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Peiport Holdings Ltd.

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2885)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The board (the “**Board**”) of directors (the “**Directors**”) of Peiport Holdings Ltd. (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2018, together with comparative figures for the year ended 31 December 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the years ended 31 December

	<i>Notes</i>	2018 HK\$'000	2017 HK\$'000
REVENUE	4	262,080	238,406
Cost of sales		<u>(168,025)</u>	<u>(155,408)</u>
Gross profit		94,055	82,998
Other income and gains, net	4	1,827	5,728
Selling and distribution expenses		(24,308)	(21,977)
Administrative expenses		(44,127)	(21,586)
Other expenses		<u>(7,641)</u>	<u>(948)</u>
PROFIT BEFORE TAX	5	19,806	44,215
Income tax expense	6	<u>(8,299)</u>	<u>(9,290)</u>
PROFIT FOR THE YEAR		<u>11,507</u>	<u>34,925</u>

	<i>Notes</i>	2018 HK\$'000	2017 HK\$'000
OTHER COMPREHENSIVE (LOSS)/INCOME			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		–	128
Reclassification adjustments for gain on disposal	4	–	(128)
Exchange differences on translation of foreign operations		<u>(3,061)</u>	<u>2,271</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		<u>(3,061)</u>	<u>2,271</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>8,446</u>	<u>37,196</u>
Profit attributable to:			
Owners of the parent		11,507	34,469
Non-controlling interests		<u>–</u>	<u>456</u>
		<u>11,507</u>	<u>34,925</u>
Total comprehensive income attributable to:			
Owners of the parent		8,446	36,617
Non-controlling interests		<u>–</u>	<u>579</u>
		<u>8,446</u>	<u>37,196</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	8	<u>HK3.84 cents</u>	<u>HK11.50 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December

	<i>Notes</i>	2018 HK\$'000	2017 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		10,483	12,907
Deferred tax assets		2,240	2,007
Total non-current assets		12,723	14,914
CURRENT ASSETS			
Inventories		43,270	30,130
Trade and bills receivables	9	111,725	88,031
Prepayments, deposits and other receivables		35,812	12,003
Amount due from the ultimate holding company		–	4
Amounts due from directors		–	102,306
Amount due from a related company		–	1,404
Available-for-sale investments		–	14,806
Pledged deposits		–	480
Cash and bank balances		52,916	40,621
Total current assets		243,723	289,785
CURRENT LIABILITIES			
Trade payables	10	13,886	14,935
Other payables and accruals		38,828	12,712
Contract liabilities		13,497	5,531
Tax payable		4,921	5,553
Total current liabilities		71,132	38,731
NET CURRENT ASSETS		172,591	251,054
TOTAL ASSETS LESS CURRENT LIABILITIES		185,314	265,968
Net assets		185,314	265,968
EQUITY			
Equity attributable to owners of the parent			
Share capital		4	4
Reserves		185,310	265,964
Total equity		185,314	265,968

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all HKFRSs, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. The financial statements are presented in Hong Kong dollars (“**HK\$**”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

Pursuant to the Group’s reorganisation as set out in the section headed “History, Reorganisation and Corporate Structure” in the Company’s listing prospectus dated 31 December 2018, the Company became the holding company of its subsidiaries now comprising the Group. The consolidated financial statements of the Group have been prepared as if the Group had always been in existence throughout both years presented; or since the respective dates of incorporation or establishment of the group companies, rather than from the date when the Company became the holding company pursuant to the reorganisation.

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transaction</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
HKFRS 9	<i>Financial Instruments</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
<i>Annual Improvements</i> <i>2014–2016 Cycle</i>	Amendments to HKFRS 1 and HKAS 28

HKFRS 15 *Revenue from Contracts with Customers* and Amendments to HKFRS 15 *Clarifications to HKFRS 15 Revenue from Contracts with Customers* have been early adopted by the Group in the preparation of the financial statements throughout the reporting period.

Other than as explained below regarding the impact of HKFRS 9, the adoption of the above new and revised standards has no significant financial effect on the financial statements.

- (a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together both two aspects of the accounting for financial instruments: classification and measurement and impairment.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 measurement			HKFRS 9 measurement	
Notes	Category	Amount HK\$'000	Reclassification HK\$'000	ECLs HK\$'000	Amount HK\$'000	Category
Financial assets						
9	L&R ¹	88,031	–	(513)	87,518	AC ³
	L&R	7,531	–	–	7,531	AC
	L&R	4	–	–	4	AC
	L&R	102,306	–	–	102,306	AC
	L&R	1,404	–	–	1,404	AC
	AFS ²	14,806	(14,806)	–	–	N/A
	N/A	–	14,806	–	14,806	FVPL ⁴
	L&R	480	–	–	480	AC
	L&R	40,621	–	–	40,621	AC
		<u>255,183</u>	<u>–</u>	<u>(513)</u>	<u>254,670</u>	
Other assets						
		<u>2,007</u>	<u>–</u>	<u>127</u>	<u>2,134</u>	
Total assets						
		<u>257,190</u>	<u>–</u>	<u>(386)</u>	<u>256,804</u>	
Financial liabilities						
10	AC	14,935	–	–	14,935	AC
	AC	<u>851</u>	<u>–</u>	<u>–</u>	<u>851</u>	AC
Total liabilities						
		<u>15,786</u>	<u>–</u>	<u>–</u>	<u>15,786</u>	

