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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 2019

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 2019, together with comparative figures for the year ended 31 December 2018, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the years ended 31 December

	<i>Notes</i>	2019 HK\$'000	2018 HK\$'000
REVENUE	4	275,354	262,080
Cost of sales		<u>(182,212)</u>	<u>(168,025)</u>
Gross profit		93,142	94,055
Other income and gains, net	4	2,374	1,827
Selling and distribution expenses		(28,838)	(24,308)
Administrative expenses		(27,912)	(44,127)
Other expenses		(1,878)	(7,641)
Finance costs	6	<u>(544)</u>	<u>–</u>
PROFIT BEFORE TAX	5	36,344	19,806
Income tax expense	7	<u>(6,031)</u>	<u>(8,299)</u>
PROFIT FOR THE YEAR		<u>30,313</u>	<u>11,507</u>

	<i>Note</i>	2019 HK\$'000	2018 HK\$'000
OTHER COMPREHENSIVE LOSS			
Exchange differences on translation of foreign operations		<u>(537)</u>	<u>(3,061)</u>
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		<u>(537)</u>	<u>(3,061)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>29,776</u>	<u>8,446</u>
Profit attributable to: Owners of the parent		<u>30,313</u>	<u>11,507</u>
Total comprehensive income attributable to: Owners of the parent		<u>29,776</u>	<u>8,446</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	9	<u>HK7.63 cents</u>	<u>HK3.84 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December

	<i>Notes</i>	2019 HK\$'000	2018 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		11,443	10,483
Right-of-use assets		6,809	–
Intangible assets		869	–
Deferred tax assets		2,063	2,240
Total non-current assets		21,184	12,723
CURRENT ASSETS			
Inventories		48,926	43,270
Trade and bills receivables	10	106,637	111,725
Prepayments, deposits and other receivables		6,243	35,812
Cash and bank balances		177,127	52,916
Total current assets		338,933	243,723
CURRENT LIABILITIES			
Trade payables	11	7,247	13,886
Other payables and accruals		9,793	38,828
Contract liabilities		7,430	13,497
Lease liabilities		4,907	–
Tax payable		7,086	4,921
Total current liabilities		36,463	71,132
NET CURRENT ASSETS		302,470	172,591
TOTAL ASSETS LESS CURRENT LIABILITIES		323,654	185,314
NON-CURRENT LIABILITIES			
Lease liabilities		2,322	–
Total non-current liabilities		2,322	–
Net assets		321,332	185,314
EQUITY			
Equity attributable to owners of the parent			
Share capital		4,000	4
Reserves		317,332	185,310
Total equity		321,332	185,314

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 reorganisation as set out in the section headed “History, Reorganisation and Corporate Structure” in the Company’s prospectus dated 31 December 2018 (the “**Prospectus**”), 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 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as further explained below regarding the impact of HKFRS 16 *Leases*, the adoption of the above new and revised HKFRSs do not have material impact on the consolidated financial statements of the Group.

HKFRS 16 *Leases*

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

HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

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

New definition of a lease

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

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for several warehouses, system integration and service centres, office properties and a car parking space. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less (“**short-term leases**”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were measured at the amount of the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the consolidated statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position.

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

- Using a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relying on its assessment of whether leases are onerous immediately before the date of initial application
- Applying the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
- Excluding the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease

Financial impact at 1 January 2019

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

	<i>HK\$'000</i>
Assets	
Increase in right-of-use assets	11,278
<i>Increase in total assets</i>	<u>11,278</u>
Liabilities	
Increase in lease liabilities	11,278
<i>Increase in total liabilities</i>	<u>11,278</u>

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

	<i>HK\$'000</i>
Operating lease commitments as at 31 December 2018	9,970
Weighted average incremental borrowing rate as at 1 January 2019	4.97%
Discounted operating lease commitments as at 1 January 2019	9,242
Add: Payments for optional extension periods not recognised as at 31 December 2018	<u>2,036</u>
Lease liabilities as at 1 January 2019	<u>11,278</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 purposes 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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Mainland China (as defined in note 7)	235,221	228,931
Hong Kong and Macau	37,624	31,005
Overseas	<u>2,509</u>	<u>2,144</u>
	<u>275,354</u>	<u>262,080</u>

