HNA TECHNOLOGY INVESTMENTS HOLDINGS LIMITED
海航科技投資控股有限公司
(incorporated in the Cayman Islands with limited liability)
Stock code: 2086

HNA TECH INV
海航科技投資

ANNUAL REPORT

2019

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Jiang Hao *(Chairman)*
(appointed on 17 July 2019)
Mr. Peng Zhi *(Chief Executive Officer)*
(appointed on 20 December 2019)
Mr. Xu Jie *(appointed on 17 June 2019)*
Mr. Wang Jing *(appointed on 17 July 2019)*
Mr. Wong Chi Ho
Mr. Zhang Tao *(retired on 30 May 2019)*
Mr. Tong Fu *(resigned on 17 June 2019)*
Mr. Cui Yijun *(resigned on 17 July 2019)*
Mr. Zheng Xuedong *(resigned on 5 August 2019)*

Non-executive Director

Mr. Kwan Kin Man Keith
(appointed on 20 December 2019)

Independent Non-executive Directors

Mr. Guo Dan
Dr. Lin Tat Pang
Ms. O Wai *(appointed on 15 March 2019)*

AUTHORISED REPRESENTATIVES

Mr. Wong Chi Ho
Ms. Lee Ka Man, ACS, ACIS

COMPANY SECRETARY

Ms. Lee Ka Man, ACS, ACIS

AUDIT COMMITTEE

Dr. Lin Tat Pang *(Chairman)*
Mr. Guo Dan
Ms. O Wai

REMUNERATION COMMITTEE

Dr. Lin Tat Pang *(Chairman)*
Mr. Guo Dan
Mr. Wang Jing

NOMINATION COMMITTEE

Mr. Guo Dan *(Chairman)*
Dr. Lin Tat Pang
Mr. Wong Chi Ho

AUDITOR

KPMG
Certified Public Accountants
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
8th Floor, Prince's Building
10 Chater Road, Central
Hong Kong

REGISTERED OFFICE

P.O. Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 4108–4110, 41st Floor
Manhattan Place
23 Wang Tai Road, Kowloon Bay
Hong Kong

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road, P.O. Box 1586
George Town, Grand Cayman, KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

COMPANY'S WEBSITE ADDRESS

www.hnatechinv.com

STOCK CODE

2086

CHAIRMAN'S STATEMENT

On behalf of HNA Technology Investments Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I hereby present the Group's annual results for the year ended 31 December 2019.

With the Group's constant efforts and our proactive market expansion, our revenue recorded approximately HK$165.7 million during the year, representing a considerable growth of 20% compared to last year. The growth in revenue was largely fuelled by the resumption of government purchase of our identify card readers in one of the European countries and the uprising demand of our Automatic Fare Collection ("AFC") bus validator in the United States of America ("U.S.") and European countries. Since our revenue improved, the loss for the year significantly reduced 65% from HK$23.5 million in 2018 to HK$8.3 million in 2019. In summary, the Group had largely improved its financial performance in 2019.

The Group remained very active in industry events during the year. In the Japan IT Week Spring 2019, Advanced Card Systems Limited ("ACS"), a wholly owned subsidiary of the Group, demonstrated the determination to deliver world-class services to customers and partners. ACS also exhibited in Securing Federal Identity 2019 to promote our business to government attendees. Our strong capabilities and outstanding achievements were well-recognised among the industry as we were subsequently awarded the Excellent Cooperation Achievement Award at the third Yang Cheng Tong Developers Conference held in Guangzhou, China in December 2019. These are successes that reinforced our predominant position in the smart card reader market.

We believe that with the growth of contactless payment systems, the spread of mobile technology and the establishment of virtual bank will speed up development of digital payment infrastructure, and use of cash is slowing. In order to seize the cashless revolution opportunity, the Group will continue to develop the businesses of a series of innovative products including Bluetooth self-service reloading terminal, on-line reloading terminal, mini-POS product, and QR code payment and promote them worldwide.

Looking forward to 2020, we will continue to channel our competitive edges to meet the expectation of our investors and customers. Lastly, I would like to take this opportunity to extend my gratitude to our shareholders, customers and business partners as well as all staff members, for their unwavering trust on and support for the Group. May we work together to research and develop more competitive innovative products, satisfy market demand, expand into broader markets, create greater company values for our investors, design better products for our customers and build a more favourable working environment for our employees.

Jiang Hao
Chairman

24 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2019, the Group's revenue increased substantially by 20% to HK$165.7 million (2018: HK$137.7 million); gross profit was HK$91.4 million (2018: HK$74.4 million) with a gross profit margin of 55% (2018: 54%). Loss for the year reduced to HK$8.3 million (2018: HK$23.5 million). Basic loss per share for the year was HK2.584 cents (2018: HK7.339 cents).

Revenue

The increase in Group's revenue for the year ended 31 December 2019 compared to the previous year was mainly attributable to the resumption of bulk purchase of identity card readers by the government of a country in Europe in 2019. The government of that country suspended their bulk purchase of identity card readers in 2018. The spending resumed in 2019 and hence the Group has received a substantial amount of orders to provide identity card readers for the project in that country and sales thereby increased. Besides, there is significant expansion of AFC projects for public transport in the U.S. and European countries.

For the Group's financial services and investment segment, having taken into consideration the current rapid deterioration of the macro-economy, we decided to shrink the financial services and investment business since early 2018 and discontinue this segment by the end of the first quarter in 2020. As a result, the Group did not recognise any revenue, and incurred a loss for this segment in 2019.

Gross Profit Margin

Gross profit margin for the year ended 31 December 2019 maintained in a similar position as compared to 2018. The gross profit margin for the year ended 31 December 2019 was 55% (2018: 54%).

Operating Expenses

Total operation expenses of the Group maintained at a stable level. The total operating expenses increased by only 1% from HK$98.3 million in 2018 to HK$99.3 million in 2019.

Statement of Financial Position

Intangible assets decreased by 30%, from HK$43.7 million at 31 December 2018 to HK$30.5 million at 31 December 2019, mainly due to amortisation during the year.

Trade receivables decreased by 41%, from HK$34.7 million at 31 December 2018 to HK$20.6 million at 31 December 2019. It is largely attributable to impairment and settlement of trade receivables during the year. The impairment loss on trade receivables for the year ended 31 December 2019 amounted to HK$9.7 million (2018: HK$4.4 million), which is mainly due to impairment of more long outstanding debts in 2019. The remaining decrease in trade receivables is due to prompt settlement received from customers during the year.

FINANCIAL REVIEW *(continued)*

Statement of Financial Position *(continued)*

Cash and cash equivalents increased by 63%, from HK$27.9 million at 31 December 2018 to HK$45.4 million at 31 December 2019, which was mainly due to more cash generated from operations and timely collection of trade debtors during the year.

DIVIDEND POLICY

The Company has adopted a dividend policy on 19 December 2018. According to the dividend policy, in considering any dividend payout, the board of directors of the Company (the "Board") shall take into account, inter alia, the following factors:

- the Group's actual and expected financial performance;
- retained earnings and distributable reserves of the Company and each of the members of the Group;
- the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants;
- any restrictions on payment of dividends that may be imposed by the Group's lenders;
- the Group's expected working capital requirements and future expansion plans;
- general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and
- any other factors that the Board deem appropriate.

Declaration, recommendation and/or payment of dividends of the Company shall be determined at the absolute discretion of the Board and would be in the best interests of the Group and shareholders of the Company and in compliance with all applicable laws and regulations. The Board endeavors to maintain a balance between meeting the shareholders' expectations and prudent capital management with a sustainable dividend policy. The Board will continually review the dividend policy and reserves the right in its absolute discretion to update, amend, modify and/or cancel the dividend policy at any time.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2019, it is undisputable that unfavorable macro-economic environment and the tension of the trade war between China and U.S. gave us a turbulent business condition. However, with a substantial improvement in revenue in 2019, it is evident that the Group was leveraging the competitive edge well under volatile environment. Therefore, we are confident to cope with the imminent economic challenges ahead.

Financial Technology and Smart Living

The Group's financial technology and smart living segment mainly included smart card and related products business. This segment recorded a revenue of HK$165.7 million during the year of 2019, an increase of 20% as comparing to HK$137.7 million of 2018. The improvement was mainly attributable to the result of resumption of bulk purchase of identity card readers by the government of a country in Europe, which had been suspended in 2018.

In the meantime, the Group made significant progress with the AFC business in the U.S. and European countries.

Following the AFC project for public transport in Republic of Fiji ("Fiji") launched in 2017, the project requested 700,000 cards in the first half of 2019. In addition, the AFC project in Fiji requested the Group to provide 10 units of ticket vending machines (TVM) to better serve the whole population of Fiji.

Likewise, in Malaysia, the latest bus validator ACR330 has been well qualified. In 2018, 600 units of ACR330 were shipped and the local bus operator installed the devices onto 600 buses in 2019.

AFC business was improved in the U.S.. The bus operator was deploying new AFC transportation projects in Los Angeles, New York and San Francisco, drawing up the demand of business validator.

All of these projects have a favorable impact on the Group's sales performance during the year of 2019.

Event and awards

The Group has actively taken chance to join industry activities to promote our business.

In May 2019, ACS, a wholly owned subsidiary of the Group, exhibited at Japan IT Week Spring 2019 at Tokyo Big Sight to showcase its latest product offerings. Addressing the growing popularity of and demand for contactless applications, ACS demonstrated the determination to deliver world-class services to customers and partners.

BUSINESS REVIEW *(continued)*

Financial Technology and Smart Living *(continued)*

Event and awards *(continued)*

Moreover, ACS also exhibited in Securing Federal Identity 2019 in June 2019 at Hilton Crystal City at National Airport of Arlington, U.S. Securing Federal Identity 2019 featured federal government identity and security policy and issues and technology developments for today's federal agencies and federal market security leaders. The showcase allowed government attendees to visit and learn more about innovative identity products and services enabling secure federal identities today and in the future.

In December 2019, ACS won the Excellent Cooperation Achievement Award at the third Yang Cheng Tong Developers Conference held in Guangzhou, China. As an important partner of Yang Cheng Tong, ACS was invited once again to attend the conference and ACS was awarded the Excellent Cooperation Achievement Award that represents the recognition of its product value by partners and market. ACS's commitment to develop key technologies and innovative applications for transport e-payment systems in the field of mobile internet was recognised among industry players. On top of that, the businesses of a series of innovative products and services including Bluetooth self-service reloading terminal, on-line reloading terminal, mini-POS product and QR code payment were launched and promoted by the Group worldwide.

Financial Services and Investment

A team was built to develop the advisory and investment businesses since the second half of 2017 and completed two transactions in 2017. However, having evaluated the macro environment and internal competence as well as risk-reward balance, the management decided to scale back its operation in financial services and investment business since early 2018 and discontinue this segment by the end of the first quarter in 2020. Hence there was no revenue generated from this segment in 2019 as well as 2018.

PROSPECTS

Financial Technology and Smart Living

Cutthroat competition along with business opportunities are always on the horizon. In 2020, the Group will continue to focus on our core strength and strive to enhance existing products. Trade conflict between China and the U.S. together with the outbreak of novel coronavirus (COVID-19) set the tone for the beginning of 2020, overall downturn economic pressure is emerging to the surface. However, with our innovative technology and excellence products and services, we are confident to cope with the coming economic challenges ahead.

PROSPECTS *(continued)*

Financial Services and Investment

Having evaluated the macro environment and internal competence as well as risk-reward balance, the management decided to scale back its operation in financial services and investment business since early 2018 and discontinue this segment by the end of the first quarter in 2020.

RISK FACTORS

The Group's results of operations, financial condition and growth prospects may be affected by risks and uncertainties directly or indirectly pertaining to the Group's businesses. The risk factors set out below are those that could result in the Group's results of operations, financial condition and growth prospects differing materially from expected or historical results. Such factors are by no means exhaustive or comprehensive and there might be other risks in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Operation Risk

Reliance on a limited number of large customers

Sales to the top five customers accounted for 28% of the Group's revenue for the year ended 31 December 2019 (2018: 23%). The risk of relying on limited number of customers is not high, albeit a slight increase compared with 2018. We keep maintaining a pool of customers to minimise the risks of over-reliance on few key customers. However, there is no assurance that the demand for the products of the Group from these customers can be maintained in the future. In the event that the demand from them decreases significantly and the Group is unable to find replacement customers on terms acceptable to the Group, performance of the Group may be adversely affected.

Reliance on certain independent manufacturers for manufacturing smart card and smart card reader

The Group does not own any production facilities. We subcontract substantially all of our production activities to external manufacturers in China. During the year ended 31 December 2019, the Group engaged three (2018: three) manufacturers for manufacturing smart card, all of them were engaged by the Group for at least over 5 years. The Group maintained one (2018: one) manufacturer for manufacturing smart card reader. The Group has been closely monitoring the production situation of this manufacturer for manufacturing smart card reader to ensure the Group's ability to meet product delivery schedule. In addition, the Group will start to look for another new manufacturer for manufacturing smart card reader.

However, financial or other difficulties faced by these manufacturers or any change in the Group's relationship with these manufacturers could affect the Group's ability to meet product delivery schedule and may in turn adversely affect the Group's business operations.

RISK FACTORS *(continued)*

Operation Risk *(continued)*

Reliance on certain independent manufacturers for manufacturing smart card and smart card reader *(continued)*

The serious impact of the outbreak of novel coronavirus (COVID-19) has affected the schedule of delivery since our major component suppliers and contracted manufacturers are situated in China. As a result, sales performance in 2020 will be affected.

Reliance on ability to attract and retain skilled engineers

The performance of the Group depends, to a significant extent, on the continued services and performance of its research, development and deployment teams. As at 31 December 2019, 49% (2018: 49%) of full-time employees of the Group are engineers for research, development and deployment and 41% (2018: 38%) of them served the Group for over 5 years. Competition for employees with the requisite skills, qualifications and experience in the industry is intense. If the Group is unable to attract, retain and motivate skilled engineers in the future, the operations of the Group may be adversely affected.

Business Risk

Rapid changes in technology

The Group operates in a market which is characterised by rapid changes in technology, industry standards, customer preferences and frequent introductions and enhancements of products and services. Accordingly, the performance of the Group will depend on overall market demand on smart card technology and related products and its ability to improve the functions and reliability of its products and services and adapt to new industry standards and customer preferences. In the event of the Group failing to adapt successfully to such changes, the performance and growth prospects of the Group may be adversely affected.

Substantial capital expenditure on new products and services

The introduction of new products and services in response to rapid changes in technology, industry standards and customer preferences require substantial capital expenditure. During the year ended 31 December 2019, the Group recorded additions of HK$0.7 million (2018: HK$7.7 million) on development costs of new products and services. The reason of decrease is that developing new products takes time and uncertainty, so in current year, our strategy is to focus more on existing products enhancement thus less costs are spent on developing new products. The substantial capital expenditure may have an adverse impact on the financial resources of the Group. In the event that the new products and services do not achieve market acceptance or there is substantial delay in the process, the performance and growth prospects of the Group may be adversely affected.

RISK FACTORS *(continued)*

Financial Risk

The Group is exposed to a variety of key financial risks including credit risk, which is mainly derived from offering credit terms to customers, but the risk of cash shortage due to the time delay from payment to suppliers to collecting cash from customers. Also, there is a risk of default from customers and the trade receivables become non-recoverable.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At all times the Group maintains a healthy liquidity position. As at 31 December 2019, the Group's cash and cash equivalents amounted to HK$45.4 million (31 December 2018: HK$27.9 million). The Group's net assets as at 31 December 2019 was HK$118.8 million (31 December 2018: HK$127.9 million).

The Group's equity capital and the cash generated from operating activities has been applied to fund its working capital and other operational needs. The Group recorded net cash inflow in operating activities of HK$25.5 million (2018: HK$9.1 million) during the year, the amount increased as a result of improved financial performance of the Group and more cash receipts from customers were collected during the year. The Group recorded net cash outflow in investing activities of HK$3.8 million (2018: HK$10.7 million) during the year, the amount decreased as a result of less capital expenditures spent on development projects as more focus was spent on enhancing existing projects during the year. The Group recorded net cash outflow in financing activities of HK$4.3 million (2018: nil) during the year, which was due to the capital and interest elements of lease rentals paid as a result of adoption of the new accounting standard HKFRS 16, *Leases* during the year.