¹ L&R: Loans and receivables

² AFS: Available-for-sale investments

³ AC: Financial assets or financial liabilities at amortised cost

⁴ FVPL: Financial assets at fair value through profit or loss

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9.

	Impairment allowances under HKAS 39 at 31 December 2017 <i>HK\$'000</i>	Re- measurement <i>HK\$'000</i>	ECL allowances under HKFRS 9 at 1 January 2018 <i>HK\$'000</i>
Trade and bills receivables	<u>2,247</u>	<u>513</u>	<u>2,760</u>

Impact on reserves and retained profits

The impact of the Group's retained profits due to the remeasurement of financial instruments as at 1 January 2018, the Group's date of initial application of HKFRS 9, is as follows:

	HKFRS 9 Amortised cost <i>HK\$'000</i>
At 1 January 2018 (<i>originally stated</i>)	240,250
Remeasurement upon initial application of HKFRS 9	<u>(386)</u>
At 1 January 2018 (<i>restated</i>)	<u>239,864</u>

3. OPERATING SEGMENT INFORMATION

The Group was principally engaged in the provision of thermal imaging products and services, self-stabilised imaging products and services and general aviation products and services. Information reported to the Group's chief operating decision maker, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment information is available. Accordingly, no operating segment information is presented.

Geographical information

(a) Revenue from external customers

	2018 HK\$'000	2017 HK\$'000
Mainland China	228,931	200,339
Hong Kong	31,005	32,959
Overseas	2,144	5,108
	<u>262,080</u>	<u>238,406</u>

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

(b) Non-current asset

	2018 HK\$'000	2017 HK\$'000
Mainland China	10,406	12,780
Hong Kong	77	127
	<u>10,483</u>	<u>12,907</u>

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

Information about major customers

Revenue derived from sales to individual customers which contributed over 10% of the total revenue of the Group during the year is as follows:

	2018 HK\$'000	2017 HK\$'000
Customer A	29,237	38,741
Customer B	41,345	38,684

4. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue, other income and gains, net is as follows:

	2018 HK\$'000	2017 HK\$'000
Revenue		
Thermal imaging products and services		
— Sales of goods ^{Note (A)}	149,067	138,531
— Rendering of maintenance services and equipment rental ^{Note (B)}	11,593	8,184
	<u>160,660</u>	<u>146,715</u>
Self-stabilised imaging products and services		
— Sales of goods ^{Note (A)}	28,989	32,322
— Rendering of maintenance services and equipment rental ^{Note (B)}	14,498	8,821
	<u>43,487</u>	<u>41,143</u>
General aviation products and services		
— Sales of goods ^{Note (A)}	57,337	49,171
— Rendering of maintenance services ^{Note (B)}	596	1,377
	<u>57,933</u>	<u>50,548</u>
Total	<u><u>262,080</u></u>	<u><u>238,406</u></u>

^{Note (A)} The revenue from sales of goods was recognised at a point in time.

^{Note (B)} The revenue of rendering of maintenance services and equipment rental was recognised over time.

Performance obligation

The performance obligation for sales of goods is satisfied upon delivery of the goods and the performance obligation for rendering of maintenance services and equipment rental is satisfied over time.

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 is as follows:

	2018 HK\$'000
Remaining performance obligations for rendering of maintenance services and equipment rental expected to be satisfied during the following periods:	
Within one year	9,357
More than one year	30,101
	<u>39,458</u>

For sales of goods contracts with original expected duration of less than one year, the Group has elected not to disclose information about the remaining performance obligations. All considerations from contracts with customers with original expected duration of not less than one year have been included in the transaction price and, therefore, were included in the information disclosed in the above table.