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

(b) *Non-current assets*

	2019 HK\$'000	2018 HK\$'000
Mainland China	15,018	10,406
Hong Kong	4,103	77
	<u>19,121</u>	<u>10,483</u>

The non-current assets 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 years ended 31 December 2019 and 2018 is as follows:

	2019 HK\$'000	2018 HK\$'000
Customer A	57,156	29,237
Customer B	N/A*	41,345
Customer C	35,059	N/A*

* The corresponding revenues from these customers are not disclosed as the revenue individually did not account for 10% or more of the Group's revenue for the respective periods.

4. REVENUE, OTHER INCOME AND GAINS, NET

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

Revenue

	2019 HK\$'000	2018 HK\$'000
Thermal imaging products and services		
— Sales of goods ^{Note (A)}	144,187	149,067
— Rendering of maintenance services and equipment rental ^{Note (B)}	12,405	11,593
	<u>156,592</u>	<u>160,660</u>
Self-stabilised imaging products and services		
— Sales of goods ^{Note (A)}	25,266	28,989
— Rendering of maintenance services and equipment rental ^{Note (B)}	9,299	14,498
	<u>34,565</u>	<u>43,487</u>
General aviation products and services		
— Sales of goods ^{Note (A)}	82,811	57,337
— Rendering of maintenance services ^{Note (B)}	1,386	596
	<u>84,197</u>	<u>57,933</u>
Total	<u>275,354</u>	<u>262,080</u>

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

Note (B) The revenue from rendering of maintenance services and equipment rental was recognised over time, which included operating lease income of HK\$3,085,000 (2018: HK\$4,052,000) for the year ended 31 December 2019.

Performance obligations

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

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019 and 2018 are as follows:

	2019 HK\$'000	2018 <i>HK\$'000</i>
Amounts expected to be recognised as revenue:		
Within one year	9,817	9,357
After one year	25,265	30,101
	35,082	39,458

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

	2019 HK\$'000	2018 <i>HK\$'000</i>
Bank interest income	741	87
Gain on disposal of financial assets at fair value through profit or loss	–	79
Gain on remeasurement resulting from early-termination of right-of-use assets	11	–
Reversal of doubtful receivables, net	136	1,552
Recovery of written-off trade receivables	1,417	–
Others	69	109
	2,374	1,827

5. PROFIT BEFORE TAX

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

		2019 HK\$'000	2018 HK\$'000
	Notes		
Cost of inventories sold		175,546	161,215
Cost of services provided		6,666	6,810
Depreciation of property, plant and equipment		2,976	2,602
Depreciation of right-of-use assets		5,303	–
Amortisation of intangible assets		167	–
Research and development costs		4,056	4,091
Reversal of doubtful receivables, net	4, 10	(136)	(1,552)
Recovery of written-off trade receivables	4	(1,417)	–
Reversal of inventory obsolescence		(61)	(254)
Minimum lease payments under operating leases		–	2,665
Employee benefit expense (excluding Directors' and chief executive's remuneration):			
Wages and salaries		31,479	27,935
Pension scheme contributions (defined contribution scheme)		3,693	1,530
		<u>35,172</u>	<u>29,465</u>
Auditor's remuneration		1,300	1,360
Listing expenses		–	21,821
Foreign exchange differences, net*		1,405	5,545
Loss on disposal of items of property, plant and equipment		10	468
Gain on disposal of financial assets at fair value through profit or loss	4	–	(79)
Bank interest income	4	(741)	(87)
		<u><u>(741)</u></u>	<u><u>(87)</u></u>

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

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 HK\$'000	2018 HK\$'000
Interest on lease liabilities	<u>544</u>	<u>–</u>