DISPOSALS AND ACQUISITIONS

During the year ended 31 December 2019, the Group did not have any material disposals or investments of subsidiaries and affiliated companies.

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSET

As at 31 December 2019, the Group did not have any capital commitment related to acquisition of property, plant and equipment, nor any plan authorised by the Board for other substantial investment or additions of capital assets.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

The assets, liabilities and transactions of the Group are primarily denominated in Hong Kong dollars, Philippine Pesos, United States dollars and Renminbi. As Hong Kong dollars is pegged to United States dollars, exchange risk arising from United States dollars does not have significant financial impact to the Group. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and to mitigate the impact on exchange rate fluctuations by entering into currency hedge arrangement if necessary. During the year ended 31 December 2019, no forward foreign exchange or hedging contracts had been entered by the Group (2018: nil).

PLEDGE OF ASSETS

As at 31 December 2019, the Group did not pledge any of its material assets (2018: nil).

CONTINGENT LIABILITIES

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had 178 (2018: 182) full time employees. Staff costs recognised in profit or loss for the year amounted to HK$54.3 million (2018: HK$56.3 million). Remuneration policies and packages for the Group's employees are based on individual qualifications, performance, experience, and conditions prevailing in the industry. In addition, various training sessions are offered to employees to enhance their product and market knowledge.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Jiang Hao | Chairman

Mr. Jiang Hao (姜浩), aged 38, was appointed as an executive director of the Company and the chairman of the Board on 17 July 2019.

Mr. Jiang has rich experience in financial management and capital operation. Mr. Jiang has developed his career in HNA Group Co., Ltd. ("HNA Group") since 2004, and was once appointed as multiple management positions in HNA Group's subsidiaries, including chief financial officer of Guangzhou HNA Industrial Co., Ltd.* (廣州海航實業有限公司), general manager of finance and planning department and chief financial officer of HNA South China Holdings (Group) Co., Ltd.* (海航華南控股集團有限公司), chief financial officer of Jinhai Intelligent Manufacturing Co., Ltd.* (金海智造股份有限公司) ("Jinhai Intelligent Manufacturing"), chief financial officer of HNA Technology Co., Ltd. (an A-share and B-share listed company of Shanghai Stock Exchange with stock code 600751 and 900938 respectively), and general manager of asset management department of HNA Technology Group Co., Ltd.* (海航科技集團有限公司) ("HNA Tech Group"), etc. Mr. Jiang is currently working as the deputy general manager of asset management department under the asset management division of HNA Group, chairman of Jinhai Intelligent Manufacturing, and serves as a director of several subsidiaries of HNA Group including HNA Technology Group (HK) Co., Limited.

Mr. Jiang received his bachelor's degree in Accounting from Xi'an University of Finance and Economics in July 2004 and an Executive Master of Business Administration from Zhejiang University in December 2018. Mr. Jiang has been a member of International Financial Management Association and Asset Management Association of China since 2017, and he was awarded the qualification of Board Secretary of Listed Company by Shanghai Stock Exchange in 2017.

Mr. Peng Zhi | Chief Executive Officer

Mr. Peng Zhi (彭志), aged 40, was appointed as an executive director of the Company on 20 December 2019. He has been the financial director of the Company since August 2017 and the chief executive officer of the Company since August 2019. He is also a director of several subsidiaries of the Group.

Mr. Peng has over 18 years of experience in financial management and has substantial financial management knowledge and experience. He joined the financial department of Hainan Airlines Holding Co., Ltd (an A-share listed company of Shanghai Stock Exchange with stock code: 600221) ("Hainan Airlines") in July 2001. He joined Hong Kong Airlines Limited in May 2011 and had successively served as deputy general manager, general manager and finance director of its finance department until August 2017. He also serves as a director in a subsidiary of HNA Group.

Mr. Peng graduated from Xi'an Jiaotong University in July 2001 with a Bachelor of Finance degree, and obtained a Master of Business Administration (Executive) of City University of Hong Kong in October 2019.

* *For identification purposes only*

DIRECTORS AND SENIOR MANAGEMENT

Mr. Xu Jie | Vice President

Mr. Xu Jie (許杰), aged 37, was appointed as an executive director of the Company on 17 June 2019 and the vice president of the Company on 20 December 2019. He is also the vice president of a subsidiary of the Group.

Mr. Xu has extensive experiences in financial management, capital operation as well as assets management. He started his career with HNA Group in 2006 and served various management positions in subsidiaries of HNA Group including deputy general manager of asset management office and general manager of finance and planning department of HNA Tech Group, general manager of Grand China Investments Management Co., Ltd.* (大新華投資管理有限公司), deputy general manager of finance and planning department of Jinhai Intelligent Manufacturing, and manager of budget center of finance and planning department of Hainan Airlines. Mr. Xu is currently the deputy general manager of the asset management division under finance and planning department of HNA Group and he also serves as director or supervisor in several subsidiaries of HNA Group.

Mr. Xu obtained a bachelor degree in Financial Management from Xi'an University of Posts & Telecommunications in 2006, and a Master of Business Administration of Shanghai Jiao Tong University in 2019. Mr. Xu has been a Certified Public Valuer since 2013, and he was awarded the qualification of Board Secretary of Listed Company by Shanghai Stock Exchange in 2019.

Mr. Wang Jing

Mr. Wang Jing (王兢), aged 36, was appointed as an executive director of the Company on 17 July 2019 and a member of the remuneration committee of the Company on 5 August 2019.

Mr. Wang has extensive experience in corporate administration management and organization development planning. Mr. Wang started his career with HNA Group in 2007 and served various management positions in subsidiaries of HNA Group, including deputy director of general administration office of Grand China Logistics Co., Ltd.* (大新華物流控股(集團)有限公司), deputy director of general administration office of HNA Tech Group, chairman and chief executive officer of Shanghai Linke Network Technology Co., Ltd.* (上海鄰客網絡科技有限公司), vice president of Beijing Shareco Technologies Co., Ltd. (listed on NEEQ with securities code: 837676), vice president of Shanghai Zhijing Supply Chain Management Co., Ltd.* (上海至精供應鏈管理股份有限公司), general manager of administration department of HNA Tech Group, etc. Mr. Wang is currently the deputy general manager of asset management department under the asset management division of HNA Group and he also serves as director or supervisor in several subsidiaries of HNA Group.

Mr. Wang obtained a Bachelor of Laws in Foreign Affairs from Wuhan University in July 2007.

* *For identification purposes only*

DIRECTORS AND SENIOR MANAGEMENT

Mr. WONG Chi Ho

Mr. Wong Chi Ho (黃智豪), aged 41, was appointed as an executive director and a member of the nomination committee of the Company on 24 March 2015. He is also a director and the legal representative of several subsidiaries of the Group.

Mr. Wong joined the Group in July 2013. He is involved in the development of the Group's smart card and smart card reader technologies. Mr. Wong has over 8 years of engineering work experience in Silicon Valley, California, the U.S., where he worked for Qualcomm Technologies, Inc., Nvidia Corporation and Sun Microsystems Inc.

Mr. Wong obtained a Master of Science in Management, Science and Engineering degree from Stanford University in California, the U.S. in January 2005 as well as a Bachelor of Science in Engineering in Electrical Engineering (Summa Cum Laude) and a Master of Science in Engineering in Electrical Engineering degrees from The University of Michigan at Ann Arbor in Michigan, the U.S. in April 2001 and April 2002, respectively. Mr. Wong passed Level 3 of the Chartered Financial Analyst Study and Examination Program of the CFA Institute.

NON-EXECUTIVE DIRECTOR

Mr. KWAN Kin Man Keith

Mr. Kwan Kin Man Keith (關建文), aged 31, was appointed as a non-executive director of the Company on 20 December 2019.

Mr. Kwan has around ten years of experience in the finance industry. Mr. Kwan has been a vice president of a money lending company in Hong Kong since March 2019. He was an executive director of Zhaobangji Properties Holdings Limited (a listed company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with stock code: 1660) from March 2018 to March 2019. Mr. Kwan was a director of Well Link Securities Limited from October 2017 to March 2019. Mr. Kwan was an associate director of an asset management company from June 2014 to June 2016. Prior to that, Mr. Kwan joined KPMG in 2009 and worked as an assistant manager of KPMG Advisory (Hong Kong) Limited from August 2011 to February 2014.

Mr. Kwan obtained his bachelor's degree in Business Administration from The University of Hong Kong in 2009. He is currently a member of the Hong Kong Institute of Certified Public Accountants.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. GUO Dan

Mr. Guo Dan (郭眈), aged 45, was appointed as an independent non-executive director and a member of the audit committee of the Company on 27 June 2017. Mr. Guo was appointed as the chairman of the nomination committee and a member of the remuneration committee of the Company on 30 September 2017.

Mr. Guo joined Baidu Online Network Technology (Beijing) Co., Ltd.* (百度在線網絡技術（北京）有限公司) ("Baidu Online"), a wholly owned subsidiary of Baidu, Inc. (NASDAQ: BIDU) in January 2000. He was a member of the engineering team of Baidu Online upon its incorporation and has been with Baidu Online over 11 years, during which he served various positions, including senior engineer, senior engineering manager, engineering director and senior engineering director, and was responsible for research and development of Baidu technology, including search engine and advertisement system.

Mr. Guo obtained a Master of Science degree in Management from The Leland Stanford Junior University in June 2012 and a doctor's degree in Communication and Information Systems from Beijing Jiaotong University in April 2012.

Dr. LIN Tat Pang

Dr. Lin Tat Pang (連達鵬), aged 64, is an independent non-executive director and the chairman of the audit committee of the Company, all of which were appointed on 22 December 2017. Dr. Lin was appointed as a member of the nomination committee and a member and the chairman of the remuneration committee of the Company with effect from 31 December 2018.

Dr. Lin is also an independent non-executive director of China Aluminum Cans Holdings Limited (a listed company on the Main Board of the Stock Exchange with stock code: 06898) since June 2013. Dr. Lin has over 30 years of experience in accounting, finance and public offerings. Dr. Lin served as assistant accountant, accounting manager and chief accountant in Sun Hung Kai Securities Limited during 1980 to 1988. He joined Sun Hung Kai Investment Services Limited and Sun Hung Kai Forex & Bullion Co. Limited as executive director in December 1989. He was also appointed as company secretary of Sun Hung Kai & Co. Limited (Main Board listed company with stock code: 00086) in November 1990. Subsequently, he worked for Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited between December 1992 and March 2013, and his last position was senior consultant to the Listing, Listing & Regulatory Affairs Division of Hong Kong Exchanges and Clearing Limited.

Dr. Lin obtained his Doctor of Laws, Master of Laws and Bachelor of Laws from Peking University in 2009, 1998 and 1992 respectively. He also completed his Postgraduate Certificate in Hong Kong Law in City University of Hong Kong in 1993. Dr. Lin is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Chartered Association of Certified Accountants, United Kingdom. He is also a member of the Chartered Institute of Arbitrators, United Kingdom.

* *For identification purposes only*

Ms. O Wai

Ms. O Wai (柯慧), aged 42, was appointed as an independent non-executive director and a member of the audit committee of the Company on 15 March 2019.

Ms. O has over 16 years of working experience in audit, risk management, corporate finance and asset management, and has strong financial knowledge, deep understanding of the supervisory systems of banking and securities, and rich project management experience. Ms. O worked in Deloitte China (including Deloitte Touche Tohmatsu, Deloitte Touche Tohmatsu Certified Public Accountants LLP Beijing Branch and Deloitte & Touche Financial Advisory Services Limited) for around 10 years from May 2003 to February 2013, where she served in various departments including audit department, reputation and risk group department and financial advisory department and enriched her knowledge and experience in finance, risk management, compliance and financial advisory. In 2013 to 2014, she worked in China Minsheng Trust Co., Limited* (中國民生信託有限公司) as trust manager. Since 2015, Ms. O has been working in Beijing branch of Huarong Securities Co., Limited* (華融證券股份有限公司北京分公司), and currently holds the position of general manager of asset management department.

Ms. O obtained a Bachelor of Commerce degree from The University of Auckland, New Zealand in 2002. Ms. O is a member of the Hong Kong Institute of Certified Public Accountants since 2014. She is also a member of The Securities Association of China and Asset Management Association of China since 2016 and 2018, respectively.

* *For identification purposes only*

CORPORATE GOVERNANCE REPORT

The Board believes that good corporate governance is one of the methods to safeguard the interests of shareholders of the Company and enhance the Group's value and accountability. The Board is devoted to ongoing improvement in the efficiency and effectiveness of its corporate governance practices.

During the year, the Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. The directors are of the opinion that the Company has compiled with the code provisions set out in the CG Code for the year ended 31 December 2019, except for Code Provision E.1.2 under the CG Code as disclosed below.

Code Provision E.1.2 provides that the chairman of the board should attend the annual general meeting. Mr. Cui Yijun, the chairman of the Board, was unable to attend the annual general meeting of the Company held on 30 May 2019 (the "2019 AGM") due to his other engagement. Mr. Zheng Xuedong, an executive director of the Company, who took the chair of the 2019 AGM, together with other members of the Board who attended the 2019 AGM, was of sufficient calibre for answering questions and had answered questions at the 2019 AGM competently.

BOARD OF DIRECTORS

Responsibilities

The Board is accountable to shareholders of the Company for the Group's performance and activities. The Board is responsible for establishing the strategic direction of the Group; setting objectives and business development plans; monitoring the performance of senior management and assuming responsibility for corporate governance. All directors of the Company shall ensure that they carry out their duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and shareholders of the Company at all times.

Delegation by the Board

While the Board retains at all times full responsibility for guiding and monitoring the Company, it has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference, which are posted on the websites of the Stock Exchange and the Company respectively.

The Board may from time to time delegate certain functions to the management of the Group if and when considered appropriate. The management is responsible for implementing the strategies and plans established by the Board; executing daily management, administration and operation of the Group; and submitting reports on the Group's operations to the Board on a regular basis to ensure effective discharge of the Board's responsibilities.

The Board has established schedule of matters specifically reserved to the Board for its decision and those reserved for the management. The Board reviews this schedule on a periodic basis to ensure that it remains appropriate to the needs of the Group.

BOARD OF DIRECTORS *(continued)*

Composition

The Board is committed to holding the view that it should include a balanced composition of executive directors and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement. As at the date of this annual report, the Board comprises five executive directors, one non-executive director and three independent non-executive directors. The independent non-executive directors represent one-third of the Board and meet the requirements of the Listing Rules relating to at least one of them possessing appropriate professional qualifications, accounting or related financial management expertise. Details of each director are disclosed on page 12 to page 16 of this annual report. The directors of the Company during the year ended 31 December 2019 and up to the date of this annual report are:

Executive Directors

Mr. Jiang Hao *(Chairman, appointed on 17 July 2019)*
Mr. Peng Zhi *(Chief Executive Officer, appointed on 20 December 2019)*
Mr. Xu Jie *(appointed on 17 June 2019)*
Mr. Wang Jing *(appointed on 17 July 2019)*
Mr. Wong Chi Ho
Mr. Zhang Tao *(retired on 30 May 2019)*
Mr. Tong Fu *(resigned on 17 June 2019)*
Mr. Cui Yijun *(resigned on 17 July 2019)*
Mr. Zheng Xuedong *(resigned on 5 August 2019)*

Non-executive Director

Mr. Kwan Kin Man Keith *(appointed on 20 December 2019)*

Independent Non-executive Directors

Mr. Guo Dan
Dr. Lin Tat Pang
Ms. O Wai *(appointed on 15 March 2019)*

Mr. Peng Zhi was appointed as the chief executive officer of the Company on 5 August 2019 and as an executive director of the Company on 20 December 2019. Mr. Kwan Kin Man Keith was appointed as a non-executive director of the Company on 20 December 2019. Mr. Zheng Xuedong resigned as the chief executive officer and an executive director of the Company on 5 August 2019. Mr. Jiang Hao and Mr. Wang Jing were appointed as executive directors of the Company on 17 July 2019 and Mr. Cui Yijun resigned as an executive director of the Company on 17 July 2019. Mr. Jiang Hao was appointed as the chairman of the Board on 17 July 2019 and Mr. Cui Yijun resigned as the chairman of the Board on 17 July 2019. Mr. Xu Jie was appointed as an executive director of the Company on 17 June 2019 and Mr. Tong Fu resigned as an executive director of the Company on 17 June 2019. Mr. Zhang Tao retired as an executive director of the Company on 30 May 2019.