Other income and gains, net

	2018 HK\$'000	2017 HK\$'000
Bank interest income	87	50
Gain on disposal of available-for-sale investments (transfer from equity on disposal)	–	128
Gain on disposal of financial assets at fair value through profit or loss	79	–
Reversal of doubtful receivables, net	1,552	–
Foreign exchange differences, net	–	5,514
Others	109	36
	<u>1,827</u>	<u>5,728</u>

5. PROFIT BEFORE TAX

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

	Notes	2018 HK\$'000	2017 HK\$'000
Cost of inventories sold		161,215	151,239
Cost of services provided		6,810	3,154
Depreciation		2,602	1,992
Research and development costs		4,091	4,445
Provision for/(reversal of) doubtful receivables, net	9	(1,552)	695
Provision for/(reversal of) inventory obsolescence		(254)	411
Minimum lease payments under operating leases		2,665	2,476
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages and salaries		27,935	24,414
Pension scheme contributions (defined contribution scheme)		1,530	1,197
		<u>29,465</u>	<u>25,611</u>
Auditor's remuneration		1,360	500
Listing expenses		21,821	3,250
Foreign exchange differences, net**		5,545**	(5,514)*
Loss on disposal of items of property, plant and equipment		468	–
Gain on disposal of available-for-sale investments (transfer from equity on disposal)	4	–	(128)
Gain on disposal of financial assets at fair value through profit or loss	4	(79)	–
Bank interest income	4	(87)	(50)

* The foreign exchange gain, net was included in "Other income and gains, net" in the consolidated statement of profit or loss and other comprehensive income.

** The foreign exchange loss, net was included in "Other expenses" in the consolidated statement of profit or loss and other comprehensive income.

6. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which subsidiaries of the Group are domiciled and operated. Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax.

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Pursuant to the People's Republic of China (the "PRC") Income Tax Law and the respective regulations, corporate income tax has been provided at the rate of 25% (2017: 25%) on the taxable income of the subsidiaries operated in Mainland China during the year.

	2018 HK\$'000	2017 HK\$'000
Current	8,437	9,565
Deferred	(138)	(275)
	<u>8,299</u>	<u>9,290</u>
Total tax charge for the year	<u>8,299</u>	<u>9,290</u>

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

	2018 HK\$'000	2017 HK\$'000
Profit before tax	<u>19,806</u>	<u>44,215</u>
Tax at the statutory tax rate of 16.5%	3,268	7,295
Effect on different taxation rate in Mainland China	1,045	729
Income not subject to tax	(194)	(128)
Expenses not deductible for tax	4,030	1,484
Tax losses not recognised	210	–
Tax concession	(60)	(90)
	<u>8,299</u>	<u>9,290</u>
Total tax charge for the year	<u>8,299</u>	<u>9,290</u>

7. DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2018 (2017: Nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 300,000,000 (2017: 299,633,534) in issue during the year, as adjusted for the assumption that 299,620,000 new shares issued pursuant to the Capitalisation Issue (as defined in note 11) had been issued on 1 January 2017, which is made to be consistent with the basis of presentation of financial statements for the year ended 31 December 2017.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2018 and 2017.

The calculations of basic and diluted earnings per share are based on:

Earnings	2018 HK\$'000	2017 HK\$'000
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	11,507	34,469
Shares	Number of shares	
	2018 '000	2017 '000
Issue of shares on 19 December 2017	380	14
Effect of Capitalisation Issue on 11 January 2019 (<i>note 11</i>)	299,620	299,620
Weighted average number of ordinary shares used in the basic and diluted earnings per share calculations	300,000	299,634

9. TRADE AND BILLS RECEIVABLES

	2018 HK\$'000	2017 HK\$'000
Trade receivables	97,020	88,286
Bills receivables	15,921	1,992
	112,941	90,278
Impairment under HKAS 39	–	(2,247)
Allowance for ECLs under HKFRS 9	(1,216)	–
	111,725	88,031

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade and bills receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at the end of reporting period, based on the invoice date and net of loss allowance, is as follows:

	2018 HK\$'000	2017 <i>HK\$'000</i>
Less than 3 months	63,800	61,309
3 to 6 months	20,602	4,537
6 to 12 months	13,850	3,791
Over 1 year	13,473	18,394
	<u>111,725</u>	<u>88,031</u>

The movements in the loss allowance for impairment/ECLs of trade and bills receivables are as follows:

	2018 HK\$'000	2017 <i>HK\$'000</i>
At beginning of year	2,247	1,541
Effect on adoption of HKFRS 9 (<i>note 2</i>)	513	–
At beginning of year (<i>restated</i>)	2,760	1,541
Impairment losses recognised (<i>note 5</i>)	–	695
ECLs reversed (<i>note 5</i>)	(1,552)	–
Exchange realignment	8	11
At end of year	<u>1,216</u>	<u>2,247</u>

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis of trade and bills receivables is performed at each reporting date using a provision matrix to measure ECLs. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade and bills receivables are written off if past due for more than three years and are not subject to enforcement activity.