7. 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 operate. 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% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group, which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK\$2,000,000 (2018: Nil) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Pursuant to the People's Republic of China (the "PRC" or "Mainland China") Income Tax Law and the respective regulations, corporate income tax ("CIT") has been provided at the rate of 25% (2018: 25%) on the taxable income of the subsidiaries operating in Mainland China during the year, except for certain subsidiaries of the Group, which are qualified small and micro-sized enterprises ("SMEs") under Caishui [2019] No.13. According to Caishui [2019] No.13 effective from 1 January 2019 to 31 December 2021, qualified SMEs refer to enterprises that do not engage in any restricted or prohibited industries in the PRC and meet the criteria of (i) number of staff not exceeding 300; (ii) total assets not exceeding RMB50,000,000; and (iii) annual taxable income not exceeding RMB3,000,000. Qualified SMEs are eligible for a reduced CIT rate of 20%, 75% reduction of taxable income for the first RMB1,000,000 taxable income and 50% reduction of taxable income for the remaining taxable income.

	2019 HK\$'000	2018 HK\$'000
Current	5,860	8,437
Deferred	171	(138)
	<u>6,031</u>	<u>8,299</u>
Total tax charge for the year	<u>6,031</u>	<u>8,299</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:

	2019 HK\$'000	2018 HK\$'000
Profit before tax	<u>36,344</u>	<u>19,806</u>
Tax at the statutory tax rate of 16.5%	5,997	3,268
Effect on different taxation rate in Mainland China	688	1,045
Lower tax rates enacted by local tax authorities	(789)	–
Income not subject to tax	(362)	(194)
Expenses not deductible for tax	598	4,030
Tax losses utilised from previous periods	(101)	–
Tax losses not recognised	–	210
Tax concession	–	(60)
	<u>6,031</u>	<u>8,299</u>
Total tax charge for the year	<u>6,031</u>	<u>8,299</u>

8. DIVIDENDS

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

9. 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 397,260,000 (2018: 300,000,000) in issue during the year, as adjusted for the assumption that 299,620,000 new shares issued at par value to the shareholders as of the date immediately before 11 January 2019 (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 the Listing Date had been issued on 1 January 2018, which is made to be consistent with the basis of presentation of the financial statements for the year ended 31 December 2019.

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

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

Earnings	2019 HK\$’000	2018 HK\$’000
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	30,313	11,507
Shares	Number of shares	
	2019 ’000	2018 ’000
Number of issued shares on 1 January	380	380
Effect of the Capitalisation Issue on 11 January 2019	299,620	299,620
Weighted average number of ordinary shares in issue upon completion of global offering on 11 January 2019	97,260	–
Weighted average number of ordinary shares used in the basic and diluted earnings per share calculations	397,260	300,000

10. TRADE AND BILLS RECEIVABLES

	2019 HK\$’000	2018 HK\$’000
Trade receivables	90,040	97,020
Bills receivables	17,673	15,921
	107,713	112,941
Impairment	(1,076)	(1,216)
	106,637	111,725

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 the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019 HK\$'000	2018 <i>HK\$'000</i>
Less than 3 months	67,563	63,800
3 to 6 months	14,502	20,602
6 to 12 months	7,662	13,850
Over 1 year	16,910	13,473
	106,637	111,725

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

	2019 HK\$'000	2018 <i>HK\$'000</i>
At beginning of year	1,216	2,760
Reversal of doubtful receivables, net (<i>note 5</i>)	(136)	(1,552)
Exchange realignment	(4)	8
At end of year	1,076	1,216

An impairment analysis of trade and bills receivables is performed at each reporting date using a provision matrix to measure expected credit losses (“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 2019

	Current	Past due within 1 year	Past due more than 1 year but within 2 years	Past due more than 2 years but within 3 years	Past due over 3 years	Total
ECLs rate	0%–0.4%	2.2%	19.9%	38.4%	100%	0–1.2%
Gross carrying amount (<i>HK\$'000</i>)	102,233	4,370	215	482	413	107,713
ECLs (<i>HK\$'000</i>)	339	96	43	185	413	1,076

As at 31 December 2018

	Current	Past due within 1 year	Past due more than 1 year but within 2 years	Past due more than 2 years but within 3 years	Past due over 3 years	Total
ECLs 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

11. 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:

	2019 HK\$'000	2018 HK\$'000
Within 1 month	5,100	6,300
1 to 3 months	461	2,716
Over 3 months	1,686	4,870
	<u>7,247</u>	<u>13,886</u>

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

12. EVENTS AFTER THE REPORTING PERIOD

There were no significant events after 31 December 2019 and up to the date of this results announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is 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.

