impairment assessment of trade receivables for the year ended 30 June 2019 are set out in note 26(b).

17. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less.

Bank balances carry interest at market rates which range from 0.01% to 3.58% (2018: 0.01% to 3.20%) per annum.

Pledged bank deposits carry interest at fixed rate of 3.15% (2018: 3.15%) per annum, are used to secure bank guarantee granted to the Group and are therefore classified as current assets.

Bank balances and cash that are denominated in currencies other than the functional currencies of the relevant group entities are:

	2019 HK$'000	2018 HK$'000
HK$	**21,318**	31,670
US$	**7,508**	3,693
EUR	**4,383**	3,895

18. TRADE AND OTHER PAYABLES

	2019 HK$'000	2018 HK$'000
Trade payables	**9,678**	9,228
Other tax payables and accruals	**5,580**	4,613
	15,258	13,841

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2019 HK$'000	2018 HK$'000
0–30 days	**6,428**	4,332
31–60 days	**1,907**	3,129
61–90 days	**1,198**	1,459
Over 90 days	**145**	308
	9,678	9,228

18. TRADE AND OTHER PAYABLES (continued)

The credit period on purchases of goods is 30 to 90 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Trade payables that are denominated in currencies other than the functional currencies of the relevant group entities are:

	2019 HK$'000	2018 HK$'000
US$	**2,716**	4,089
EUR	**2,720**	1,907

19. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 July 2017, 30 June 2018 and 30 June 2019	20,000,000	200,000
Issued and fully paid:		
At 1 July 2017, 30 June 2018 and 30 June 2019	600,000	6,000

20. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2019 HK$'000	2018 HK$'000
Within one year	**2,472**	2,861
In the second to fifth years inclusive	**145**	2,687
	2,617	5,548

Leases are negotiated and rentals are fixed for a term of two to three years (2018: two to three years).

21. CAPITAL COMMITMENTS

	2019 HK$'000	2018 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**637**	464

22. RETIREMENT BENEFIT SCHEMES

The Group participates in a defined contribution scheme in Hong Kong which is registered under the Mandatory Provident Fund Scheme (the "**MPF Scheme**") established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

For members of the MPF Scheme, the Group contributes at the lower of HK$1,500 per month or 5% of relevant payroll costs each month to the MPF Scheme, which contribution is matched by the employee.

For Singapore, the Group participates in a defined contribution plan.

For Malaysia, the employees of the Group are required by law to make contributions to the Employees Provident Fund, a post-employment plan. The Group is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits.

22. RETIREMENT BENEFIT SCHEMES (continued)

Employees located in the PRC are covered by a state-managed retirement benefit scheme operated by the PRC government which is essentially a defined contribution scheme.

The only obligation of the Group with respect to these retirement benefit schemes is to make the specified contributions. The total amount contributed by the Group to the schemes and the expense charged to the profit or loss represent contributions paid/payable to the schemes by the Group at rates specified in the rules of the schemes. For the year ended 30 June 2019, the retirement benefit scheme contributions made by the Group amounted to HK$2,895,000 (2018: HK$3,056,000).

23. RELATED PARTY DISCLOSURES

(a) Related party transactions

Apart from the outstanding balances with related parties as disclosed in note 16, during the year, the Group also entered into the following transactions with its related parties:

Name of related party	Nature of transaction	2019 HK$'000	2018 HK$'000
Companies which Mr. Lau Man Tak is a shareholder with controlling interest:			
REF Financial Press Limited	Printing service fee	177	224
Brascabos International Group Limited and its subsidiaries	Sales of power cords, cable/wire and harnesses	3,511	–

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year is as follows:

	2019 HK$'000	2018 HK$'000
Short term benefits	5,014	4,676
Post-employment benefits	227	193
	5,241	4,869

The remuneration of directors and key management personnel is determined having regard to the performance of individuals.

24. SHARE OPTION SCHEME

The Company's share option scheme (the "**Scheme**"), was adopted pursuant to a resolution passed on 20 April 2016 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 17 May 2026. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

No share option was granted, exercised, lapsed or cancelled during the current and prior years.

25. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of the capital. Based on recommendations 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 or the redemption of existing debt.

26. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 HK$'000	2018 HK$'000
Financial assets		
Financial assets at amortised cost	**74,153**	–
Loans and receivables (including cash and cash equivalents)	**–**	89,830
Financial liability		
Amortised cost	**9,678**	9,228

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, pledged bank deposits, bank balances and cash and trade payables. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. The Group also has trade receivables, bank balances and cash and trade payables denominated in foreign currencies.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liability at the end of the reporting period are as follows:

	Assets		Liability	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
HK$	21,318	31,670	–	–
US$	29,100	18,484	2,716	4,089
EUR	6,397	5,425	2,720	1,907

26. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

Currency risk (continued)

Sensitivity analysis

The Group is mainly exposed to the currencies of US$ and EUR. Since HK$ is pegged to the functional currency of the relevant group entities of US$, the management does not expect significant foreign currency exposure in relation to the exchange rate fluctuation between HK$ and US$.

The following table details the Group's sensitivity to a 5% (2018: 5%) increase in the relevant foreign currencies against the functional currencies of the relevant group entities. 5% (2018: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% (2018: 5%) change in foreign currency rates. A positive number below indicates a decrease in loss after tax where the relevant foreign currencies strengthen against the functional currencies of the relevant group entities. For a 5% weakening of the relevant foreign currencies against the functional currencies of the relevant group entities, there would be an equal and opposite impact on the loss after tax.

	2019 HK$'000	2018 HK$'000
US$	**1,069**	540
EUR	**160**	132

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances disclosed in note 17.

No sensitivity analysis is made as the interest rate exposure is considered to be minimal.

26. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment of assessment

As at 30 June 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Trade receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2018: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Pledged bank deposits and bank balances

The Group has no concentration of credit risks on pledged bank deposits and bank balances and the credit risk is limited because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies.

As at 30 June 2019, the Group has concentration of credit risk as 50% (2018: 51%) of the total trade receivables was due from the Group's largest customer. The Group's concentration of credit risk on the top five largest customers accounted for 87% (2018: 85%) of the total trade receivables as at 30 June 2019.

26. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment of assessment (continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle after in full	Lifetime ECL — not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

26. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment of assessment (continued)

The tables below detail the credit risk exposures of the Group's financial assets which are subject to ECL assessment.

2019	*Notes*	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount HK$'000
Financial assets at amortised cost					
Trade receivables	*16*	N/A	Watch list	Lifetime ECL	22,635
			Note	Lifetime ECL (Provision matrix)	6,234
					28,869
Pledged bank deposits	*17*	A2	N/A	12m ECL	565
Bank balances	*17*	Aa1 to A3	N/A	12m ECL	45,191

Note: For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances, the Group determines the ECL on these items by using a provision matrix, grouped by past due analysis.

Provision matrix — debtors' aging

As part of the Group's credit risk management, debtors with significant outstanding balances with gross carrying amount of HK$22,635,000 as at 30 June 2019 were assessed individually. For the remaining debtors, the Group uses debtors' aging to assess the impairment for its customers in relation to its manufacture and sale of wire/cable harnesses and power supply cords assembled products and trading of terminals, connectors and others operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 30 June 2019 within lifetime ECL (not credit-impaired).

26. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment of assessment (continued)

Gross carrying amount

	Average loss rate %	Trade receivables HK$'000	Credit loss allowance HK$'000
Current (not past due)	0.09	4,595	4
1–30 days past due	0.15	1,455	2
31–60 days past due	0.46	172	1
61–90 days past due	0.46	12	–
		6,234	7

The average loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

As at 30 June 2019, the Group provided HK$7,000 impairment allowance for trade receivables based on the provision matrix. Impairment allowance of HK$486,000 was made on debtors with significant balances.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) HK$'000
As at 30 June 2018 under HKAS 39	–
Adjustment upon application of HKFRS 9	526
As at 1 July 2018 — as restated	526
Impairment loss reversed	(33)
As at 30 June 2019	493

26. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liability.

The following table details the Group's remaining contractual maturity for its non-derivative financial liability. The table has been drawn up based on the undiscounted cash flows of financial liability based on the earliest date on which the Group can be required to pay.

Liquidity tables

As at 30 June 2019

	Weighted average effective interest rate %	On demand or less than 1 month HK$'000	1–3 months HK$'000	4–6 months HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 30 June 2019 HK$'000
Trade payables	–	9,493	168	17	9,678	9,678

As at 30 June 2018

	Weighted average effective interest rate %	On demand or less than 1 month HK$'000	1–3 months HK$'000	4–6 months HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 30 June 2018 HK$'000
Trade payables	–	5,458	3,770	–	9,228	9,228

(c) Fair value measurements of financial instruments

The directors consider that the carrying amounts of financial assets and financial liability recorded at amortised cost in the consolidated financial statements approximate their fair values. The fair values of financial assets and financial liability have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

27. PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries as at 30 June 2019 and 2018 are set out below:

Name of subsidiary	Place of incorporation/ establishment	Principal place of operation	Paid up issued/ registered capital	Equity interest attributable to the Group 2019	2018	Principal activities
TEM Group Limited*	British Virgin Islands	Hong Kong	US$1	100%	100%	Investment holding
Glory Sun Developments Limited*	British Virgin Islands	Hong Kong	US$1	100%	100%	Investment holding
SEAP Trading Pte. Ltd.	Singapore	Singapore	SGD100,000	100%	100%	Trading of terminals, connectors, power cords and other related products
TEM Electronics (M) Sdn. Bhd.	Malaysia	Malaysia	MYR2,400,000	100%	100%	Manufacture and sale of wire/ cable harnesses and power supply cords assembled products
BAP Trading Company Limited	Hong Kong	Hong Kong	HK$1	100%	100%	Trading business and investment holding
江門創新科電業有限公司	The PRC *note (i)*	The PRC	US$2,100,000	100%	100%	Manufacture and sale of wire/ cable harnesses and power supply cords assembled products
Optimum Electronics Sdn. Bhd.	Malaysia	Malaysia	MYR50,000	100%	100%	Inactive
SEAP (HK) Limited	Hong Kong	Hong Kong	HK$1	100%	100%	Inactive

* *Directly held by the Company*

Note (i) The entity is a wholly-foreign owned enterprises established/operated in the PRC.

None of the subsidiaries had issued any debt securities during the year or at the end of the year.

28. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSET		
Investments in subsidiaries	39,167	39,167
Amount due from a subsidiary	30,000	–
	69,167	39,167
CURRENT ASSETS		
Prepayments and deposits	156	114
Amount due from a subsidiary	12,942	50,496
Bank balances and cash	6,487	1,488
	19,585	52,098
CURRENT LIABILITIES		
Accruals	1,232	1,125
Amounts due to subsidiaries	1,719	1,719
	2,951	2,844
NET CURRENT ASSETS	16,634	49,254
TOTAL ASSETS LESS CURRENT LIABILITIES	85,801	88,421
CAPITAL AND RESERVES		
Share capital	6,000	6,000
Reserves	79,801	82,421
TOTAL EQUITY	85,801	88,421

28. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Movement in the Company's reserves

	Share premium HK$'000	Capital reserve HK$'000 *(Note)*	Accumulated losses HK$'000	Total HK$'000
At 1 July 2017	66,340	39,167	(20,277)	85,230
Loss and total comprehensive expense for the year	–	–	(2,809)	(2,809)
At 30 June 2018	66,340	39,167	(23,086)	82,421
Loss and total comprehensive expense for the year	–	–	(2,620)	(2,620)
At 30 June 2019	**66,340**	**39,167**	**(25,706)**	**79,801**

Note: The capital reserve represents the difference between the total equity of TEM Group Limited transferred from New Universe Industries Limited to the Company pursuant to the reorganisation and the nominal value of the share capital issued by the Company for the acquisition of the entire equity interests in TEM Group Limited and Glory Sun Developments Limited.

FINANCIAL SUMMARY

For the five years ended 30 June 2015, 2016, 2017, 2018 and 2019

RESULTS

	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
Revenue	**96,163**	106,165	105,908	119,192	131,288
(Loss) profit before tax	**(11,391)**	(8,744)	148	(5,994)	21,184
Income tax credit (charge)	**628**	(432)	(2,122)	(3,656)	(4,765)
(Loss) profit for the year	**(10,763)**	(9,176)	(1,974)	(9,650)	16,419
(Loss) profit for the year attributable to:					
Owners of the Company	**(10,763)**	(9,176)	(1,974)	(9,627)	16,444
Non-controlling interests	**–**	–	–	(23)	(25)
	(10,763)	(9,176)	(1,974)	(9,650)	16,419

ASSETS AND LIABILITIES

	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
Total assets	**141,252**	152,991	156,843	166,542	119,762
Total liabilities	**(15,258)**	(13,914)	(12,149)	(16,640)	(23,638)
Net assets	**125,994**	139,077	144,694	149,902	96,124
Equity attributable to:					
Owners of the Company	**125,994**	139,077	144,694	149,902	96,142
Non-controlling interests	**–**	–	–	–	(18)
	125,994	139,077	144,694	149,902	96,124

Note: The summary above does not form part of the audited consolidated financial statements.

The financial information for the years ended 30 June 2015 was extracted from the prospectus of the Company dated 29 April 2016.

Such summary was prepared as if the current structure of the Group had been in existence throughout these financial years.