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

As at 31 December 2018

		Past due within 1 year	Past due more than 1 year but within 2 years	Past due more than 2 year but within 3 years	Past due over 3 years	Total
	Current					
ECL rate	0%–0.2%	1.1%	4.7%	83.8%	100%	0%–1.3%
Gross carrying amount (HK\$'000)	103,090	8,260	673	–	918	112,941
ECLs (HK\$'000)	175	91	32	–	918	1,216

The ageing analysis of the trade and bills receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 HK\$'000
Neither past due nor impaired	75,085
Past due:	
Less than 3 months	5,194
3 to 6 months	1,358
6 to 12 months	991
Over 1 year	5,403
	<u>88,031</u>

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

10. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018 HK\$'000	2017 HK\$'000
Within 1 month	6,300	5,165
1 to 3 months	2,716	8,558
Over 3 months	4,870	1,212
	<u>13,886</u>	<u>14,935</u>

The trade payables are interest-free and are normally settled ranging from 30 to 90 days.

11. EVENTS AFTER THE REPORTING PERIOD

- (a) Pursuant to a written resolution of the shareholders of the Company passed on 18 December 2018, a total of 299,620,000 shares of HK\$0.01 each were allotted and issued at par value to the shareholders as of the date immediately before the Listing Date on a pro rata basis by way of capitalisation of HK\$2,996,200 (the “**Capitalisation Issue**”) from the Company’s share premium account on 11 January 2019 (the “**Listing Date**”).
- (b) On the Listing Date, 100,000,000 new shares were issued at a price of HK\$1.25 per share in connection with the Company’s initial public offering on the Main Board of The Stock Exchange of Hong Kong Limited. The net proceeds from the global offering, after deducting the underwriting commission and related listing expenses payable by the Company in the global offering, is estimated to be approximately HK\$81.2 million.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group was principally engaged in the provision of thermal imaging products and services, self-stabilised imaging products and services, and general aviation products and services in the PRC and Hong Kong.

Established in 1998, 2018 marks a special year to the Group, celebrating the twentieth anniversary with the listing of shares of the Company (the “**Listing**”) in January 2019 as well as the encouraging results of our businesses.

Our shares (the “**Share(s)**”) were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 11 January 2019 of which 100,000,000 ordinary shares (comprising 20,000,000 Hong Kong offer shares and 80,000,000 international placing shares) had been allotted by global offering, at an offer price of HK\$1.25 per Share (the “**Listing of Shares**”).

During the year ended 31 December 2018, the Group achieved an increase in revenue of approximately 9.9% to approximately HK\$262.1 million from approximately HK\$238.4 million for the corresponding year of 2017. In line with the increase in revenue, the Group’s gross profit increased to approximately HK\$94.1 million for the year ended 31 December 2018 from approximately HK\$83.0 million for the year ended 31 December 2017, representing an increase of approximately 13.4%.

The increase in the Group’s revenue during the year ended 31 December 2018 as compared to the year ended 31 December 2017 were mainly driven by the performance of (i) the sale of thermal imaging products and provision of services; (ii) the sale of self-stabilised imaging products and provision of services; and (iii) the sale of general aviation products and provision of services.

(1) Sale of thermal imaging products and provision of services

Our products and services in this business segment can broadly be divided into three categories: (i) PTi products; (ii) products of other brands; and (iii) thermal imaging inspection services.

Thermal imaging products are widely used in general consumption, commercial and industrial fields. Recently, the thermal imaging products and services market shows rapid growth, especially with the declining production cost of thermal imaging products. It has become more popular in various industries. For example, in lighting industry, engineers use thermal imaging products to check the heat distribution of the light-emitting diodes (LEDs); while in textile industry, designers use thermal imaging products to examine the thermal insulation properties of different textiles. In addition, the increasing use of thermal imaging products by the technicians of grid companies to check the cooling system of electric devices will also drive the growth of the industry. Besides, the technological advancement in the industry has broadened the use of thermal imaging technologies in both professional areas and in our daily lives. Nowadays, thermal imaging products are used for infection prevention and epidemic control. Thermal inspection systems are used in newly opened transportation hubs such as railway stations and airports, and newly opened public facilities such as hospitals and schools to detect human with fever and abnormal body temperature. The thermal imaging systems and products are no longer merely a tool for industrial or commercial use, but a technology that is widely used to protect our society. Together with the support from the PRC Government to infrared technology according to the “Guidelines for the Current Priority Areas of High-tech Industrialisation (2011) (《當前優先發展的高技術產業化重點領域指南(2011 年度)》)” and “The 13th Five-year Planning for Advanced Manufacturing Technology and Technology Innovation (《“十三五”先進製造技術領域科技創新專項規劃》)” published by Ministry of Science and Technology and our motto of “continuous self-enhancement and to contribute to our society”, the Group shall further improve our technology and aim to achieve international recognitions in our products and steady growth in this segment.

Revenue from this business segment during the year ended 31 December 2018 was approximately HK\$160.7 million (2017: HK\$146.7 million). It accounted for approximately 61.3% (2017: 61.6%) of the Group’s revenue during the year ended 31 December 2018.