Looking back at the global economy for 2019, the economy of Mainland China was lagging caused by the prolonged trade friction with the United States (“US”). The gross domestic product of the PRC rose 6.1% only on a year-to-year basis compared with the 6.6% growth in 2018. The European economy remained ambiguous with the uncertainties of Brexit. In the Middle East, tensions escalated between the US and Iran. In Hong Kong, the ongoing social unrest posed an unpredictably negative impact on the social and economic environment. The global economy overall show a deceleration and hindered the business confidence.

The Group has still maintained stable development with a moderate increase in revenue overall amidst these volatile market conditions. During the year ended 31 December 2019, the revenue of the Group increased by approximately 5.1% on a year-to-year basis to HK\$275.4 million, while the gross profit decreased by approximately 1.1% on a year-to-year basis to HK\$93.1 million.

In 2019, the Group had set up a new research and development centre in Hong Kong, dedicated to serve our customers in Hong Kong and Macau. The new research and development centre, which has a total floor area of approximately 182 square metres (“sq.m.”), has provided the Group additional capabilities to develop infrared body temperature screening systems and self-stabilised imaging products for vessels. Besides, the relocation of research and development centre in Guangzhou is still in progress. It is expected that the completion of these new research and development centres would enable us to provide more tailor-made products and robust services to our customers.

A summary of revenue from different segments of the Group is set out below:

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

Our products and services in this segment can broadly be divided into three categories: (i) products under our own brand name, PTi; (ii) products of other brands; and (iii) thermal imaging inspection services. Our products are widely used in general consumption, commercial and industrial fields.

Revenue for provision of thermal imaging products and services showed a slight decline by 2.6% on a year-to-year basis due to decrease in demand from our customers for nano-positioning systems.

Throughout the years, the Group had provided advanced products, mainly for the provision of the infrared body temperature screening systems at various border control points in Hong Kong, including Hong Kong International Airport, Lo Wu Immigration Control Point, Hong Kong-Zhuhai-Macao Bridge, West Kowloon Terminal Building, etc.

The Group will endeavor to provide quality products and services with a primary focus on the products specified for use in detect heat abnormalities in electricity substation and overhead powerlines, infrared body temperature screening systems and surveillance systems.

Revenue from this segment during the year ended 31 December 2019 was approximately HK\$156.6 million (2018: HK\$160.7 million). It accounted for approximately 56.8% (2018: 61.3%) of the Group's revenue during the year ended 31 December 2019.

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

The products in this 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 gimbal structure and achieve maximum stabilisation. The products are traded under own brand name, SkyEye, SeaVision and PGs. We also rent our self-stabilised imaging products for aircraft to our customers for a fixed period at a rental fee.

Affected by the economic condition, revenue of this segment declined by 20.5% on a year-to-year basis, as a result of reduction in demand for self-stabilised imaging products and rendering of maintenance services and equipment rental to the state-owned electric power grid companies. However, the Group has been working towards expanding the product portfolio of this segment. With the new research and development centre in Hong Kong, we expect that the Group will be able to further enriching its product line for self-stabilised imaging products and gain larger market share with rising utilisation for this segment.

Revenue from this segment during the year ended 31 December 2019 was approximately HK\$34.6 million (2018: HK\$43.5 million). It accounted for approximately 12.6% (2018: 16.6%) of the Group's revenue during the year ended 31 December 2019.

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

The services and products in this segment can be broadly divided into three categories, namely (i) light and ultra-light aircraft engines and related components distribution; (ii) maintenance training courses; 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 sq.m. 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.