BOARD OF DIRECTORS *(continued)*

Composition *(continued)*

On 31 December 2018, Ms. Kaung Cheng Xi Dawn resigned as an independent non-executive director, a member and the chairman of the remuneration committee and a member of each of the audit committee and the nomination committee of the Company. On 15 March 2019, Ms. O Wai was appointed as an independent non-executive director and a member of the audit committee of the Company.

As a result, the Company was not in compliance with Rules 3.10(1) and 3.10A of the Listing Rules with regard to the composition of the Board and with Rule 3.21 of the Listing Rules with regard to the composition of the audit committee from 1 January 2019 to 14 March 2019. Following the appointment of Ms. O Wai on 15 March 2019 as an independent non-executive director and a member of the audit committee of the Company, the Company has complied with Rules 3.10(1) and 3.10A of the Listing Rules in relation to the composition of the Board and Rule 3.21 of the Listing Rules with regard to the composition of the audit committee.

Save as disclosed above, there was no change in the composition of the Board during the year ended 31 December 2019. There is no relationship (including financial, business, family or other material/relevant relationships) among members of the Board.

Chairman and Chief Executive Officer

The roles of the chairman and chief executive officer are separate and are not performed by the same individual as this ensures better checks and balances, and hence better corporate governance.

The chairman of the Board is mainly responsible for providing leadership and directions to the Board to ensure that the Board works effectively in discharging its responsibilities. On 17 July 2019, Mr. Cui Yijun resigned as an executive director of the Company and the chairman of the Board due to his other business commitments, and Mr. Jiang Hao was appointed as an executive director of the Company and the chairman of the Board.

The primary role for the chief executive officer of the Company is in charge of daily operation and business development of the Group. On 5 August 2019, Mr. Zheng Xuedong resigned as an executive director and the chief executive officer of the Company due to family reason, and Mr. Peng Zhi was appointed as the chief executive officer of the Company.

Directors' Securities Transactions

For the year of 2019, the Company has adopted dealings rules on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Listing Rules (the "Model Code"). Upon specific enquiries, all the directors of the Company confirmed in writing that they had complied with the required standard set out in the Model Code during the year ended 31 December 2019 regarding their securities transactions.

BOARD OF DIRECTORS *(continued)*

Induction and Continuous Professional Development

All newly appointed directors of the Company will be provided with necessary induction and information to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the requirements of the Listing Rules and relevant statutory obligations.

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company also provides the directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The directors of the Company are also provided with regular updates on the Company's performance and prospects to enable the Board as a whole and each director to discharge their duties.

The current directors of the Company have complied with the requirement under Code Provision A.6.5 of the CG Code regarding continuous professional development during the year ended 31 December 2019 in the following manner:

Name of Directors	Reading materials in relation to corporate governance and regulatory requirements	Attending seminars/ courses/ conferences to develop professional skills and knowledge
Executive Directors		
Mr. Jiang Hao	✓	✓
Mr. Peng Zhi	✓	–
Mr. Xu Jie	✓	✓
Mr. Wang Jing	✓	✓
Mr. Wong Chi Ho	✓	–
Non-executive Director		
Mr. Kwan Kin Man Keith	✓	–
Independent Non-executive Directors		
Mr. Guo Dan	✓	–
Dr. Lin Tat Pang	✓	✓
Ms. O Wai	✓	✓

BOARD OF DIRECTORS *(continued)*

Disclosure of Directors' Other Offices

As Code Provision A.6.6 under the CG Code requires directors to disclose the number and nature of offices held in public companies or organizations and other significant commitments as well as their identity and the time involved, all the current directors of the Company have disclosed the relevant information in writing and agreed to notify the Company of any further change in a timely manner.

All the current directors of the Company have also confirmed in writing that they had given sufficient time and attention to the affairs of the Company during the year ended 31 December 2019.

Independence of Independent Non-Executive Directors

The role of independent non-executive directors of the Company is to provide independent and objective opinions to the Board, giving adequate control and balances for the Company to protect the overall interests of shareholders of the Company. They serve actively on the Board and its committees to provide their independent and objective views.

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of its independent non-executive director. The Company considers that all the independent non-executive directors of the Company are independent.

Seeking Independent Professional Advice

Upon reasonable request, the directors of the Company could seek independent professional advice in appropriate circumstances at the Company's expenses. They also could access and consult with the Company's management independently.

Directors' Insurance

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

BOARD OF DIRECTORS *(continued)*

Board Diversity Policy

The Company embraces the benefits of having a diverse board and sees diversity at board level as an essential element in maintaining a competitive advantage. Thus, the Board adopted a board diversity policy (the "Diversity Policy") on 13 August 2013, which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

Pursuant to the Diversity Policy, the Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills knowledge and length of service. All appointments of members of the Board are made on merit, in the content of the talents, skills and experience the Board as a whole requires to be effective.

The Board and its nomination committee have set and will continue to consider setting measurable objectives to implement the Diversity Policy, and they review the Diversity Policy and measurable objectives from time to time to ensure their appropriateness and continued effectiveness.

As at the date of this annual report, the Board is characterised by significant diversity, whether considered in terms of gender, age, educational background, professional experience, skills, knowledge and length of service.

Nomination Policy

Pursuant to the CG Code, the Board adopted a nomination policy (the "Nomination Policy") on 19 December 2018, which sets out the criteria in considering candidates and the procedures for the selection, appointment and reappointment of directors with the purpose of ensuring the Board has a balance of skills, experience and diversity of perspectives appropriate to requirements of the Group's business.

The Board is responsible for selection and appointment of directors, while the nomination committee of the Company identifies individuals suitably qualified to become directors, selects nominees and makes recommendations to the Board and considers the Board succession plan.

BOARD OF DIRECTORS *(continued)*

Nomination Policy *(continued)*

The major criteria considered by the nomination committee of the Company and the Board are as follows:

- candidates' character and integrity;
- candidates' qualifications, including professional qualifications, skills, knowledge and experience that are relevant to the Company's strategy and the Group's business;
- candidates' willingness to devote adequate time to discharge duties as a member of the Board and quantity and nature of their present offices;
- the Diversity Policy and any measurable objectives adopted for achieving diversity on the Board; and
- requirements for the Board to have independent non-executive directors in accordance with the Listing Rules.

The nomination committee of the Company is responsible for reviewing the Nomination Policy to ascertain candidates effectively representing the best interests of the Group and comply with current regulatory requirements.

Board Meetings

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals, to discuss the overall strategy as well as the operational and financial performance of the Company. Additional Board meetings would be arranged, if and when required. Such Board meetings involve a majority of directors' active participation and informed discussion, either in person or through other electronic means of communication. The directors of the Company make every effort to contribute to formulation of policy, decision-making and development of the Group's business.

BOARD OF DIRECTORS *(continued)*

Board Meetings *(continued)*

The Board held five meetings (include four regular Board meetings) during the year ended 31 December 2019. An agenda of each Board meeting is presented for comments and approval. The Board is provided with adequate, timely and reliable information about the Group's business and developments before each Board meeting. All the directors of the Company are asked to review and comment on the Board minutes within a reasonable time after every meeting to maintain accurate records of their discussions and decisions. Details of individual attendance of directors of the Company are set out below:

Name of Directors	Attended/Eligible to attend
Executive Directors	
Mr. Jiang Hao *(Chairman, appointed on 17 July 2019)*	3/3
Mr. Peng Zhi *(Chief Executive Officer, appointed on 20 December 2019)*	0/0
Mr. Xu Jie *(appointed on 17 June 2019)*	4/4
Mr. Wang Jing *(appointed on 17 July 2019)*	3/3
Mr. Wong Chi Ho	5/5
Mr. Zhang Tao *(retired on 30 May 2019)*	1/1
Mr. Tong Fu *(resigned on 17 June 2019)*	0/1
Mr. Cui Yijun *(resigned on 17 July 2019)*	1/1
Mr. Zheng Xuedong *(resigned on 5 August 2019)*	2/2
Non-executive Director	
Mr. Kwan Kin Man Keith *(appointed on 20 December 2019)*	0/0
Independent Non-executive Directors	
Mr. Guo Dan	5/5
Dr. Lin Tat Pang	5/5
Ms. O Wai *(appointed on 15 March 2019)*	4/5

During the year ended 31 December 2019, the chairman of the Board has met with the independent non-executive directors of the Company without the presence of any other executive director of the Company.

BOARD COMMITTEES

The Board has established an audit committee, a remuneration committee and a nomination committee to oversee particular aspects of the Company's affairs. Each Board committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. Their terms of reference are available on the websites of the Company and the Stock Exchange. The finance and investment committee of the Company has been also set up to support the Board in finance and investment issues.

The Board committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

Audit Committee

The audit committee of the Company was established on 28 September 2004. It is primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor; approving the remuneration and terms of engagement of the external auditor; dealing with any questions of the external auditor's resignation or dismissal; reviewing the Company's financial controls, internal controls, and risk management systems; and reviewing the financial statements of the Company. Other duties of the audit committee of the Company are set out in its terms of reference.

The composition of the audit committee of the Company throughout the year ended 31 December 2019 is as follows:

Dr. Lin Tat Pang *(Chairman)*
Mr. Guo Dan
Ms. O Wai *(appointed on 15 March 2019)*

All the members are independent non-executive directors of the Company, and none of them is a former partner of the Company's existing auditing firm. Dr. Lin Tat Pang, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the audit committee of the Company. Due to the resignation of Ms. Kaung Cheng Xi Dawn on 31 December 2018, the Company was not in compliance with Rule 3.21 of the Listing Rules with regard the composition of the audit committee. On 15 March 2019, Ms. O Wai was appointed as an independent non-executive director and a member of the audit committee of the Company. Accordingly, the Company complied with the requirement under Rule 3.21 of the Listing Rules.

BOARD COMMITTEES *(continued)*

Audit Committee *(continued)*

The audit committee of the Company held three meetings during the year ended 31 December 2019. Out of these three meetings, it met two times with the external auditor. Details of individual attendance of its members are set out below:

Name of Directors	Attended/Eligible to attend
Independent Non-executive Directors	
Dr. Lin Tat Pang *(Chairman)*	3/3
Mr. Guo Dan	3/3
Ms. O Wai *(appointed on 15 March 2019)*	3/3

Set out below is the summary of work performed by the audit committee of the Company during the year ended 31 December 2019:

1) to approve the remuneration and terms of engagement of the external auditor;

2) to monitor integrity of the Company's financial statements, annual report and interim report, and to review significant financial reporting judgments contained in them;

3) to review the Company's financial control, internal control and risk management systems; and

4) to discuss risk management and internal control systems with the management of the Company to ensure that the management has performed its duty to have an effective risk management and internal control systems.

BOARD COMMITTEES *(continued)*

Remuneration Committee

The remuneration committee of the Company, established on 30 December 2004 in compliance with the relevant Listing Rules, makes recommendations to the Board on the Company's policy and structure for all directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy. The remuneration of directors of the Company is determined according to their expertise, knowledge and contributions to the Group with reference to the Group's profitability and the prevailing market conditions. The Board expects the remuneration committee to exercise independent judgment and ensures that all the directors do not participate in the determination of their own remuneration.

Details of the remuneration payable to the directors of the Company during the year ended 31 December 2019 are set out in note 8 to the financial statements.

The composition of the remuneration committee of the Company throughout the year ended 31 December 2019 is as follows:

Dr. Lin Tat Pang *(Chairman)*
Mr. Guo Dan
Mr. Wang Jing *(appointed on 5 August 2019)*
Mr. Zheng Xuedong *(resigned on 5 August 2019)*

The remuneration committee of the Company held two meetings and made other four written resolutions during the year to make recommendation on the director's remuneration and determine the year-end bonus plan and salary adjustment plan of the Group. Details of individual attendance of its members are set out below:

Name of Directors	Attended/Eligible to attend
Independent Non-executive Directors	
Dr. Lin Tat Pang *(Chairman)*	2/2
Mr. Guo Dan	2/2
Executive Directors	
Mr. Wang Jing *(appointed on 5 August 2019)*	1/1
Mr. Zheng Xuedong *(resigned on 5 August 2019)*	1/1

BOARD COMMITTEES *(continued)*

Nomination Committee

The Board established the nomination committee on 20 March 2012 in compliance with the relevant CG Code. The nomination committee of the Company reviews the structure, size, board diversity and composition of the Board; makes recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identifies individuals suitably qualified to become Board members; makes recommendations to the Board on the selection of individuals nominated for directorships; assesses the independence of independent non-executive directors and makes recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors.

The composition of the nomination committee of the Company throughout the year ended 31 December 2019 is as follows:

Mr. Guo Dan *(Chairman)*
Mr. Wong Chi Ho
Dr. Lin Tat Pang

During the year ended 31 December 2019, the nomination committee of the Company held one meeting and made other four written resolutions to review the structure, size, board diversity and composition of the Board and make recommendations to the Board on the appointment of new directors and discuss matters regarding the re-election of directors. The nomination committee of the Company also assessed the independence of independent non-executive directors of the Company and reviewed the Nomination Policy. Details of individual attendance of its members are set out below:

Name of Directors	Attended/Eligible to attend
Independent Non-executive Directors	
Mr. Guo Dan *(Chairman)*	1/1
Dr. Lin Tat Pang	1/1
Executive Director	
Mr. Wong Chi Ho	1/1

BOARD COMMITTEES *(continued)*

Finance and Investment Committee

The finance and investment committee of the Company was set up on 11 November 2013, aiming to provide executive inputs, supervision, technical/legal oversight and regulatory compliance of the investment functions of the Company; to assist the Board in evaluating investment, acquisition, joint venture and divestiture transaction in which the Company is engaged as part of its business strategy from time to time and to perform such duties delegated by the Board.

After the resignation of Mr. Zheng Xuedong on 5 August 2019 and the appointment of Mr. Xu Jie as the vice president of the Company on 20 December 2019, the finance and investment committee currently comprises 2 members, namely Mr. Peng Zhi (being its chairman) and Mr. Xu Jie.

During the year ended 31 December 2019, no meeting was held by the finance and investment committee, and its changes in composition were noted and approved by the Board.

CORPORATE GOVERNANCE FUNCTION

No corporate governance committee has been established so far, and the Board is responsible for performing the corporate governance duties which mainly include the following items:

- developing and reviewing the Company's policies and practices on corporate governance and making recommendations if needed;
- reviewing and monitoring the training and continuous professional development of directors of the Company;
- reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- developing, reviewing and monitoring the code of conduct applicable to employees and directors; and
- reviewing the Company's compliance with the CG Code and disclosure in the corporate governance report.

During the year ended 31 December 2019, the Board reviewed the corporate governance practices of the Company with reference to the CG Code and explained any deviation from the CG Code in this corporate governance report.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has developed the Group's internal control and risk management systems and has overall responsibility for reviewing and maintaining an adequate and effective internal control and risk management systems to safeguard the interests of the shareholders and the assets of the Group.

To facilitate the effectiveness and efficiency of operations and to ensure compliance with relevant laws and regulations, the Group emphasizes on the importance of the internal control and risk management systems which is also indispensable for mitigating the Group's risk exposures. The internal control and risk management systems are embedded within the business processes and function as an integral part of the overall operations of the Group. As maintaining an effective control system is a shared responsibility of all in the Group, the Group is dedicated to educating all employees via trainings to ensure they understand the importance of internal control and risk management policies and adhere to them.