(2) Sale of self-stabilised imaging products and provision of services

The products in this business segment are designed to be mounted on moving platforms such as aircraft, helicopters, vessels and ships. The Group deploys a self-stabilisation technology whereby the imaging products are mounted on a multiple-axis gimballed structure and achieve maximum stabilisation. Occasionally, we also rent our self-stabilised imaging products for aircraft to our customers for a fixed period at a rental fee. We will provide product training and technical assistance to our customers based on their requests.

The market size of civil and law enforcement self-stabilised imaging products and services, in terms of revenue, has experienced an upward trend driven by various needs from downstream users such as powerlines inspections. Benefiting from the popularisation of application of the helicopters and unmanned aerial vehicles to carry the self-stabilised imaging products for diverse tasks such as forest fire prevention, we see a huge potential to expand in this industry. Especially, in recent years, domestic enterprises have been investing in the self-stabilised imaging products market. On the other hand, driven by the development of Internet of Things (“IoT”), which refers to the network of physical objects embedded with electronics and software that allow these items to communicate with each other by exchanging data, it is expected that the market will be prompted by the expansion of IoT as the application of the self-stabilised imaging products will further be diversified.

Nonetheless, the self-stabilised imaging products requires relatively high technical requirements which inevitably poses pressure on the Company to persistently keep alert of the market trends and developments to excel in our knowledge and technology. We believe that risk are also times of golden opportunities, especially that the high technical requirements imply that competitors are relatively limited in the industry. In fact, the technical capabilities of domestic enterprises are still relatively rare compared with foreign companies. Meanwhile, highly competitive talents who have comprehensive knowledge of electronics and automatic control and inertial navigation are relatively inadequate in the market. Grabbing hold of the supportive national industrial policies such as “The 13th Five-Year Plan for Development of Strategic Emerging Industries (《“十三五”國家戰略性新興產業發展規劃》)” which promote the expansion of the self-stabilised imaging products market as well, we believe that the segment will experience a relatively robust growth in the year to come.

Revenue from this business segment during the year ended 31 December 2018 was approximately HK\$43.5 million (2017: HK\$41.1 million). It accounted for approximately 16.6% (2017: 17.2%) of the Group’s revenue during the year ended 31 December 2018.

(3) Sale of general aviation products and provision of services

The services and products in this business segment can be broadly divided into three categories, namely (i) light and ultra-light aircraft engines and related components distribution; (ii) maintenance training course; and (iii) maintenance and support services. Our maintenance training courses and maintenance and support services are mainly carried out in our maintenance centre with a gross floor area of approximately 1,200 square metres which is located in Zhuhai City, Guangdong Province. Our customers in this segment include light and ultra-light aircraft manufacturers, flight schools, flying entertainment clubs, light aircraft research institutions and private flight owners.

According to “The 13th Five-Year Planning for General Aviation (《通用航空 “十三五” 發展規劃》)”, the market of general aviation is expected to become one of the key “strategic emerging markets” to develop in the PRC. From 2018 to 2022, the market of general aviation products and services in the PRC and Hong Kong shall be promising, driven by the national planning policies which include, among others, (i) the acceleration of the development pace of infrastructure and fuel supply; (ii) the simplification of the lengthy application processes; and (iii) the PRC government’s encouragement on public institutions and large corporations to purchase general aviation aircraft, and plan to have more than 5,000 units general aviation aircraft by 2020 according to “The 13th Five-Year Planning for General Aviation (《通用航空 “十三五” 發展規劃》)” in order to benefit public services and aviation transportation. Given piston engine aircraft account for a large portion in total number of registered general aviation aircraft, the number of registered piston engine is expected to grow at a compound annual growth rate of 19.6% from 2,220 units in 2018 to 4,546 units in 2022.

Apart from the favorable government policies, with the accelerating development of infrastructure in general aviation including the gradual improvements in supporting facilities in airports and airport communication systems and facilities, we believe that there is enormous room for our products to infuse into this market. The Company shall focus on the development of the general aviation value chain in the PRC. The number of general aviation aircraft and the number of general aviation airports would increase to meet the rising demand for flight operations in the fields of agriculture, culture, training and sports, etc. In addition, with the increase in the number of high-net-worth individuals, the demand for personal travel shall continue to grow.

Revenue from this business segment during the year ended 31 December 2018 was approximately HK\$57.9 million (2017: HK\$50.6 million). It accounted for approximately 22.1% (2017: 21.2%) of the Group’s revenue during the year ended 31 December 2018.

PROSPECT

Achieving our aspiration; Reaching for our dream

Our principal business objective is to maintain and/or enhance our growth potential and expand our market share by increasing our capabilities and offering high quality optoelectronics and general aviation products and services.