In 2019, the total general aviation flight time in the PRC was 1.125 million hours, representing an increase of 13.8% on a year-to-year basis. And according to “Report on the Work of the Government 2019” made by Chinese Premier Li Keqiang, the PRC would boost infrastructure investment for intercity transportation, logistics, utilities, disaster prevention and mitigation, and civil and general aviation. During the year, the Group had continued to offer comprehensive one-stop general aviation agency services to our customers. The Group believes that there is enormous potential for our products to infuse into the market and would continue to focus on the development of the general aviation value chain in the PRC.

Revenue from this segment during the year ended 31 December 2019 was approximately HK\$84.2 million (2018: HK\$57.9 million). It accounted for approximately 30.6% (2018: 22.1%) of the Group’s revenue during the year ended 31 December 2019.

PROSPECT

Taking into account the macro economic environment that has become more challenging, the Group expects global trade conflicts and the spread of the coronavirus disease 2019 (“COVID-19”) would continue to have a material impact on the Group’s operating environment and the demand of our products. The management would continue to oversee the effects and accommodate the disruptions ahead.

The Group has long been focusing on the research and development in order to maintain its competitive edges. We believe that the new research and development centres in the PRC and Hong Kong would enable us to keep pace with the latest technologies and development of new products and services, which brings extra value to our customers and may eventually expand the Group’s market share.

In addition, our thermal imaging products, which could be installed in the infrared body temperature screening systems, could provide the first line of defense for the infection prevention and epidemic control. We believe that with the outbreak of the COVID-19, the demand could remain high with the step-up of detection measures in border control points.

In view of the outbreak of COVID-19, we are currently taking necessary precautions to safeguard our employees and we still remain positive about the Group’s prospects amidst the volatile economic environment. Due to the dynamic nature of these circumstances, our Group will continue to monitor and evaluate the impact of COVID-19. In addition, we believe that we could capture many opportunities in the general aviation market, especially the supportive government policies enacted in the PRC. The Group is well positioned to seize these opportunities to create value to the shareholders of the Company.

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 2019, the total revenue of the Group increased by approximately HK\$13.3 million, or 5.1% from approximately HK\$262.1 million for the year ended 31 December 2018 to approximately HK\$275.4 million. The increase was primarily attributable to the following reasons:

(i) Thermal imaging products and services

Revenue derived from thermal imaging products and services decreased by approximately HK\$4.1 million, or 2.6%, from approximately HK\$160.7 million for the year ended 31 December 2018 to approximately HK\$156.6 million for the year ended 31 December 2019. The decrease was primarily attributable to the decrease in sales of nano-positioning systems, which was mainly attributable to the decrease in demand from our existing customers.

(ii) Self-stabilised imaging products and services

Revenue derived from self-stabilised imaging products and services decreased by approximately HK\$8.9 million, or 20.5%, from approximately HK\$43.5 million for the year ended 31 December 2018 to approximately HK\$34.6 million for the year ended 31 December 2019. The decrease was mainly attributable to (i) the decrease in sales of our self-stabilised imaging products for aircraft as a result of the decrease in demand for self-stabilised imaging products for aircraft from a state-owned electric power grid company; and (ii) the decrease in revenue from rendering of maintenance services and equipment rental to a state-owned electric power grid company.

(iii) General aviation products and services

Revenue derived from general aviation products and services increased by approximately HK\$26.3 million, or 45.4%, from approximately HK\$57.9 million for the year ended 31 December 2018 to approximately HK\$84.2 million for the year ended 31 December 2019. The increase was mainly attributable to our new customers in the general aviation industry and the increase in demand from our existing customers as a result of an increase in market demand for light and ultra-light aircraft engine.

Gross Profit and Gross Profit Margin

Gross profit for the Group decreased from approximately HK\$94.1 million for the year ended 31 December 2018 to approximately HK\$93.1 million for the year ended 31 December 2019, and the gross profit margin decreased by approximately 2.1% from approximately 35.9% for the year ended 31 December 2018 to approximately 33.8% for the year ended 31 December 2019.

(i) Gross profit margin of thermal imaging products and services

The gross profit margin of thermal imaging products and services remained relatively stable at approximately 30.6% and 30.1% for the years ended 31 December 2018 and 2019, respectively.