In order to comply with the CG Code, the Group has set up its own internal audit department to perform an internal audit function in March 2016. Audit plans, risk assessments and internal audit reports are presented to and reviewed by the audit committee of the Company and the Board.

Internal audit department provides an independent assessment of the effectiveness of the Group's internal control and risk management systems in accordance with the CG Code, and assists the audit committee of the Company to conduct regular reviews of the Group's internal control and risk management systems. Different audit areas are assigned with different risk ratings and an audit plan is formulated accordingly so that priority and appropriate audit frequency is given to areas with higher risks. A four-year internal audit program was established in 2016 and extended to 2021. Moreover, an annual internal audit plan which consists of a work schedule as well as budget and resource requirements for the year develops each year and is reviewed annually and endorsed by the audit committee of the Company. The internal auditor conducts regular financial and operational reviews as well as the ad-hoc audit assignment over contingent issues on the Group and reports directly to the audit committee regularly. The internal auditor also monitors the follow up actions agreed upon in response to its recommendations. The audit committee of the Company reviews the work performed by internal auditor and summary of major findings and control weaknesses, if any, at least annually to ensure the effectiveness of internal audit function, internal control and risk management systems.

In order to facilitate the enterprise risk management, a working group for risk management ("Risk Management Working Group") was formed by the Group in 2016 of which its members are come from senior management and major departments. The Risk Management Working Group is accountable to the audit committee of the Company and the Board. It assists the Board in overseeing the Group's risk profile and is responsible for overseeing the effectiveness of management's actions in the identification, assessment, management and reporting of material business risks.

INTERNAL CONTROL AND RISK MANAGEMENT *(continued)*

The Risk Management Working Group uses risk management matrix to determine risk level. Each risk is evaluated by the likelihood of the identified risk and the consequence of the risk event. The risk ratings reflect the required management attention and risk treatment effort. All risks are ranked and their treatment is determined by a combination of likelihood and consequence according to a risk matrix, which takes account of risk appetite.

The identified risk together with the risk response is recorded at the risk register and subject to the Board's oversight. The key elements of the internal control and risk management systems of the Group include the establishment of a risk register to keep track of and record identified risks, the assessment and evaluation of risks, the development and continuous updating of responsive procedures, and the ongoing testing of internal control procedures to ensure their effectiveness. After discussing and taking into consideration the risk responses, the relevant departments and business units shall be assigned to implement the risk management solutions in accordance with their respective roles and responsibilities.

Risk management meeting is held on regular basis for providing a communication channel to all members of the Risk Management Working Group and keeping track of the identified risks, monitoring residual risks and identifying new risks, ensuring the execution of risk plans and evaluating their effectiveness in reducing risks.

The Group has established and published a whistleblowing policy and a system on antifraud for employees and third parties to raise concerns in confidence, which complied with the recommended best practice in the CG Code. In 2019, no incident of fraud or misconduct was reported from employees or stakeholders that had material effect on the Group's financial statements and overall operations.

During the year ended 31 December 2019, the Board, through the audit committee of the Company, has assessed the design and execution effectiveness of the internal control and risk management systems of the Group including financial, operational and compliance controls and risk management functions and has considered the adequacy of resources, staff qualifications and experience, training programmes, and budget of the Group's accounting and financial reporting function. The Board is satisfied that, the present systems of risk management and internal control are effective.

DISCLOSURE OF INSIDE INFORMATION

The Company acknowledges its responsibilities under the overriding principle that inside information should be announced immediately when it is the subject of a decision. Therefore, the following measures were carried to handle confidential information appropriately.

- The Company has adopted a corporate disclosure policy which must be fully observed by all employees of the Company to educate employees on the procedures of proper information disclosure.

- The Company discloses its inside information on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and the Company's and the Stock Exchange's websites.

- The Company strictly prohibits unauthorised use of confidential or inside information.

- Only the executive directors and the company secretary responsible for investor relations of the Company are authorised to communicate with parties outside the Company.

- Employees who, because of their office in the Company, are likely to be in possession of inside information, have also been required to comply with the guidelines in respect of the securities dealing when dealing in the Company's shares.

ACCOUNTABILITY AND AUDIT

The directors of the Company acknowledge their responsibility to prepare the Company's financial statements which give a true and fair view of the Group's state of affairs, results and cash flows for the year ended 31 December 2019. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. A statement by the auditor of the Company about its reporting responsibilities is set out on pages 75 to 81 of this annual report.

The directors of the Company consider that the Company has adequate resources to continue in business for the foreseeable future and are not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as going concern.

AUDITOR'S REMUNERATION

During the year ended 31 December 2019, the fee payable to KPMG in respect of audit services amounted to HK$1,100,000, including the fee of HK$21,000 payable for reporting on the continuing connected transactions of the Group.

There has been no major disagreement between the auditor and the management of the Company during the year ended 31 December 2019.

COMPANY SECRETARY

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company engages an external service provider to provide secretarial service and has appointed Ms. Lee Ka Man ("Ms. Lee") as its company secretary. Since Ms. Lee is not an employee of the Group, Ms. Yau Kar Yi Grace, our financial controller, is the person whom Ms. Lee can contact for the purpose of Code Provision F.1.1 of the CG Code.

Ms. Lee is an associate member of both The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. Ms. Lee has confirmed that for the year under review, she has taken no less than 15 hours of relevant professional training.

SHAREHOLDERS' RIGHTS

The Company aims to, via its corporate governance structure, enable all the shareholders of the Company an equal opportunity to exercise their rights and allow them to engage actively with the Company.

Attending General Meetings

The general meetings of the Company provide an opportunity for direct communication between the Board and shareholders of the Company. The Company encourages the participation of shareholders through annual general meetings and other general meetings where the shareholders meet and exchange views with the Board, and exercise their right to vote at meetings.

The Company shall arrange a notice of meeting and a circular containing details on proposed resolutions to be sent to shareholders of the Company no less than 21 business days before a meeting. At general meetings, separate resolutions are proposed on each substantial issue, including the election of individual directors.

SHAREHOLDERS' RIGHTS *(continued)*

Convening an Extraordinary General Meeting

Pursuant to Article 12.3 of the memorandum and articles of association of the Company (the "M&A"), general meetings shall be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

General meetings may also be convened on the written requisition of any one member of the Company which is a recognised clearing house (or its nominee) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Voting and Putting Forward Resolutions

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

There is no provision under the Companies Law (2012 Revision) of the Cayman Islands and the M&A allowing the shareholders to propose new resolutions or move resolutions at the general meetings. The shareholders of the Company who wish to make proposals or move a resolution may, however, convene an extraordinary general meeting.

SHAREHOLDERS' RIGHTS *(continued)*

Proposing for Election as a Director

Pursuant to Article 16.4 of the M&A, no person shall, unless recommended by the Board, be eligible for election to the office of director at any general meeting, unless notice in writing by a member of the Company (not being the person to be proposed), entitled to attend and vote at the meeting for which such notice is given, of his intention to propose such person for election as a director and notice in writing signed by the person to be proposed of his willingness to be elected have been given to the company secretary of the Company provided that the minimum length of the period, during which such notices are given, shall be at least seven days. The period for lodgment of such notices shall commence no earlier than the day after the dispatch of the notice of the meeting appointed for such election and end no later than seven days prior to the date of such meeting.

Details for shareholders of the Company to propose a person for election as director are available on the Company's website.

Enquiries to the Board

Shareholders of the Company may send their enquiries and concerns in writing to the Board by addressing them to the principal place of business of the Company in Hong Kong, presently at Units 4108–4110, 41st Floor, Manhattan Place, 23 Wang Tai Road, Kowloon Bay, Hong Kong, or email to the designated email addresses of the Company.

Upon receipt of enquiries, the matters within the Board's purview will be forwarded to executive directors of the Company and the issues relating to the Board committees' responsibilities will be sent to the chairman of the relevant committee.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with its shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of information on the Company for its shareholders and investors to make informed investment decisions. To ensure shareholders of the Company are kept well informed, the Company uses a range of communication tools, such as annual general meetings, annual reports, interim reports, various notices, announcements, and circulars.

The annual general meetings of the Company provide opportunity for shareholders of the Company to communicate mutually and efficiently with directors of the Company. The chairman of the Board and the chairmen of the Board committees will attend annual general meetings to answer the shareholders' questions. The auditor of the Company will also attend annual general meetings to answer questions about conduct of the audit, preparation and content of the auditor's report, accounting policies and auditor's independence.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS *(continued)*

At the 2019 AGM, a separate resolution was proposed by the chairman in respect of each separate issue, including re-election of directors and voted by way of poll. The Company announced the results of the poll in the manner prescribed under the Listing Rules.

The chairmen of the audit committee, remuneration committee and nomination committee of the Company attended the 2019 AGM. Mr. Cui Yijun, the chairman of the Board, was unable to attend the 2019 AGM due to his other engagement. Mr. Zheng Xuedong, an executive director of the Company, who took the chair of 2019 AGM, together with other present members of the Board who attended the 2019 AGM, was of sufficient calibre for answering questions and had answered questions at the 2019 AGM competently. Details of individual attendance of directors of the Company at the 2019 AGM are set out below:

Name of Directors	Attended/Eligible to attend Annual General Meeting
Executive Directors	
Mr. Jiang Hao *(Chairman, appointed on 17 July 2019)*	0/0
Mr. Peng Zhi *(Chief Executive Officer, appointed on 20 December 2019)*	0/0
Mr. Xu Jie *(appointed on 17 June 2019)*	0/0
Mr. Wang Jing *(appointed on 17 July 2019)*	0/0
Mr. Wong Chi Ho	1/1
Mr. Zhang Tao *(retired on 30 May 2019)*	0/0
Mr. Tong Fu *(resigned on 17 June 2019)*	0/1
Mr. Cui Yijun *(resigned on 17 July 2019)*	0/1
Mr. Zheng Xuedong *(resigned on 5 August 2019)*	1/1
Non-executive Director	
Mr. Kwan Kin Man Keith *(appointed on 20 December 2019)*	0/0
Independent Non-executive Directors	
Mr. Guo Dan	1/1
Dr. Lin Tat Pang	1/1
Ms. O Wai *(appointed on 15 March 2019)*	1/1

In addition, to ensure that shareholders of the Company will have equal and timely access to information, the Company maintains the official website at www.hnatechinv.com, where the up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public easy access.

CONSTITUTIONAL DOCUMENTS

For the year ended 31 December 2019, there has been no change in the constitutional documents of the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

HNA Technology Investments Holdings Limited (the "Company"), together with its subsidiaries (the "Group"), is pleased to present this environmental, social and governance ("ESG") report (the "Report") to provide an overview of the Group's management on significant issues affecting the operation, and the performance of the Group in terms of environmental and social aspects.

Preparation Basis and Scope

This Report is prepared in accordance with Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") – "ESG Reporting Guide" and has complied with the "comply or explain" provisions in the Listing Rules.

This Report summarises the performance of the Group in respect of corporate social responsibility, covering its operating activities which are considered as material by the Group – (i) development, sales and distribution of smart card products, software and hardware, provision of smart card related services in the People's Republic of China ("PRC"), Hong Kong and the Republic of the Philippines ("Philippines"), and (ii) provision of advisory services including financial due diligence and business operation consultancy services in Hong Kong. With the aim to optimise and improve the disclosure requirements in the Report, the Group has taken initiative to formulate policies, record environmental data and implement monitoring measures. This Report shall be published both in Chinese and English on the website of the Stock Exchange. Should there be any discrepancy between the Chinese and the English versions, the English version shall prevail.

Reporting Period

This Report demonstrates our sustainability initiatives during the reporting period from 1 January 2019 to 31 December 2019.

Contact Information

The Group welcomes your feedback on this Report for our sustainability initiatives. Please contact us by email to info@hnatechinv.com.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

The Group is one of the world's leading smart card reader suppliers and has been devoted to the research and development of smart card operating system and reader. The Group constantly offers a wide range of new products and promotes the application of smart cards in different areas. It is principally engaged in (i) financial technology and smart living business, which is mainly for development, sales and distribution of smart card products, software and hardware, provision of smart card related services, and (ii) financial services and investment business, which is mainly for provision of advisory services.

The Group is committed to responsible operation and value creation for stakeholders and community by integrating environmental and social factors into management considerations. Sustainability strategy is based on the compliance with the legal requirements in the area in which we operate and the opinions from stakeholders. Sustainability is crucial for the Group's growth in order to achieve business excellence and enhance capabilities for long-term competitiveness. The Group has established and implemented various policies to manage and monitor our operation risks relating to the environment and society. Details of the management approaches to sustainable development of different areas are illustrated in this Report.

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

The Group understands the success of the Group's business depends on the support from its key stakeholders, who (a) have invested or will invest in the Group; (b) have the ability to influence the outcomes within the Group; and (c) are interested in or affected by or have the potential to be affected by the impact of the Group's activities, products, services and relationships. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

Stakeholders are prioritised from time to time in view of the Group's roles and duties, strategic plan and business initiatives. The Group engages with its stakeholders to develop mutually beneficial relationships and to seek their views on its business proposals and initiatives as well as to promote sustainability in the marketplace, workplace, community and environment.

The Group acknowledges the importance of intelligence gained from the stakeholders' insights, inquiries and continuous interest in the Group's business activities. The Group has identified key stakeholders that are important to our business and established various channels for communication. The following table provides an overview of the Group's key stakeholders, and various platforms and methods of communication are used to reach, listen and respond.

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT *(continued)*

Stakeholders	Expectations	Engagement channels	Measures
Government	– Comply with applicable laws and regulations – Proper tax payment – Promote regional economic development and employment	– On-site inspections and checks – Research and discussion through work conferences, work reports preparation and submission for approval – Annual and interim reports – Website	– Operated, managed and paid taxes according to laws and regulations, strengthened safety management; accepted the government's supervision, inspection and evaluation, for example, accepted certain on-site inspections throughout the year, and actively undertook social responsibilities

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT *(continued)*

Stakeholders	Expectations	Engagement channels	Measures
Shareholders and Investors	– Low risk – Return on investment – Information disclosure and transparency – Protection of interests and fair treatment of shareholders	– Annual general meeting and other shareholder meetings – Annual and interim report, announcements	– Issued notices of general meeting and proposed resolutions according to regulations, disclosed company's information by publishing announcements/circulars/annual and interim reports – Carried out different forms of investor activities with an aim to improve investors' recognition – Held results briefing upon necessary – Disclosed company contact details on website and in published reports and ensured all communication channels are available and effective

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT *(continued)*

Stakeholders	Expectations	Engagement channels	Measures
Employees	– Safeguard the rights and interests of employees – Working environment – Career development opportunities – Self-actualisation – Health and safety	– Trainings, seminars, briefing sessions – Cultural and sport activities – Newsletters – Intranet and emails	– Provided a healthy and safe working environment; developed a fair mechanism for promotion; established labour unions at all levels to provide communication platforms for employees; cared for employees by helping those in need and organised employee activities
Customers	– Safe and high-quality products – Stable relationship – Information transparency – Integrity – Business ethics	– Website, brochures – Email and customer service hotline – Regular meeting	– Established laboratory, strengthened quality management to ensure stable production and smooth transportation, and entered into long-term strategic cooperation agreements

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT *(continued)*

Stakeholders	Expectations	Engagement channels	Measures
Suppliers/Partners	– Long-term partnership – Honest cooperation – Fair, open information resources sharing – Risk reduction	– Business meetings, supplier conferences, phone calls, interviews – Regular meeting – Review and assessment – Tendering process	– Invited tenders publicly to select best suppliers and contractors, performed contracts according to agreements, enhanced daily communication, and established long-term cooperation with quality suppliers and contractors

Through general communication with stakeholders, the Group understands the expectations and concerns from stakeholders. The feedbacks obtained allow the Group to make more informed decisions, and to better assess and manage the resulting impact.

The Group have adopted the principle of materiality in the ESG reporting by understanding the key ESG issues that are important to the business of the Group. All the key ESG issues and key performance indicators (KPIs) are reported in the Report according to recommendations of the ESG Reporting Guide (Appendix 27 of the Listing Rules) and the Global Reporting Initiative Guidelines.