Looking forward, the Company is facing various challenges ahead. Competition is keen in both local and overseas markets with similar products and service providers with respect to the product quality, price, marketing and customer services. In addition to the global and the PRC macroeconomic conditions remain volatile and the simultaneous instability and fluctuation in foreign exchange of Renminbi and foreign exchange, painted gloominess to the business developments of the Company.

With the Listing of Shares in early 2019, the Company is more than confident and equipped to put forward its business strategies and overcome all the hurdles ahead. In 2019 to come, the Group shall start establishing new research and development centres in the PRC and Hong Kong to keep ourselves abreast of technological changes in the industry. We would also strive our best to enhance the recognition and qualification of our products by obtaining internationally recognised certificates. Meanwhile, we believe that it is equally important to build a reputation and a brand name in order to strengthen our sales capacity and capture new sales opportunities, therefore we shall actively increase our participation in industry exhibition, trade fairs and conventions and number of demonstration units. More importantly, if not essential is human resources that are the most valuable asset of the Company in achieving success in our business, we will therefore also put more resources in recruitment of additional sales and marketing personnel to strengthen our team and organize trainings to our staff to keep them update with the latest technological developments in the industry. We shall purchase new information technology (“IT”) hardware and software and upgrade our current IT system to support our frontline sales team and back office. Always keep in mind our motto, our aspiration in our business, we shall continue to excel in technology, our productivity and service quality to create value to the Company and to our shareholders.

FINANCIAL REVIEW

Revenue

The revenue of the Group was derived from business consisting of: (i) thermal imaging products and services; (ii) self-stabilised imaging products and services; and (iii) general aviation products and services.

For the year ended 31 December 2018, the total revenue of the Group increased by approximately HK\$23.7 million, or 9.9% from approximately HK\$238.4 million for the year ended 31 December 2017 to approximately HK\$262.1 million. The increase was primarily attributable to the following reasons:

(i) Thermal imaging products and services

Revenue derived from thermal imaging products and services increased by approximately HK\$14.0 million, or 9.5%, from approximately HK\$146.7 million for the year ended 31 December 2017 to approximately HK\$160.7 million for the year ended 31 December 2018. The increase was primarily attributable to an increase in sales of SF6 gas imaging cameras and PTi products, which was mainly attributable to an increase in demand from our customers, in particular electric power grid companies and a Hong Kong government department.

(ii) Self-stabilised imaging products and services

Revenue derived from self-stabilised imaging products and services increased by approximately HK\$2.4 million, or 5.8%, from approximately HK\$41.1 million for the year ended 31 December 2017 to approximately HK\$43.5 million for the year ended 31 December 2018. The increase was mainly attributable to an increase in revenue from rendering of maintenance services, which was mainly attributable to the maintenance services rendered to electric power grid companies.

(iii) General aviation products and services

Revenue derived from general aviation products and services increased by approximately HK\$7.3 million, or 14.4%, from approximately HK\$50.6 million for the year ended 31 December 2017 to approximately HK\$57.9 million for the year ended 31 December 2018. The increase was mainly attributable to our new customers in the general aviation industry, as a result of an increase in demand for light and ultra-light aircraft engine.

Gross Profit and Gross Profit Margin

Gross profit for the Group increased from approximately HK\$83.0 million for the year ended 31 December 2017 to approximately HK\$94.1 million for the year ended 31 December 2018, and the gross profit margin increased by approximately 1.1% from approximately 34.8% for the year ended 31 December 2017 to approximately 35.9% for the year ended 31 December 2018.

(i) Thermal imaging products and services

The gross profit margin of thermal imaging products and services increased by approximately 1.0% from approximately 29.6% for the year ended 31 December 2017 to approximately 30.6% for the year ended 31 December 2018. The increase was primarily attributable to an increase in the average selling price for a certain series of infrared cameras and the increase in demand of certain PTi products with higher gross margin.

(ii) Self-stabilised imaging products and services

The gross profit margin of self-stabilised imaging products and services increased by approximately 2.7% from approximately 53.6% for the year ended 31 December 2017 to approximately 56.3% for the year ended 31 December 2018. The increase in our gross profit margin was primarily attributable to the increase in rendering of maintenance services, which had a relatively higher gross profit margin.

(iii) General aviation products and services

The gross profit margin of general aviation products and services remained relatively stable at approximately 34.8% and 35.2% for the years ended 31 December 2017 and 2018, respectively.

Other Income and Gains, Net

The Group's other income and gains decreased by approximately HK\$3.9 million, or 68.4%, from approximately HK\$5.7 million for the year ended 31 December 2017 to approximately HK\$1.8 million for the year ended 31 December 2018. The decrease was mainly attributable to the absence of foreign exchange gain recognised for the year ended 31 December 2018 as compared with the foreign exchange gain of approximately HK\$5.5 million recognised for the year ended 31 December 2017.