(ii) Gross profit margin of self-stabilised imaging products and services

The gross profit margin of self-stabilised imaging products and services decreased by approximately 3.0% from approximately 56.3% for the year ended 31 December 2018 to approximately 53.3% for the year ended 31 December 2019. The decrease in our gross profit margin was primarily attributable to the decrease in rendering of maintenance services and equipment rental, which had a relatively higher gross profit margin.

(iii) Gross profit margin of general aviation products and services

The gross profit margin of general aviation products and services decreased by approximately 2.4% from approximately 35.2% for the year ended 31 December 2018 to approximately 32.8% for the year ended 31 December 2019. The decrease in our gross profit margin was primarily attributable to decrease in average selling price of certain series of 4-stroke engine products, which was mainly attributable to the provision of discount to our existing customers as a result of their bulk purchases.

Other Income and Gains, Net

The Group's other income and gains increased by approximately HK\$0.5 million, or 27.8%, from approximately HK\$1.8 million for the year ended 31 December 2018 to approximately HK\$2.3 million for the year ended 31 December 2019. The increase was mainly attributable to an increase in bank interest income of approximately HK\$0.6 million and the recognition of recovery of written-off trade receivables of approximately HK\$1.4 million. The effect was partially offset by a decrease in reversal of doubtful receivables, net of approximately HK\$1.5 million.

Selling and Distribution Expenses

The Group's selling and distribution expenses increased by approximately HK\$4.5 million, or 18.5%, from approximately HK\$24.3 million for the year ended 31 December 2018 to approximately HK\$28.8 million for the year ended 31 December 2019. The increase was mainly attributable to an increase in staff costs of our sales and marketing personnel resulting from the increase in sales commission along with the increase in our overall revenue for the year ended 31 December 2019.

Administrative Expenses

The Group's administrative expenses decreased by approximately HK\$16.2 million, or by 36.7%, from approximately HK\$44.1 million for the year ended 31 December 2018 to approximately HK\$27.9 million for the year ended 31 December 2019, which was primarily attributable to the listing expenses of approximately HK\$21.8 million incurred during the year ended 31 December 2018 and were non-recurring in nature. The effect was partially offset by the depreciation of right-of-use assets of approximately HK\$5.3 million during the year ended 31 December 2019 as a result of the adoption of HKFRS 16 *Leases* issued by the HKICPA from 1 January 2019. Details of HKFRS 16 are set out in the section headed "Notes to Financial Statements" in this results announcement.

Other Expenses

The Group's other expenses decreased by approximately HK\$5.7 million, or 75.0%, from approximately HK\$7.6 million for the year ended 31 December 2018 to approximately HK\$1.9 million for the year ended 31 December 2019. The decrease in other expenses was primarily attributable to the decrease in foreign exchange loss.

Finance Costs

According to the adoption of the HKFRS 16 *Leases*, at the commencement date of a lease, a lessee is required to recognise a liability of lease payment (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). As a result, finance costs of approximately HK\$0.5 million for the year ended 31 December 2019 were recognised.

Income Tax Expense

The Group's income tax expense decreased by approximately HK\$2.3 million, or 27.7%, from approximately HK\$8.3 million for the year ended 31 December 2018 to approximately HK\$6.0 million for the year ended 31 December 2019, which was primarily resulting from a decrease in taxable profits during the year ended 31 December 2019. The Group's effective tax rates decreased from approximately 41.7% for the year ended 31 December 2018 to approximately 16.5% for the year ended 31 December 2019, which was primarily attributable to the absence of non-deductible listing expenses recognised for the year ended 31 December 2019.

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 increased by approximately HK\$18.8 million, or 163.5%, from approximately HK\$11.5 million for the year ended 31 December 2018 to approximately HK\$30.3 million for the year ended 31 December 2019.

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 2019, the Group reported net current assets of approximately HK\$302.5 million, as compared with approximately HK\$172.6 million as at 31 December 2018.