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT *(continued)*

The Group have evaluated the materiality and importance in ESG aspects through the following steps:

Step 1: Identification – Industry Benchmarking

- Relevant ESG areas were identified through the review of relevant ESG reports of the local and international industry peers.

- The materiality of each ESG area was determined based on the importance of each ESG area to the Group through internal discussion of the management and the recommendation of ESG Reporting Guide (Appendix 27 of the Listing Rules).

Step 2: Prioritisation – Stakeholder Engagement

- The Group discussed with key stakeholders on key ESG areas identified above to ensure all the key aspects to be covered.

Step 3: Validation – Determining Material Issues

- Based on the discussion with key stakeholders and internal discussion among the management, the Group's management ensured all the key and material ESG areas, which were important to the business development, were reported and in compliance with ESG Reporting Guide.

As a result of this process carried out in 2019, those important ESG areas to the Group were discussed in this Report.

A. ENVIRONMENTAL ASPECTS

The Group is mainly involved in office operations and its business activities do not have significant impact on the environment and natural resources. In spite of this, the Group is committed to create a business that contributes to global efforts in environmental care and sustainability. The Group's technology offering also promote environmental sustainability by reducing the waste associated with a wide-range of business activities. The Group's smart card technologies and cloud – based on enterprise collaboration solutions to help customers improve business operations, reducing on unneeded paper-based communications and processes. Furthermore, cashless transactions facilitated by the Group's electronic payment solutions and in particular its Automatic Fare Collection system solutions contributes global efforts to reduce waste and paper consumption. Throughout the year, the Group fully complied with all of the relevant environmental laws and regulations in the countries and regions where we operated, and no concluded cases regarding emissions were brought against the issuer or its employees.

A1. Emissions

As one of the world's leading smart card reader providers, our business bears low impact on air pollutant emission and greenhouse gas emission as most of our operation is offices based. During the reporting period, the Group was in strict compliance with all relevant environmental laws and regulation such as the Environmental Protection Tax Law of China in the PRC, the Air Pollution Control Ordinance (Cap. 311) in Hong Kong, and the Republic Act No. 3931 creating the National Water and Air Pollution Control Commission in Philippines.

Air Pollutant Emission

Emission control is essential for mitigating the impact on the environment and protecting the health of employees. No substantial emissions are generated from any fuels in daily operation as the Group is not engaged in any industrial production. The Group's air pollutants are mainly generated from the mobile sources of the Hong Kong segment. The increase in air pollutant emission in 2019 was mainly attributable to the increase in sales of smart card products and related services during the year. During the reporting period, the air pollutants emission of the Group is as follows:

Air Pollutants	Unit	**2019 Total**	2018 Total
Nitrogen oxides (NO_x)	kg	**1.36**	0.93
Sulfur dioxide (SO_2)	kg	**0.04**	0.02
Particulate matter (PM)	kg	**0.10**	0.07

A. ENVIRONMENTAL ASPECTS *(continued)*

A1. Emissions *(continued)*

Greenhouse Gas (“GHG”) Emission

Climate change is gradually concerned by the community as it affects our daily life. GHG is considered as one of the major contributors to the climate change and global warming. During the reporting period, our scope 1 direct emissions and scope 2 indirect emissions mainly came from mobile combustion and purchased electricity for daily business operations respectively. The Group manages the GHG emissions by minimising the energy consumption to lower carbon footprint. Policies and procedures (as mentioned in the section “A2. Use of Resources”) to encourage energy saving have been incorporated throughout the operations in order to reduce the carbon footprint. With its business nature, no GHG emissions are generated or emitted through stationary sources as the Group is not engaged in any industrial production. The increase in GHG emission scope 1 in 2019 was mainly attributable to the increase in the sales of smart card products and related services during the year. On the other hand, the decrease in GHG emission scope 2 in 2019 was mainly attributable to the rental termination of a Hong Kong office and the effective implementation of the Group’s energy saving policy during the year. The GHG emission of the Group during the reporting period is as follows:

GHG Emission[1]	Unit	**2019 Total**	2018 Total
Scope 1[2]	tonnes of CO_2-e	**6.47**	4.27
Scope 2[3]	tonnes of CO_2-e	**186.22**	217.90
Total	tonnes of CO_2-e	**192.69**	222.17
GHG emission intensity	tonnes of CO_2-e/employee	**1.09**	1.23

Hazardous and Non-hazardous Wastes

The Group recognises the importance of waste reduction. Waste management measures have been introduced to minimize the amount of waste generated and the impact on environment. Under its business operation nature, no hazardous waste was generated during the reporting period.

For non-hazardous waste, the waste is mainly generated from daily office operations. The Group takes initiative to reduce waste by implementing different measures. Generally, the Group has engaged qualified recycling companies to collect and handle the waste in accordance to the Prevention and Control of Environmental Pollution by Solid Waste (2015 Amendment) in PRC, the Waste Disposal Ordinance (Cap. 354) in Hong Kong, and the Ecological Solid Waste Management Act of 2000 (RA 9003, 2001) in Philippines.

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1 The calculation of the greenhouse gas emission is based on the “Corporate Accounting and Reporting Standard” from greenhouse gas protocol.

2 Scope 1: Direct emission from sources that are owned or controlled by the Group.

3 Scope 2: Indirect emissions from purchased electricity consumed by the Group.

A. ENVIRONMENTAL ASPECTS *(continued)*

A1. Emissions *(continued)*

Hazardous and Non-hazardous Wastes *(continued)*

The Group also promotes the idea of "green office" by introducing more paperless solutions in its daily operations to reduce the volume of paper and printed materials used. For example, the Group actively promotes the use of email to replace traditional mails. Email is used among staff whenever possible. In addition, the Group also encourages electronic corporate communication and shareholders of the Company are encouraged to receive corporate communication documents using electronic means through the Company's website. Besides, recycling bags are available for paper collection. All paper, newspaper and magazines are collected for recycling purpose. The decrease in both the amount of non-hazardous waste generated and recycled paper amount in 2019 was mainly due to the effective implementation of paperless policy during the year.

The Group takes effort to reduce wastes in business operation and handles wastes in an environmental-friendly way. Under our business operation in respect of its nature, the Group generates very small amount of waste during the reporting period. As the Group has outsources its office cleaning work to independent contractors for handling and collecting the non-hazardous waste in the office, the waste volume record is not provided by the cleaning contractor. The Group will coordinate with the cleaning contractor to collect the waste volume data in the coming year in order to formulate appropriate measures to reduce the non-hazardous waste production. The non-hazardous waste generated by the Group during the reporting period is as follows:

Non-hazardous waste generated	Unit	2019 Total	2018 Total
Paper waste generated	tonnes	**1.00**	1.15
Paper waste generated intensity	tonnes/employee	**0.0057**	0.0064

The non-hazardous waste recycled by the Group during the reporting period is as follows:

Non-hazardous waste recycled	Unit	2019 Total	2018 Total
Paper waste recycled	tonnes	**1.00**	1.15
Paper waste recycled intensity	tonnes/employee	**0.0057**	0.0064

A. ENVIRONMENTAL ASPECTS *(continued)*

A2. Use of Resources

The Group considers environmental protection as an essential component of a sustainable and responsible business. The Group understands that staff participation is the key to achieve green office and efficient utilisation of resources. In order to help employees to change their behavior into green performance, such as wise and efficient usage of resource and waste minimization, throughout all of our daily operations, we have been progressively implementing different resource saving measures, ranging from power-saving program, recycling paper and materials, to the behavioral change of our people.

Energy

The Group considers environmental protection as an essential component of a sustainable and responsible business. With aims of resource saving and implementation of energy saving measures, the Group actively promotes the concept of energy saving and emission reduction into the entire process of its development and operation. In the meantime, the Group puts effort to raise employees' awareness of green behavior by recommending them to switch off all the lights, computers and printers by the end of the work day. Air-conditioners are set within a reasonable range of around 25 degrees Celsius. The Group regularly upgrades its existing facilities such as replacing outdated computers, phones and other electrical appliances to meet the needs of our customers and enhance operational efficiency.

The Group also endeavor to explore energy saving and green management measures for our facilities, and strive to reduce resource consumption as much as possible. For example, the Group joins the voluntary energy efficiency labeling scheme, introduced by the Electrical and Mechanical Services Department of Hong Kong, to select office equipment based on its grading-type label and recognition-type label. The Group also support The National Energy Efficiency and Conservation Program introduced by the Department of Energy of Philippines by switching away from traditional incandescent light into energy efficient lighting for offices use. During the reporting period, our energy consumption mainly came from purchased electricity for daily office operations.

A. ENVIRONMENTAL ASPECTS *(continued)*

A2. Use of Resources *(continued)*

Energy *(continued)*

The decrease in electricity consumption in 2019 was mainly attributable to the rental termination of a Hong Kong office and the Group's effort on energy saving policy during the year. On the other hand, the increase in petrol and diesel consumption in 2019 was mainly attributable to the increase in the sales of smart card products and related services during the year. The energy consumption of the Group is summarised as follows:

Energy Consumption	Unit	2019 Total	2018 Total
Purchased electricity	MWh	**319.39**	376.50
Petrol	MWh	**14.67**	14.01
Diesel	MWh	**7.83**	–
Total energy consumption	MWh	**341.89**	390.51
Energy consumption intensity	MWh/employee	**1.94**	2.17

Water Consumption

Water is one of the most important natural resource for the daily operation. Regarding water consumption for the Hong Kong offices, the water supply of the Central office is solely controlled and centrally managed by its property management of the building. In this case, it is not feasible for the Group to provide all relevant water consumption data as there is no separate meter for the individual office unit to record water usage. However, the Group still actively seeks ways to mitigate water consumption by raising employees' awareness of water saving through green office policy such as reminding employees to turn faucet off tightly and conducting regular inspection and maintenance of water facilities. The decrease in water consumption in 2019 was mainly attributable to the result of water-saving campaign in the Hong Kong and the PRC offices during the year. The water consumption of the Group is summarised as follows:

Water	Unit	2019 Total	2018 Total
Water consumption	m^3	**1,514.60**	1,691.28[4]
Water consumption intensity	m^3/employee	**8.61**	9.40

[4] The figures for year 2018 have been restated in this report for consistent presentation.

A. ENVIRONMENTAL ASPECTS *(continued)*

A2. Use of Resources *(continued)*

Packaging Materials

The major packaging materials used for our finished product are (i) paper box, (ii) plastic bag, and (iii) bubble wrap. The increase in total packaging materials consumption in 2019 was mainly attributable to the increase in sales of smart card products and related services during the year. The consumption of packaging materials of the Group in 2019 is summarised below:

Packaging materials consumption	Unit	**2019 Total**	2018 Total
Paper box	Tonnes	**39.93**	13.95
Plastic bag	Tonnes	**0.03**	0.03
Bubble wrap	Tonnes	**3.97**	2.78
Total packaging materials	Tonnes	**43.93**	16.75
Packaging materials consumption intensity	tonnes/employee	**0.25**	0.09

A3. The Environment and Natural Resources

The Group's development, sales and distribution of smart card products, software and hardware, provision of smart card related services, and financial services and investment business has no significant impact on the environment. The Group reviews its environmental policy from time to time and will consider implementing further eco-friendly measures and practices in order to enhance environmental sustainability.

B. SOCIAL ASPECTS

EMPLOYMENT AND LABOUR PRACTICES

B1. Employment

The Group believes people are important assets and competent staff is the foundation for success and development of the Group. We aspire to be an employer of choice and recognise the importance of providing a decent working environment where our employees can thrive. A comprehensive framework incorporating detailed human resources management policies of recruitment, promotion, working hours, equal opportunities, compensation and benefits is embedded in Human Resources Manual and Employee Handbook. The Group strictly complies with the Labour Law of the PRC, the Employment (Amendment) (No.2) Ordinance 2018 in Hong Kong, the Labour Code of the Philippines (RA 10151), and other relevant laws and regulations related to employment by adopting the following key measures:

- The Group prohibits the employment of child, forced or compulsory labour in any of our operations.

- Wages, overtime payments and related benefits are made in accordance with minimum wage or above.

- Holidays and statutory paid leaves are compliant respective Labour Law or Regulations.

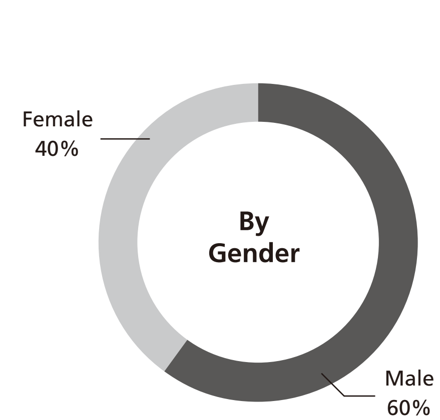
- The Group treats all its employees equally that their employment, remuneration and promotion will not be affected by their social identities such as ethnicity, race, nationality, gender, religion, age, sexual orientation, political faction and marital status.

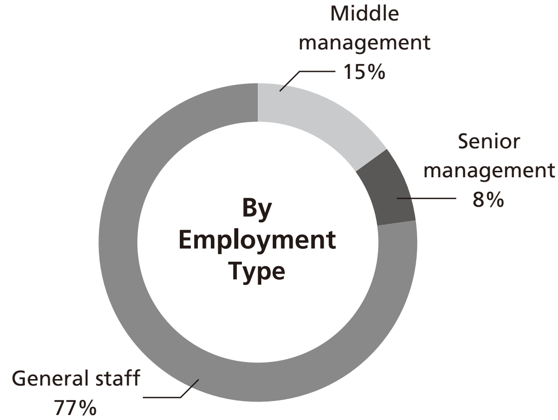
B. SOCIAL ASPECTS *(continued)*

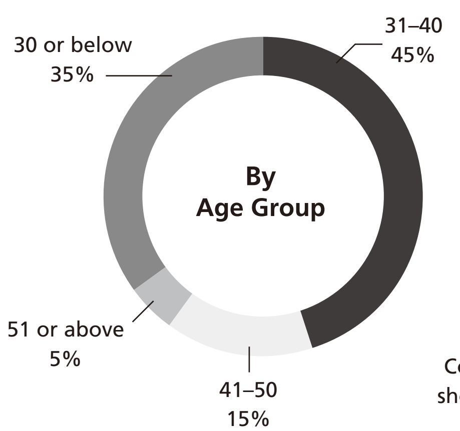
EMPLOYMENT AND LABOUR PRACTICES *(continued)*

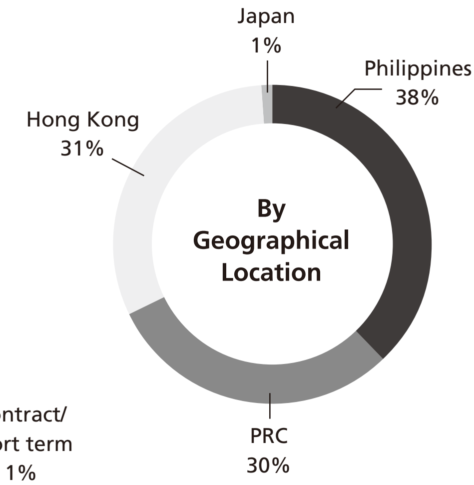
B1. Employment *(continued)*

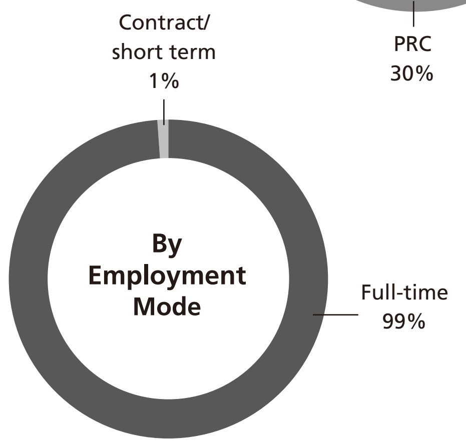
As at 31 December 2019, the employee compositions (in percentage of employees) by gender, employment type, age group and geographical region were as follows:











B. SOCIAL ASPECTS *(continued)*

EMPLOYMENT AND LABOUR PRACTICES *(continued)*

B1. Employment *(continued)*

The employee turnover rate during the reporting year by gender, age group and geographical region are as follows:

Employee turnover	Unit	2019
By gender		
• Male	%	17.7
• Female	%	12.8
By age group		
• Age 30 or below	%	18.0
• Age 31–40	%	10.1
• Age 41–50	%	21.4
• Age 51 or above	%	31.6
By geographical region		
• Hong Kong	%	35.4
• The PRC	%	3.8
• Philippines	%	9.0
• Japan	%	0.0
Overall	%	15.7

B2. Health and Safety

The Group takes into consideration every precaution to establish a healthy and safe working environment for its employees. The Group strictly complies with the rules and guidelines stipulated in the Law of the PRC on Work Safety, Occupational Safety and Health Ordinance (Cap. 509) by the Labour Department in Hong Kong, the Occupational Safety and Health Standards, and any other applicable laws and regulations such as the Law of the PRC on the Prevention and Treatment of Occupational Diseases. Regarding the business nature of the Group, employees mainly engaged in office work. In 2019, no concluded case regarding health and safety was brought against the issuer or its employees.