Selling and Distribution Expenses

The Group's selling and distribution expenses increased by approximately HK\$2.3 million, or 10.5%, from approximately HK\$22.0 million for the year ended 31 December 2017 to approximately HK\$24.3 million for the year ended 31 December 2018. The increase was mainly attributable to an increase in staff costs of our sales and marketing personnel resulting from the increase in sales commission, which was generally in line with the increase in our overall revenue for the year ended 31 December 2018.

Administrative Expenses

The Group's administrative expenses increased by approximately HK\$22.5 million, or by 104.2%, from approximately HK\$21.6 million for the year ended 31 December 2017 to approximately HK\$44.1 million for the year ended 31 December 2018, which was primarily attributable to an increase in listing expenses, which were non-recurring in nature, during the year ended 31 December 2018.

Other Expenses

The Group's other expenses increased by approximately HK\$6.7 million, or 744.4%, from approximately HK\$0.9 million for the year ended 31 December 2017 to approximately HK\$7.6 million for the year ended 31 December 2018. The increase in other expenses was primarily attributable to the recognition of foreign exchange loss arising from the depreciation of Renminbi against United States dollar for the year ended 31 December 2018.

Income Tax Expense

The Group's income tax expense decreased by approximately HK\$1.0 million, or 10.8%, from approximately HK\$9.3 million for the year ended 31 December 2017 to approximately HK\$8.3 million for the year ended 31 December 2018, which was primarily resulting from a decrease in taxable profits during the year ended 31 December 2018. The Group's effective tax rates increased from approximately 21.0% for the year ended 31 December 2017 to approximately 41.7% for the year ended 31 December 2018, which was primarily attributable to the increase in non-deductible listing expenses.

Profit for the Year Attributable to Owners of the Parent

As a result of the cumulative effect of the above factors, the Group's profit for the year attributable to the owners of the parent decreased by approximately HK\$23.0 million, or 66.7%, from approximately HK\$34.5 million for the year ended 31 December 2017 to approximately HK\$11.5 million for the year ended 31 December 2018. By excluding the non-recurring listing expenses from our results, we would have recorded profit for the year attributable to the owners of the parent of approximately HK\$33.3 million for the year ended 31 December 2018 and HK\$37.8 million for the year ended 31 December 2017, respectively.

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group maintained a healthy liquidity position, with working capital financed mainly by internal resources.

As at 31 December 2018, the Group reported net current assets of approximately HK\$172.6 million, as compared with approximately HK\$251.1 million as at 31 December 2017. As at 31 December 2018, the Group's cash and bank balances was approximately HK\$52.9 million, representing an increase of approximately HK\$12.3 million as compared to HK\$40.6 million as at 31 December 2017.

For the year ended 31 December 2018, the net cash generated from operating activities was approximately HK\$4.5 million (2017: HK\$9.2 million). The cash generated from operating activities was mainly from the profits during the year ended 31 December 2018.

The net cash generated from investing activities was approximately HK\$46.9 million (2017: net cash used in investing activities of approximately HK\$39.6 million). The net cash used in financing activities was approximately HK\$37.3 million (2017: HK\$0.8 million). The net cash generated from investing activities was mainly attributable to the repayments from directors. The net cash used in financing activities was mainly for the payment of listing expenses and the payment arising from the reorganisation prior to the Listing.

CONTINGENT LIABILITIES

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

CAPITAL COMMITMENTS

As at 31 December 2018, the Group had no significant capital commitments (31 December 2017: Nil).

FOREIGN EXCHANGE EXPOSURE

Functional currency of the Group's operating subsidiaries is either Hong Kong dollar or Renminbi, while some of the Group's business transactions and cost of sales are denominated in United States dollar and Euro.

The Group has transactional currency exposures and such exposures arise from sales or purchases made by subsidiaries in currencies other than the subsidiaries' functional currencies. The Group's foreign currency exposure also comprises assets and liabilities denominated in United States dollar. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rates.

PLEDGE OF ASSETS

As at 31 December 2018, the Group did not pledge any assets (31 December 2017: pledged time deposits of approximately HK\$0.5 million).

GEARING RATIO

As at 31 December 2018, since we did not have any bank borrowings, gearing ratio was not applicable to our Group.

USE OF PROCEEDS

The final offer price for the Listing was HK\$1.25 per share, and the actual net proceeds from the Listing were approximately HK\$81.2 million (after deduction of the listing expenses). As at the date of this results announcement, the net proceeds from the Listing were utilised as follows:

	Actual net proceeds <i>HK\$'000</i>	Amount utilised as at the date of this results announcement <i>HK\$'000</i>	Amount unutilised as at the date of this results announcement <i>HK\$'000</i>
Establish new research and development centres in the PRC and Hong Kong	39,600	–	39,600
Enhance the recognition and qualification of our products	17,300	–	17,300
Strengthen our sales capacity and capture new sales opportunities	21,100	(29)	21,071
Purchase new IT hardware and software	2,500	(764)	1,736
Working capital	700	–	700
	<u>81,200</u>	<u>(793)</u>	<u>80,407</u>

To facilitate the growth of our business, the use of proceeds for purchasing new IT hardware and software is ahead of schedule as disclosed in the prospectus of the Company issued on 31 December 2018 (the “**Prospectus**”). The Directors considered that it would be in the best interest of the Group without materially impairing its financial capabilities to temporarily utilize such funds by earning interest income in bank accounts and they are not aware of any material change to the proposed use of proceeds as at the date of this results announcement.