As at 31 December 2019, the Group's cash and bank balances was approximately HK\$177.1 million, representing an increase of approximately HK\$124.2 million as compared to HK\$52.9 million as at 31 December 2018.

For the year ended 31 December 2019, the net cash generated from operating activities was approximately HK\$33.6 million (2018: HK\$4.5 million). The cash generated from operating activities was mainly from the profits during the year ended 31 December 2019. The net cash used in investing activities was approximately HK\$3.3 million (2018: net cash generated from investing activities of approximately HK\$46.9 million). The net cash generated from financing activities was approximately HK\$94.6 million (2018: net cash used in financing activities was approximately HK\$37.3 million).

The net cash used in investing activities was mainly attributable to the acquisition of property, plant and equipment and intangible assets during the year. The net cash generated from financing activities was mainly arising from the net proceeds from the listing of the Company's shares (the "**Listing**").

CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no significant contingent liabilities (31 December 2018: Nil).

CAPITAL COMMITMENTS

As at 31 December 2019, the Group had no significant capital commitments (31 December 2018: Nil).

FOREIGN EXCHANGE EXPOSURE

Functional currency of the Group's operating subsidiaries is either HK\$ 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 2019, the Group did not pledge any assets (31 December 2018: Nil).

GEARING RATIO

As at 31 December 2019, 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 HK\$'000	Amount utilised as at the date of this results announcement HK\$'000	Amount unutilised as at the date of this results announcement HK\$'000
Establish new research and development centres in the PRC and Hong Kong	39,600	(1,167)	38,433
Enhance the recognition and qualification of our products	17,300	(3,155)	14,145
Strengthen our sales capacity and capture new sales opportunities	21,100	(5,433)	15,667
Purchase new information technology hardware and software	2,500	(2,173)	327
Working capital	700	(700)	–
	<u>81,200</u>	<u>(12,628)</u>	<u>68,572</u>

The Company has not fully utilised the net proceeds from the Listing. As at the date of this results announcement, the amount unutilised from the Listing was approximately HK\$68.6 million and there has been no change to the intended use of proceeds as previously disclosed in the Prospectus. In view of the slowdown in growth of the global economy for the year 2019, the Company has been taking a more prudent approach in the utilisation of proceeds for establishing new research and development centres in the PRC and Hong Kong and enhancing the recognition and qualification of our products. The Company intends to continue to apply the net proceeds according to the plan set out in the Prospectus. Going forward in 2020, the Directors will monitor the outbreak of COVID-19 and its impact to the global economy to evaluate our business objective and to apply unutilised proceeds from the Listing according to the changing market condition to create greater value for the shareholders. The unutilised proceeds have been placed in a licensed bank in Hong Kong.

RESTRUCTURING AND SIGNIFICANT INVESTMENTS

During the year ended 31 December 2019, the Group did not have any restructuring and significant investments. During the year ended 31 December 2018, the Group underwent corporate restructuring prior to the Listing. 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 145 (31 December 2018: 140) employees as at 31 December 2019. Total staff costs of the Group (excluding the Directors’ and chief executive’s remuneration) for the year ended 31 December 2019 was approximately HK\$35.2 million (2018: HK\$29.5 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.

Since the Listing Date, the Company has adopted the principles and the code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

In the opinion of the Board, the Company has complied with all the applicable code provisions set out in the CG Code throughout year ended 31 December 2019.

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. Specific enquiry has been made to all Directors and they have confirmed that they have complied with the Model Code throughout the year under review.

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.

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 the review of the annual results of the Group for the year ended 31 December 2019.

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 2019 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, at least 25% of the Company’s total number of issued shares were held by the public.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the “**AGM**”) will be held on Friday, 12 June 2020. 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.

DIVIDENDS

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 5 June 2020 to Friday, 12 June 2020, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for attending and voting at the AGM to be held on Friday, 12 June 2020, 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 Thursday, 4 June 2020.

PUBLICATION OF ANNUAL RESULT ANNOUNCEMENT AND ANNUAL REPORT

The annual results announcement for the year ended 31 December 2019 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 2019 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 in accordance with Rule 13.46 of the Listing Rules.

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 2020

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.