The Group takes into consideration every precaution to establish a healthy and safe working environment for its employees by installing or replacing office equipment if needed, and providing them with all the necessary equipment for protection against work-related injuries. Reviews are conducted with immediate follow-up actions and improvement whenever necessary. Safety guidelines are in place for our laboratories as well.

B. SOCIAL ASPECTS *(continued)*

EMPLOYMENT AND LABOUR PRACTICES *(continued)*

B3. Development and Training

The Group recognises that the continuous development of its employees is the key to its success. Therefore, the Group provide ample resources to staff training and development with the aim of sustaining a competent and professional staff force that contribute to the success of the Group. There are three major categories of training, namely orientation training, internal training and external training offered to our employees. During the year, we arranged training programmes such as financial management seminars, emotional health seminars and D.O. 183 Provisions and Compliance: A Comprehensive Approach to Observe D.O. 183 Compliance and Handle DOLE Inspections. In order to boost training effectiveness, we carry out assessment in the forms of satisfaction survey for internal training and reports on external training. Our employees are required to record the details of their training in the personal training record, which forms the basis for performance evaluation, personnel changes and promotion. In addition, we have developed a performance management system based on the principles of fairness, impartiality and openness, under which employees of different grades undergo evaluation on half-yearly basis, where their performance and achievements are assessed comprehensively. This motivates employees to improve their individual capability and boosts general corporate efficiency, thereby facilitating our overall strategic goal. The appraisal results will be used as a reference for salary adjustment, promotion and placement.

Moreover, a number of staff activities were organised in various offices, including annual dinner, Christmas party, sports competition, birthday party and so on, to show appreciation to employees for their contribution and to enhance their sense of belonging.

B. SOCIAL ASPECTS *(continued)*

EMPLOYMENT AND LABOUR PRACTICES *(continued)*

B3. Development and Training *(continued)*

In 2019, the detailed breakdown of the percentage of employees trained and the average training hours completed per employee by gender and employee category is as follows:

Training	Average training hours (hours/employee)	Percentage of employee trained (%)
By gender		
• Male	9.7	41.9
• Female	11.0	35.5
By employment category		
• Senior management	15.0	53.8
• Middle management	9.8	40.0
• General staff	9.8	37.8

B4. Labour Standards

The Group respects the human rights of employees, and not only strictly complies with labour legislation against the employment of child labour and forced labour such as the Law of the PRC on Protection of Minors, the Employment of Children Regulations under the Employment Ordinance in Hong Kong, and the An Act Providing for the Elimination of the Worst Forms of Child Labour and Affording Stronger Protection for the Working Child (RA 7610) in Philippines, but also implements specific measures to ensure equal opportunities in employment. We respect the rights and interest of every employee, and strongly prohibit the employment of minors under the age of 15. Organisations that are found to be engaging child labour or forced labour will be reported to the management to terminate the corresponding business dealings. There is a comprehensive internal monitoring system to prevent the Group from forcing employees to work by way of violence or illegal restriction of personal freedom.

B. SOCIAL ASPECTS *(continued)*

OPERATING PRACTICES

B5. Supply Chain Management

As part of its commitment to environmental and corporate responsibility, the Group attaches great importance to supplier management and monitors by formulating internal procedures and guidelines for managing environmental and social risks of the supply chain. It undertakes regular reviews on its supply chain to ensure that its partners do not have significant impact on the environment and society.

For almost a decade, all devices developed by the Group have been compliant with the requirements laid down in the directive restricting the use of certain hazardous substances in electrical and electronic products, commonly referred to as the Restriction of Hazardous Substances ("RoHS") Directive. This directive restricts the use of six hazardous materials in manufacturing various types of electronic and electrical products. It covers all domestically made and imported products in the European Union, with a few exemptions given on certain occasions. As such, supply chain management is always one of the key links in the Group's quality control system. The Group exercises a high level of scrutiny over the selection of suppliers. Major suppliers and subcontractors must prove their compliance with RoHS for them to be included into our supplier list.

The Group also carries out long-term quality monitoring and regular review over major suppliers and subcontractors. They are subject to assessment and on-site audits on product quality as well as suitability and quality consistency tests made by our quality department. In case of a significant change in their qualification or serious quality issue, the Group may suspend them from our supplier list.

B. SOCIAL ASPECTS *(continued)*

OPERATING PRACTICES *(continued)*

B6. Product Responsibility

The Group is committed to providing high quality and customer-centred products that promise utmost security and convenience to our clients and their end customers. As such, the nature of our business requires the highest degree of accuracy, precision and quality in developing our products. We continue to cultivate a corporate culture which emphasises the provision of fair and just services for its customers.

Quality Control

To bolster our efforts in quality assurance, we undergo stringent certification programs from unbiased organisations that enforce international, national and industry standards. This is our way of ensuring we deliver only qualified products to the market, and maintaining our outstanding track record in the smart card industry. A wholly owned subsidiary of the Group received its first ISO certification in 2007, having proven success in following the requirements set by ISO 9001 standard. The ISO 9001 certificates of two major wholly owned subsidiaries of the Group were renewed successfully in January 2018 and September 2019.

The Group further improves the level of satisfaction it delivers to customers by carrying out business operations based on the Quality Policy and Quality Procedure Manual. Starting from 2007, the Group surveys its high-volume customers annually which included questions in relation to product quality. Customers rated overall satisfaction level with the products of the Group as "good", which has been consistent since 2007. It shows that the Group has built up a reliable global network with its trusted customers by providing high quality products and services continuously.

Complaint Handling

The Group's complaint handling policy is strictly in accordance with regulatory standards to ensure that customers' opinions are heard and responded in a timely manner in the PRC, Hong Kong, and Philippines.

Customer Data Protection

The Group regards data privacy and security as a key operating principle. The Group committed to protecting confidentiality of the personal data of our employees, business partners and other identifiable individuals. We are in strict compliance with the applicable rules and regulations such as the Cybersecurity Law of the PRC, the Personal Data (Privacy) Ordinance (Cap. 486) in Hong Kong, and the Data Privacy (RA 10173) in Philippines.

B. SOCIAL ASPECTS *(continued)*

OPERATING PRACTICES *(continued)*

B7. Anti-Corruption

The Group considers business ethics and integrity as utmost importance in corporate sustainable development and long-term success. Hence, we strictly adhere to all the applicable laws and regulations, including the Criminal Law in the PRC, the Prevention of Bribery Ordinance in Hong Kong, and the Anti-Graft and Corrupt Practices (RA 3019) in Philippines. The Code of Conduct included in our Human Resources Manual allows our people to understand explicitly on several areas, which include the provisions of anti-bribery and corruption. In addition, the Group has set up a policy for employees to raise their concerns about possible improprieties in financial reporting, internal control or other matters within the Group to come forward and voice their issues in order to commit the highest possible standards of openness, probity and accountability. The Group definitely has zero tolerance on bribery and corruption behaviour.

COMMUNITY

B8. Community Investment

The Group is committed to supporting the community by incorporating social participation and contribution in our business development. We believe through community investment, socially responsible corporate culture and practices can be nurtured in the Group.

In 2019, the Group called for donations of HK$6,200 from employees in Hong Kong for the "Orbis World Sight Day 2019" to help support the new third generation Flying Eye Hospital of Orbis. The charity donations raise awareness of employees on people in needs around the world and encourage them to share their blessings towards others.

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The directors hereby submit their annual report together with the audited financial statements for the year ended 31 December 2019.

PRINCIPAL PLACE OF BUSINESS

HNA Technology Investments Holdings Limited is a company incorporated and domiciled in Cayman Islands and has its registered office at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and its principal place of business was at Office 4908, 49 Floor, the Center, 99 Queen's Road Central, Hong Kong up to 14 April 2019 and has changed to Units 4108–4110, 41st Floor, Manhattan Place, 23 Wang Tai Road, Kowloon Bay, Hong Kong effective from 15 April 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The Group is principally engaged in financial technology and smart living business, and financial services and investment business. The principal activities and other particulars of the subsidiaries are set out in note 14 to the financial statements. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the management discussion and analysis set out on pages 4 to 11 of this annual report. This discussion forms part of this report of the directors.

For more details regarding the Group's performance by reference to environmental and social-related policies, as well as compliance with relevant laws and regulations that have a significant impact on the Group's business and operation can be found in the environmental, social and governance report set out on pages 37 to 63 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	9%	–
Five largest customers in aggregate	28%	–
The largest supplier	–	27%
Five largest suppliers in aggregate	–	55%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge to the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

The Group keeps effective communication with customers, impresses customers with high quality products and services, and responds promptly to their feedbacks and comments. During the year ended 31 December 2019 and up to the date of this report, the Group maintained good relationship with customers.

The Group keeps a high standard in selecting reputable and reliable suppliers in order to meet our own quality, safety, environmental and product criteria. During the year ended 31 December 2019 and up to the date of this report, the Group maintained good relationship with its suppliers.

CHARITABLE DONATIONS

No charitable donation was made by the Group during the year ended 31 December 2019 (2018: nil).

RESULTS AND APPROPRIATIONS

The loss of the Group for the year ended 31 December 2019 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 82 to 175.

The directors do not recommended the payment of final dividend for the year ended 31 December 2019 (2018: nil).

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining shareholders who are entitled to attend and vote at the annual general meeting to be held on Thursday, 28 May 2020 (or any adjournment thereof), the register of members of the Company will be closed from Monday, 25 May 2020 to Thursday, 28 May 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the right to attend and vote at the annual general meeting (or any adjournment thereof), all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Friday, 22 May 2020.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 86 and note 24(a) to the financial statements, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK$54.6 million (2018: HK$56.4 million) includes the Company's share premium which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debt as and when they fall due in the ordinary course of business.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 24(c) to the financial statements.

DIRECTORS

The directors who held the office during the year and up to the date of this report are:

Executive Directors
Mr. Jiang Hao *(Chairman) (appointed on 17 July 2019)*
Mr. Peng Zhi *(Chief Executive Officer) (appointed on 20 December 2019)*
Mr. Xu Jie *(appointed on 17 June 2019)*
Mr. Wang Jing *(appointed on 17 July 2019)*
Mr. Wong Chi Ho
Mr. Zhang Tao *(retired on 30 May 2019)*
Mr. Tong Fu *(resigned on 17 June 2019)*
Mr. Cui Yijun *(resigned on 17 July 2019)*
Mr. Zheng Xuedong *(resigned on 5 August 2019)*

Non-executive Director
Mr. Kwan Kin Man Keith *(appointed on 20 December 2019)*

Independent Non-executive Directors
Mr. Guo Dan
Dr. Lin Tat Pang
Ms. O Wai *(appointed on 15 March 2019)*

In accordance with Article 16.2 of the Company's Articles of Association, Mr. Jiang Hao, Mr. Xu Jie, Mr. Wang Jing, Mr. Peng Zhi and Mr. Kwan Kin Man Keith will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 16.18 of the Company's Articles of Association, Mr. Wong Chi Ho and Dr. Lin Tat Pang will retire by rotation at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

The executive directors have entered into a service agreement with the Company for a term of two years, which may be terminated by not less than three months' notice in writing served by either party to the other.

The non-executive director has entered into a letter of appointment with the Company for a term of one year, which may be terminated by not less than one month's notice in writing served by either party to the other.

The independent non-executive directors have entered into letters of appointment with the Company for a term of two years, which may be terminated by not less than three months' notice in writing served by either party to the other.

The current period of the service agreements or letters of appointment are as follows:

Name of director	Period
Mr. Jiang Hao	17 July 2019 to 16 July 2021
Mr. Peng Zhi	20 December 2019 to 19 December 2021
Mr. Xu Jie	17 June 2019 to 16 June 2021
Mr. Wang Jing	17 July 2019 to 16 July 2021
Mr. Wong Chi Ho	24 March 2019 to 23 March 2021
Mr. Kwan Kin Man Keith	20 December 2019 to 19 December 2020
Mr. Guo Dan	27 June 2019 to 26 June 2021
Dr. Lin Tat Pang	22 December 2019 to 21 December 2021
Ms. O Wai	15 March 2019 to 14 March 2021

None of the directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, none of the directors or chief executive of the Company had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

As at 31 December 2019, to the best knowledge of the directors of the Company, none of the directors or their associates had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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

As at 31 December 2019, so far as is known to the directors or chief executive of the Company, the following shareholders (excluding directors and chief executive of the Company) had interests and short positions of 5% or more in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Name of shareholder	Notes	Capacity	Long position in ordinary shares of HK$0.10 each Total number of shares held	Approximate percentage of the Company's issued share capital as at 31 December 2019
HNA EcoTech Pioneer Acquisition	(i)	Beneficial owner	238,889,669	74.75%
HNA Technology Group (HK) Co., Limited (海航科技集團（香港）有限公司)	(i)	Interest in controlled corporation	238,889,669	74.75%
HNA EcoTech Group Co., Ltd.* (海航生態科技集團有限公司)	(i)	Interest in controlled corporation	238,889,669	74.75%
HNA Group Co., Ltd.* (海航集團有限公司)	(i)	Interest in controlled corporation	238,889,669	74.75%
Hainan Traffic Administration Holding Co., Ltd.* (海南交管控股有限公司)	(i)	Interest in controlled corporation	238,889,669	74.75%
Sheng Tang Development (Yangpu) Co., Ltd.* (盛唐發展（洋浦）有限公司)	(i)	Interest in controlled corporation	238,889,669	74.75%
Tang Dynasty Development Company Limited (盛唐發展有限公司)	(i)	Interest in controlled corporation	238,889,669	74.75%
Hainan Province Cihang Foundation* (海南省慈航公益基金會)	(i)	Interest in controlled corporation	238,889,669	74.75%
Cihang Sino-Western Cultural and Educational Exchange Foundation Limited (慈航東西方文教交流基金會有限公司)	(i)	Interest in controlled corporation	238,889,669	74.75%
Premium Financial Limited (永寶物業按揭有限公司)	(ii)	Interest in controlled corporation	238,889,669	74.75%
Sun Speed Holdings Limited (日迅控股有限公司)	(ii)	Interest in controlled corporation	238,889,669	74.75%
Mr. Qiu Yong (邱用先生)	(ii)	Interest in controlled corporation	238,889,669	74.75%

* *For identification purposes only*

Notes:

(i) HNA EcoTech Pioneer Acquisition is held as to 100% by HNA Technology Group (HK) Co., Limited which in turn is held as to 100% by HNA EcoTech Group Co., Ltd.. HNA EcoTech Group Co., Ltd. is held as to more than one-third by HNA Group. HNA Group is held as to 70% by Hainan Traffic Administration Holding Co., Ltd.. Hainan Traffic Administration Holding Co., Ltd. is in turn held as to 50% by Sheng Tang Development (Yangpu) Co., Ltd.. Sheng Tang Development (Yangpu) Co., Ltd. is held as to 65% by Hainan Province Cihang Foundation and as to 35% by Tang Dynasty Development Co. Ltd. which is in turn 98% held by Pan-American Aviation Holding Company, which is wholly held by Cihang Sino-Western Cultural and Educational Exchange Foundation Limited. HNA Technology Group (HK) Co., Limited, HNA EcoTech Group Co., Ltd., HNA Group, Hainan Traffic Administration Holding Co. Ltd., Sheng Tang Development (Yangpu) Co., Ltd., Tang Dynasty Development Company Limited, Hainan Province Cihang Foundation and Cihang Sino-Western Cultural and Educational Exchange Foundation Limited are therefore deemed to be interested in shares held by HNA EcoTech Pioneer Acquisition under the SFO.