RESTRUCTURING AND SIGNIFICANT INVESTMENTS

During the year, the Group underwent corporate restructuring prior to the Listing of shares. Please refer to the section headed “History, Reorganisation and Corporate Structure” in the Prospectus for further details on the restructuring and relevant significant investments.

EMPLOYEES AND REMUNERATION POLICY

The Group had a total of 140 (31 December 2017: 144) employees as at 31 December 2018. Total staff costs of the Group (excluding the Directors’ and chief executive’s remuneration) for the year ended 31 December 2018 was approximately HK\$29.5 million (2017: approximately HK\$25.6 million). The Group’s remuneration policies were in line with relevant legislation, market conditions and the performance of our employees.

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

During the period from the Listing Date up to the date of this results announcement, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE CODE

The Company is committed to achieving high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders and to enhance corporate value and accountability.

As the Company was not yet listed on the Stock Exchange during the year ended 31 December 2018, the principles and code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) was not applicable to the Company during the period under review. The Company has adopted the principles and code provisions of the CG Code as the basis of the Company's corporate governance practices, and the CG Code has been applicable to the Company with effect from the Listing Date. The Company has complied with all the applicable code provisions set out in the CG Code throughout the period from the Listing Date up to the date of this results announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set forth in Appendix 10 to the Listing Rules as its own securities dealing code to regulate all dealings by Directors in the securities of the Company and other matters covered by the Model Code.

As the Company was not yet listed on the Stock Exchange as at 31 December 2018, the provisions under the Listing Rules in relation to compliance with the Model Code by the Directors regarding securities transactions were not applicable to the Company for the year ended 31 December 2018. Specific enquiry has been made to all Directors and they have confirmed that they have complied with the Model Code since the Listing Date and up to the date of this results announcement.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) comprises three independent non-executive Directors, namely Mr. NIU Zhongjie, Ms. YEUNG Hiu Fu Helen and Mr. HOU Min. Ms. YEUNG Hiu Fu Helen is the chairwoman of the Audit Committee.

As the Shares were listed on the Stock Exchange on the Listing Date which was after the year ended 31 December 2018, the Audit Committee did not have any meeting and did not meet the Company's external auditor during the year ended 31 December 2018.

During the period from the Listing Date up to the date of this results announcement, the Audit Committee had one meeting with the external auditor of the Company to discuss the annual audit for the year ended 31 December 2018. The Audit Committee has reviewed the accounting principles and practices adopted by the Group, discussed risk management, internal controls and financial reporting matters with management and the Board, including and review of the annual results of the Group for the year ended 31 December 2018.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this results announcement have been agreed by the Company's independent auditor, Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year.

The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Ernst & Young on this results announcement.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this results announcement, the Company has maintained the prescribed percentage of public float under the Listing Rules.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "AGM") will be held on Wednesday, 12 June 2019. A notice convening the AGM will be issued and dispatched to the shareholders in the manner as required by the Listing Rules in due course.

DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2018 (2017: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 5 June 2019 to Wednesday, 12 June 2019, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for attending and voting at the AGM, all transfers of shares, accompanied by the relevant share certificates and transfer forms, must be lodged for registration with the Hong Kong share registrar of the Company, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong no later than 4:00 p.m. on Tuesday, 4 June 2019.

PUBLICATION OF ANNUAL RESULT ANNOUNCEMENT AND ANNUAL REPORT

The annual results announcement for the year ended 31 December 2018 required by the Listing Rules will be published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.peiport.com. The 2018 annual report containing all the information will be dispatched to the shareholders of the Company and made available on the above websites in due course.

APPRECIATION

On behalf of the Board, I would like to express our sincere gratitude to the management and the staff of the Group for their hard work and dedication, as well as its shareholders, customers, suppliers, business partners and other stakeholders for their continuous support to the Group.

By order of the Board
Peiport Holdings Ltd.
YEUNG Lun Ching
Chairman and Executive Director

Hong Kong, 26 March 2019

As at the date of this announcement, the executive Directors are Mr. YEUNG Lun Ching, Ms. WONG Kwan Lik and Mr. YEUNG Chun Tai, and the independent non-executive Directors are Mr. NIU Zhongjie, Ms. YEUNG Hiu Fu Helen and Mr. HOU Min.