(ii) On 21 August 2018, HNA EcoTech Pioneer Acquisition (the "Controlling Shareholder"), the controlling shareholder (as defined in the Listing Rules) of the Company entered into a share charge agreement with China Construction Bank (Asia) Corporation Limited, pursuant to which the Controlling Shareholder agreed to pledge 238,889,669 shares in the issued share capital of the Company (the "Pledged Shares") in favour of both Huatai Principal Investment I Limited and Surplus Gain Global Limited for a term loan facility for an amount of up to HK$240 million to the Controlling Shareholder.

On 27 August 2019, the Controlling Shareholder entered into a share charge agreement with Premium Financial Limited, pursuant to which the Controlling Shareholder agreed to pledge the Pledged Shares in favour of Premium Financial Limited, for the purpose of securing a loan granted by independent third parties of the Company to the Controlling Shareholder.

The Pledged Shares by the Controlling Shareholder in favour of China Construction Bank (Asia) Corporation Limited were released on 28 August 2019 and upon the completion of the release on 28 August 2019, the Pledged Shares were pledged by the Controlling Shareholder in favour of Premium Financial Limited.

Therefore, the records in the register to be kept under Section 336 of the SFO was updated that (i) Premium Financial Limited, Sun Speed Holdings Limited and Mr. Qiu Yong are interested in 238,889,669 shares as security interest; and (ii) interest in 238,889,669 shares held by HNA EcoTech Pioneer Acquisition, HNA Technology Group (HK) Co., Limited, HNA EcoTech Group Co., Ltd., HNA Group, Hainan Traffic Administration Holding Co., Ltd., Sheng Tang Development (Yangpu) Co., Ltd, Tang Dynasty Development Company Limited, Hainan Province Cihang Foundation and Cihang Sino-Western Cultural and Educational Exchange Foundation Limited were provided as security to a person other than a qualified lender.

Save as disclosed above, as at 31 December 2019 and to the best knowledge of the directors and chief executives of the Company, no person had an interest or short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept under Section 336 of the SFO.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

Save as disclosed under the section "Connected Transactions" and material related party transactions disclosed in the note 27(a) to the financial statements, there was no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a director of the Company or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Based on the information available to the Company and within the knowledge and belief of the directors of the Company, none of the directors of the Company have any interests in a business which competes or may compete with the business of the Group during the year.

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

During the year, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

PRE-EMPTIVE RIGHTS

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

PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provides that every director shall be indemnified out of the assets of the Company against all losses or liability incurred or sustained by him or her as a director in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted. Throughout the year and up to the date of this report, the Company has taken out insurance against the liabilities and costs associated with defending any proceedings which may be brought against the directors of the Company and its subsidiaries.

BANK LOAN AND OTHER BORROWING

There is no outstanding balance of bank loan and other borrowing as at 31 December 2019 (2018: nil).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 176 of this annual report.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into during the year or subsisted at the end of the year.

CONNECTED TRANSACTIONS

On 2 November 2017, a wholly owned subsidiary of the Company, namely HNA Technology Investments Limited (the "subsidiary") entered into a mandate (the "Mandate") with HNA Tech Group pursuant to which the subsidiary was appointed as a consultant to HNA Tech Group in connection with the provision of certain consultancy and advisory services (the "Continuing Connected Transaction"). The Company is held as to 74.75% by HNA EcoTech Pioneer Acquisition, which is an indirect subsidiary of HNA Group, of which HNA Tech Group is a subsidiary. Accordingly, HNA Tech Group is a connected person of the Company and the entering into of the Mandate constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules. The service fees of the advisory services were pre-determined in the Mandate. Total service fee recorded for the year ended 31 December 2019 amounted to nil (2018: nil). The Continuing Connected Transaction was approved by shareholders and subject to annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

The related party transaction disclosed in note 27(a)(ii) constitutes the above continuing connected transaction under Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are disclosed above.

During the year ended 31 December 2019, the Group paid rental expenses of HK$778,000 (2018: HK$1,033,000) to HNA EcoTech Pioneer Acquisition for sharing of an office premise. This constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. The related party transaction disclosed in note 27(a)(i) to the financial statements constitute this continuing connected transaction under Chapter 14A of the Listing Rules. However, the transaction is exempt from the disclosure requirements in Chapter 14A of the Listing Rules as it is below the de minimus threshold under Rule 14A.76(1).

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive directors have reviewed the above Continuing Connected Transaction and are of the opinion that the transactions have been entered into:

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

(ii) on normal commercial terms; and

(iii) in accordance with the Mandate on terms that are fair and reasonable and in the interests of the shareholder of the Company as a whole.

The Company's auditor was engaged to report on the Continuing Connected Transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing the auditor's findings and conclusion in respect of the above Continuing Connected Transaction in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

REMUNERATION POLICIES

Remuneration policies and packages for the Group's employees are based on individual qualifications, performance, experience and conditions prevailing in the industry. In addition, various training sessions are offered to employees to enhance their product and market knowledge. The remuneration of directors is determined according to their expertise, knowledge, and contributions to the Group with reference to the Group's profitability and the prevailing market conditions.

EMPLOYEE RETIREMENT PLANS

Particulars of employee retirement plans of the Group are set out in note 22 to the financial statements.

PUBLIC FLOAT

Based on the information publicly available and to the best information and knowledge of the directors, the Company had maintained the prescribed public float as required under the Listing Rules during the year ended 31 December 2019 and up to the date of this annual report.

ENVIRONMENTAL POLICY

The Group is committed to create a business that contributes to global efforts in environmental care and sustainability. A further discussion of the environmental policies of the Group can be found in the environmental, social and governance report set out in pages 37 to 63 of this annual report, the discussion of which forms part of this report of the directors.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

AUDITORS

The consolidated financial statements for the year ended 31 December 2019 have been audited by KPMG, who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

Jiang Hao
Chairman

24 March 2020

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report to the members of
HNA Technology Investments Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of HNA Technology Investments Holdings Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 82 to 175, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Capitalisation and amortisation of development costs

Refer to note 13 to the consolidated financial statements and the accounting policies note 2(h).

The Key Audit Matter	How the matter was addressed in our audit
The Group capitalises costs incurred in the development of its smart card products if they meet the criteria for capitalisation as set out in the prevailing accounting standards. This involves significant management judgement in both determining when the criteria for capitalisation are met and in identifying the relevant costs to be capitalised. As at 31 December 2019, the carrying value of capitalised development costs totalled HK$30 million. Amortisation of development costs commences once the developed technology is available for commercial use. Management applies judgement in identifying the point at which the technology is available for commercial use and in determining the estimated useful economic life of the technology by considering technological developments and future possible market conditions. We identified the capitalisation and amortisation of development costs as a key audit matter because of the significant level of management judgement involved in determining when the criteria for capitalisation of development costs are met and in assessing the estimated useful lives of the developed technology.	Our audit procedures to assess the capitalisation and amortisation of development costs included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to the capitalisation of development costs and the estimations of the useful lives of the developed technology; • challenging, on a sample basis, management's assessment of the fulfilment of the criteria for capitalisation of development costs as set out in the prevailing accounting standards by discussing with the Group's engineers the commercial application of the technology and inspecting the corresponding feasibility reports prepared by the Group's engineers; • comparing a sample of items capitalised during the year with relevant underlying documentation, including timesheet data; • comparing the point at which the developed technology became available for commercial use with the corresponding project completion report prepared by the Group's engineers and confirmed sales orders for all projects completed during the current year; • challenging management's assessment of the estimated economic useful lives for all technology newly developed in the current year by comparing the estimates of economic useful lives with past performance for similar projects taking into account recent developments in the technology; and • assessing the estimated economic useful lives of technology developed in prior years by making enquiries of management and engineers and inspecting, on a sample basis, the trend of sales data for the individual technologies.

Valuation of development costs capitalised as intangible assets

Refer to note 13 to the consolidated financial statements and the accounting policies note 2(j).

The Key Audit Matter

The costs incurred in the development of the Group's smart card products are capitalised as intangible assets when certain criteria are met. The carrying value of the Group's development costs capitalised as intangible assets totalled HK$30 million as at 31 December 2019.

Management performs an annual impairment assessment of its capitalised development costs on a project-by-project basis by identifying if there are any projects with indicators of potential impairment, which include a shortfall of revenue generated from the project as compared to management's forecasts, delays in project completion and changes in technology which may render the products obsolete or result in reduced sales opportunities.

For those projects for which an indicator of impairment was identified, management compared the carrying value of individual development costs against the respective discounted cashflow forecast to determine the amount of impairment which should be recognised, if any.

Management is required to exercise significant judgement in estimating the individual products' future revenue, future margins and the related costs to be incurred in bringing the technology into commercial use. The technology industry is dynamic and the reception of the market to the Group's products involves inherent uncertainty.

We have identified the valuation of development costs capitalised as intangible assets as a key audit matter because determining the level of impairment, if any, involves a significant degree of management judgement in forecasting future cash flows and estimating the recoverable amounts of the development costs, both of which are inherently uncertain and could be subject to management bias.

How the matter was addressed in our audit

Our audit procedures to assess the valuation of development costs capitalised as intangible assets included the following:

- assessing and challenging the impairment assessment model, which included evaluating the impairment indicators identified by management and assessing whether the impairment assessment models were prepared in accordance with the requirements of the prevailing accounting standards;

- challenging the key assumptions and critical judgements adopted by management in the discounted cashflow forecasts by comparing the significant inputs, which included future revenue and future margins with the historical performance of comparable products and the financial budgets of the individual projects approved by management;

- assessing the appropriateness of the discount rate used in the discounted cashflow forecasts by benchmarking against those of other similar companies in the same industry;

- enquiring of the Group's internal engineers and management about any expected changes in market demand and technological advances which may reduce the expected cashflows to be generated by the developed technology; and

- performing a sensitivity analysis of both the discount rates and future revenue and considering the resulting impact on the impairment assessment and whether there were any indicators of management bias.

Recoverability of trade receivables

Refer to note 17 to the consolidated financial statements and the accounting policies note 2(m).

The Key Audit Matter	How the matter was addressed in our audit
The carrying value of the Group's trade receivables as at 31 December 2019 totalled HK$21 million after deduction of loss allowance for expected credit losses of HK$13 million. Management measures the loss allowance at an amount equal to lifetime expected credit losses, which is estimated by taking into account the credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date, all of which involve a significant degree of judgement. We identified the recoverability of trade receivables as a key audit matter because the assessment of the recoverability of trade debtors and recognition of loss allowances are inherently subjective and require significant management judgement, which increases the risk of error or potential management bias.	Our audit procedures to assess the recoverability of trade receivables included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and the estimation of expected credit losses under the Group's policy; • assessing whether items were properly categorised in the trade receivables ageing report by comparing a sample of individual items with underlying sales invoices; • assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; and • comparing cash receipts from debtors subsequent to the financial year end relating to trade receivable balances at 31 December 2019 with bank statements and relevant underlying documentation on a sample basis.

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yue Tat Wai.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
24 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	Note	2019	2018 (Note)
		$'000	*$'000*
Revenue	4	**165,727**	137,685
Cost of sales and services		**(74,365)**	(63,315)
Gross profit		**91,362**	74,370
Other income	5	**1,220**	429
Selling and distribution costs		**(15,342)**	(16,109)
Research and development expenses		**(36,956)**	(30,787)
Administrative expenses		**(46,996)**	(51,450)
Loss from operations		**(6,712)**	(23,547)
Finance costs	6(a)	**(322)**	–
Loss before taxation	6	**(7,034)**	(23,547)
Income tax	7(a)	**(1,225)**	93
Loss for the year attributable to the equity shareholders of the Company		**(8,259)**	(23,454)
Loss per share	11		
Basic		**(2.584 cents)**	(7.339 cents)
Diluted		**(2.584 cents)**	(7.339 cents)

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 88 to 175 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	Note	2019	2018 (Note)
		$'000	*$'000*
Loss for the year		**(8,259)**	(23,454)
Other comprehensive income for the year (after tax)	10		
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit obligations		**(595)**	161
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(237)**	(1,604)
Total comprehensive income for the year		**(9,091)**	(24,897)
Attributable to:			
Equity shareholders of the Company		**(9,091)**	(24,897)

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 88 to 175 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

(Expressed in Hong Kong dollars)

	Note	2019	2018
			(Note)
		$'000	*$'000*
Non-current assets			
Property, plant and equipment	12	**10,400**	5,472
Intangible assets	13	**30,527**	43,735
Deferred tax assets	23(b)	**1,940**	2,406
		42,867	51,613
Current assets			
Inventories	16	**30,760**	36,191
Trade and other receivables	17	**24,811**	39,990
Other financial assets	18	**316**	874
Current tax recoverable	23(a)	**1,663**	1,607
Cash and cash equivalents	19(a)	**45,449**	27,937
		102,999	106,599
Current liabilities			
Trade and other payables	20	**20,724**	28,927
Lease liabilities	21	**3,045**	–
Current tax payable	23(a)	**118**	118
		23,887	29,045
Net current assets		**79,112**	77,554
Total assets less current liabilities		**121,979**	129,167

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

(Expressed in Hong Kong dollars)

	Note	2019	2018
			(Note)
		$'000	*$'000*
Non-current liabilities			
Defined benefit obligations	22	**2,026**	1,293
Lease liabilities	21	**1,170**	–
		3,196	1,293
NET ASSETS		**118,783**	127,874
CAPITAL AND RESERVES			
Share capital	24(c)	**31,956**	31,956
Reserves		**86,827**	95,918
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**118,783**	127,874

Approved and authorised for issue by the Board of Directors on 24 March 2020.

Peng Zhi	Wong Chi Ho
Director	*Director*

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 88 to 175 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	Share capital	Share premium	Merger reserve	Surplus reserve	Exchange reserve	Retained profits (Note)	Total equity
		$'000	$'000	$'000	$'000	$'000	$'000	$'000
		(Note 24(c))	(Note 24(d)(i))	(Note 24(d)(ii))	(Note 24(d)(iii))	(Note 24(d)(iv))		
Balance at 1 January 2018		31,956	53,383	4,496	1,853	51	61,032	152,771
Changes in equity for the year:								
Loss for the year		–	–	–	–	–	(23,454)	(23,454)
Other comprehensive income	10	–	–	–	–	(1,604)	161	(1,443)
Total comprehensive income		–	–	–	–	(1,604)	(23,293)	(24,897)
Appropriation to surplus reserve		–	–	–	346	–	(346)	–
Balance at 31 December 2018 and 1 January 2019		**31,956**	**53,383**	**4,496**	**2,199**	**(1,553)**	**37,393**	**127,874**
Changes in equity for the year:								
Loss for the year		–	–	–	–	–	(8,259)	(8,259)
Other comprehensive income	10	–	–	–	–	(237)	(595)	(832)
Total comprehensive income		–	–	–	–	(237)	(8,854)	(9,091)
Appropriation to surplus reserve		–	–	–	291	–	(291)	–
Balance at 31 December 2019		**31,956**	**53,383**	**4,496**	**2,490**	**(1,790)**	**28,248**	**118,783**

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 88 to 175 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	2019	2018 (Note)
		$'000	*$'000*
Operating activities			
Cash generated from operations	19(b)	25,970	12,456
Tax paid:			
– Hong Kong Profits Tax paid		(311)	(3,090)
– Tax paid outside Hong Kong		(160)	(286)
Net cash generated from operating activities		25,499	9,080
Investing activities			
Payment for the purchase of property, plant and equipment		(4,009)	(3,120)
Payment for purchases of other financial assets		(306)	(887)
Proceeds from maturity of other financial assets		874	856
Expenditure on development projects capitalised		(655)	(7,739)
Interest received		252	237
Net cash used in investing activities		(3,844)	(10,653)
Financing activities			
Capital element of lease rentals paid	19(c)	(3,951)	–
Interest element of lease rentals paid	19(c)	(322)	–
Net cash used in financing activities		(4,273)	–
Net increase/(decrease) in cash and cash equivalents		17,382	(1,573)
Cash and cash equivalents at 1 January		27,937	29,632
Effect of foreign exchange rate changes		130	(122)
Cash and cash equivalents at 31 December	19(a)	45,449	27,937

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 88 to 175 form part of these financial statements.

1 GENERAL INFORMATION

HNA Technology Investments Holdings Limited (the "Company") was incorporated in the Cayman Islands on 13 April 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Its registered office is located at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and its principal place of business was at Office 4908, 49 Floor, The Center, 99 Queen's Road Central, Hong Kong up to 14 April 2019 and has changed to Units 4108–4110, 41st Floor, Manhattan Place, 23 Wang Tai Road, Kowloon Bay, Hong Kong effective from 15 April 2019.

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in a joint venture.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements

The consolidated financial statements have been presented in Hong Kong dollars ("HKD"), being the functional and presentation currency of the Company. All financial information presented in HKD has been rounded to the nearest thousands, unless otherwise stated.

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

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

***HKFRS 16, Leases** (continued)*

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 26. For an explanation of how the Group applies lessee accounting, see note 2(i).

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 6%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

***HKFRS 16, Leases** (continued)*

b. Lessee accounting and transitional impact *(continued)*

The following table reconciles the operating lease commitments as disclosed in note 26 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 *$'000*
Operating lease commitments at 31 December 2018	9,104
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(2,356)
	6,748
Less: total future interest expenses	(346)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	6,402
Total lease liabilities recognised at 1 January 2019	6,402

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

***HKFRS 16, Leases** (continued)*

b. Lessee accounting and transitional impact *(continued)*

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 *$'000*	Capitalisation of operating lease contracts *$'000*	Carrying amount at 1 January 2019 *$'000*
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	5,472	6,402	11,874
Total non-current assets	51,613	6,402	58,015
Lease liabilities (current)	–	3,783	3,783
Current liabilities	29,045	3,783	32,828
Net current assets	77,554	(3,783)	73,771
Total assets less current liabilities	129,167	2,619	131,786
Lease liabilities (non-current)	–	2,619	2,619
Total non-current liabilities	1,293	2,619	3,912
Net assets	127,874	–	127,874

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

HKFRS 16, Leases *(continued)*

c. Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported loss from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see note 19(c)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement (see note 19(d)).

(d) Subsidiaries

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

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

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Subsidiaries *(continued)*

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 2(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(j)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Joint ventures

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(j)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the joint venture.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Joint ventures *(continued)*

Unrealised profits and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in a joint venture becomes an investment in an associate, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(f) Other investments in debt securities

Investments in debt securities are recognised/derecognised on the date the Group commits to purchase/sell the investment or upon maturity. Investment in debt securities are initially stated at fair value plus directly attributable transaction costs. These investments are subsequently accounted for as follows:

If the contractual cash flows of the debt securities held by the Group represent solely payments of principal and interest, the debt securities would be classified as amortised cost, as the Group does not invest in such instruments other than principally to collect those contractual cash flows. Interest income from investments carried at amortised cost is calculated using the effective interest method (see note 2(s)(iii)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(j)(ii)):

– right-of-use assets arising from leases over leasehold properties where the Group is not the registered owner of the property interest; and

– items of property, plant and equipment.

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

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Leasehold improvements	Over the remaining of the leases
– Furniture and fixtures	4 years
– Computer and office equipment	4 years
– Mould	4 years
– Motor vehicles	4 years

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(j)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (note 2(j)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Development costs	4 years
– Customer relationships	7 years
– Technical know-how	4 years

Both the period and method of amortisation are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the 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 direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2(g) and 2(j)(ii)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Leased assets *(continued)*

(A) Policy applicable from 1 January 2019 *(continued)*

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(B) Policy applicable prior to 1 January 2019

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset.

Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made.

(j) Credit losses and impairment of assets

(i) Credit losses from financial instruments

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

Measurement of ECLs

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

The expected cash shortfalls of fixed-rate financial assets and trade and other receivables are discounted using the effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments (continued)

Measurement of ECLs *(continued)*

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

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

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECLs model applies.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments *(continued)*

Significant increases in credit risk

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

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

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Credit losses and impairment of assets *(continued)*

(i) Credit losses from financial instruments (continued)

Basis of calculation of interest income

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

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

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

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Credit losses and impairment of assets *(continued)*

(ii) Impairment of other non-current assets

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

– property, plant and equipment, including right-of-use assets;

– intangible assets;

– goodwill; and

– investments in subsidiaries and joint ventures in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Credit losses and impairment of assets *(continued)*

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(j)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 2(s)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(m)).

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2(s)).

(l) Inventories

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

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

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

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

(m) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(j)(i)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in note 2(j)(i).

(p) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Employee benefits *(continued)*

(ii) Defined benefit retirement plan obligations

The Group's net obligation in respect of a defined benefit retirement plan is calculated by estimating the amount of future benefit that employees have earned in return for their services in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense/(income) on the net defined benefit liability/(asset) are recognised in profit and loss and allocated by function as part of "selling and distribution costs", "research and development expenses" or "administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit and loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense/(income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/(asset). The discount rate is the yield at the end of the reporting period on government bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability/(asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/(asset)).

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Income tax

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Income tax *(continued)*

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

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

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

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

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

    - the same taxable entity; or

    - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Provisions and contingent liabilities

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

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

(s) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods and the provision of services in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue from the sales of goods (including smart card products, software and hardware) is recognised when customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative standalone selling price basis.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Revenue and other income *(continued)*

(ii) Provision of service

Revenue from provision of service are recognised when the related services are provided.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method. Using the rate that exactly discounts estimated future cash receipts through the excepted life of the financial asset to the gross carrying amount of the financial asset.

(iv) Government subsidies

Government subsidies are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Subsidies that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities.

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

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that subsidiary outside Hong Kong is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Related parties

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group.

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Segment reporting

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

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Note 22 contain information about the assumptions and their risk factors relating to defined benefit retirement obligations. Other key sources of estimation uncertainty are as follows:

(a) Impairment of property, plant and equipment and intangible assets

If circumstances indicate that the carrying values of property, plant and equipment and intangible assets may not be recoverable, the assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36, *Impairment of assets*. Under HKAS 36, these assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of its fair value less costs of disposal and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, selling prices and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount. However, actual sales volumes, selling prices and operating costs may be different from assumptions which may require a material adjustment to the carrying amount of the assets affected. Details of the nature and carrying amounts of property, plant and equipment and intangible assets are disclosed in notes 12 and 13, respectively.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

(b) Depreciation and amortisation

Property, plant and equipment and intangible assets (see notes 12 and 13) are depreciated and amortised on a straight-line basis over their estimated useful lives, after taking into account the estimated residual values, if any. The Group reviews the estimated useful lives and the estimated residual values, if any, of the assets at least annually in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods is adjusted if there are significant changes from previous estimates.

(c) Provision for expected credit losses of trade receivables

The Group's uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various debtors that have similar loss patterns. The provision matrix is based on management's estimate of the lifetime ECLs to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement. The provision of ECLs is sensitive to changes in circumstances and of forecast general economic conditions. The information about the ECLs of the Group's trade receivables are disclosed in note 25(a). If the financial condition of the customers or the forecast economic conditions were to deteriorate, actual loss allowances would be higher than estimated.

(d) Write down of inventories

The Group performs regular reviews of the carrying amounts of inventories as disclosed in note 16 with reference to historical consumption, expected future consumption and management judgement. Based on these reviews, write down of inventories will be made when the estimated net realisable value of inventories decline below the carrying amount. However, actual consumption may be different from estimation and profit or loss could be affected by differences in this estimation.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

(e) Deferred tax assets

Deferred tax assets are recognised for unused tax losses and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax benefits can be utilised, management's judgements is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered. Details of the nature and carrying amounts of deferred tax assets are disclosed in note 23(b).

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the development, sales and distribution of smart card products, software and hardware, provision of smart card related services and provision of financial advisory services.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2019 *$'000*	2018 *$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major product or service lines		
– Sale of smart card products and provision of related services	**165,727**	137,685

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in note 4(b)(i) and 4(b)(iii) respectively.

The Group's customer base is diversified. None of the customers (2018: None) individually contributed over 10% of the Group's revenue.

4 REVENUE AND SEGMENT REPORTING *(continued)*

(a) Revenue *(continued)*

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

As at 31 December 2019, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is $nil (2018: $14,336,000). The amount as at 31 December 2018 represented revenue expected to be recognised in the future from pre-completion sales contracts entered into by the customers with the Group. The Group would recognise the expected revenue in future when or as the service is provided.

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

– The financial technology and smart living business mainly represents the development, sales and distribution of smart card products, software and hardware and the provision of smart card related services; and

– The financial services and investment business mainly represents the provision of advisory services including financial due diligence and business operation consultancy services.

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, intangible assets, current assets (including interest in a joint venture, deferred tax assets and current tax recoverable) with the exception of cash and cash equivalents which are centrally managed by the Group and other corporate assets. Segment liabilities include trade creditors, lease liabilities, employee retirement benefit liabilities, current tax payable and deferred tax liabilities attributable to the sales activities of the individual segments with the exception of other corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment revenue and expenses include the Group's share of revenue and expenses arising from the activities of the Group's joint venture.

The measure used for reporting segment profit is "profit/(loss) from operations". To arrive at "profit/(loss) from operations", the Group's profit is further adjusted for items not specifically attributed to individual segments, such as directors' remuneration, interest income, finance costs and other head office and corporate expenses.

In addition to receiving segment information concerning profit/(loss) from operations, management is provided with segment information concerning revenue, depreciation and amortisation and impairment loss and additions to non-current segment assets used by the segments in their operations.

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(i) Segment results, assets and liabilities (continued)

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below:

	Financial technology and smart living		Financial services and investment		Total	
	2019	2018 (Note)	**2019**	2018	**2019**	2018 (Note)
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Disaggregated by timing of revenue recognition						
Point in time	**165,599**	137,048	**–**	–	**165,599**	137,048
Over time	**128**	637	**–**	–	**128**	637
Reportable segment revenue	**165,727**	137,685	**–**	–	**165,727**	137,685
Reportable segment profit/(loss) from operations	**14,476**	1,750	**(9,105)**	(16,098)	**5,371**	(14,348)
Depreciation and amortisation for the year	**(20,956)**	(12,515)	**(118)**	(285)	**(21,074)**	(12,800)
Impairment losses of						
– trade and other receivables	**(1,752)**	(1,923)	**(8,000)**	(4,000)	**(9,752)**	(5,923)
– intangible assets	**–**	(1,085)	**–**	–	**–**	(1,085)
Reportable segment assets	**121,795**	142,999	**200**	11,258	**121,995**	154,257
Reportable segment liabilities	**25,560**	27,988	**22,864**	26,218	**48,424**	54,206
Additions to non-current segment assets during the year	**6,721**	10,497	**–**	362	**6,721**	10,859

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(ii) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities

	2019	2018 (Note)
	$'000	*$'000*
Revenue		
Reportable segment revenue	165,727	137,685
Consolidated revenue	165,727	137,685

	2019	2018 (Note)
	$'000	*$'000*
Profit or loss		
Reportable segment profit/(loss) from operations	5,371	(14,348)
Interest income	252	237
Finance costs	(322)	–
Unallocated head office and corporate expenses	(12,335)	(9,436)
Consolidated loss before taxation	(7,034)	(23,547)

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(ii) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities (continued)

	2019	2018 (Note)
	$'000	*$'000*
Assets		
Reportable segment assets	**121,995**	154,257
Elimination of inter-segment receivables	**(21,818)**	(24,164)
	100,177	130,093
Unallocated head office and corporate assets	**45,689**	28,119
Consolidated total assets	**145,866**	158,212

	2019	2018 (Note)
	$'000	*$'000*
Liabilities		
Reportable segment liabilities	**48,424**	54,206
Elimination of inter-segment payables	**(21,818)**	(24,164)
	26,606	30,042
Unallocated head office and corporate liabilities	**477**	296
Consolidated total liabilities	**27,083**	30,338

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(iii) Geographic information

The following table sets out information about the geographic location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets and interest in a joint venture ("specified non-current assets"). The geographic location of customers is based on the location at which the services were provided or the goods are delivered. The geographic location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operations to which they are allocated, in the case of intangible assets, and the location of the operations, in the case of interest in a joint venture.

	Revenue from external customers		Specified non-current assets	
	2019	2018	**2019**	2018 (Note)
	$'000	*$'000*	***$'000***	*$'000*
The People's Republic of China ("PRC"), including Hong Kong and Macau (country of domicile)	**17,641**	23,371	**39,552**	48,192
United States of America ("U.S.")	**35,876**	17,623	**–**	–
Japan	**20,266**	13,170	**–**	–
Turkey	**12,654**	3,802	**–**	–
Republic of Fiji	**7,755**	8,808	**–**	–
The Russian Federation	**5,749**	4,868	**–**	–
Republic of the Philippines ("Philippines")	**3,646**	3,820	**1,321**	1,015
Other countries	**62,140**	62,223	**54**	–
	148,086	114,314	**1,375**	1,015
	165,727	137,685	**40,927**	49,207

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

5 OTHER INCOME

	2019	2018
	$'000	*$'000*
Government subsidies*	908	–
Interest income	252	237
Sundry income	60	192
	1,220	429

* During the year ended 31 December 2019, the Group successfully applied for research and development subsidy and high and new technology enterprise subsidy from the PRC Government of $904,000. The purpose of the subsidies is to encourage innovation by granting financial assistance to commercial entities whose research and development projects meet certain criteria. No government subsidies were granted to the Group during the year ended 31 December 2018.

6 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

	2019	2018 (Note)
	$'000	*$'000*
(a) Finance costs:		
Interest on lease liabilities (note 19(c))	322	–

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

6 LOSS BEFORE TAXATION *(continued)*

	2019 *$'000*	2018 *$'000*
(b) Staff costs:		
Contributions to defined contribution retirement plans	1,917	2,080
Net expenses recognised in respect of a defined benefit retirement plan (note 22)	328	324
Total retirement costs	2,245	2,404
Salaries, wages and other benefits	52,624	59,122
	54,869	61,526
Less: Amount capitalised into development costs	(588)	(5,253)
	54,281	56,273

6 LOSS BEFORE TAXATION *(continued)*

	2019 *$'000*	2018 *$'000*
(c) Other items:		
Amortisation of intangible assets (note 13)	13,863	9,919
Depreciation (note 12)		
– Property, plant and equipment	3,118	2,881
– Right-of-use assets*	4,094	–
Provision for impairment losses		
– trade receivables (note 25(a))	9,720	4,410
– other receivables	32	–
– amount due from a joint venture (note 15(b))	–	1,513
– intangible assets (note 13)	–	1,085
Auditors' remuneration	1,186	1,142
Total minimum lease payment of lease previously classified as operating lease under HKAS 17*	–	8,159
Net loss on disposal of property, plant and equipment	68	17
Gain on lease modification	(5)	–
Net foreign exchange gain	(664)	(1,621)
Cost of inventories (note 16(b))	73,226	62,646

* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2(c).

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2019	2018
	$'000	*$'000*
Current tax – Hong Kong Profits Tax		
Under/(over)-provision in respect of prior years	1	(53)
Current tax – Philippines Income Tax		
Provision for the year	257	132
Current tax – Other jurisdictions		
Provision for the year	191	145
Over-provision in respect of prior years	(27)	–
	164	145
Deferred tax		
Origination and reversal of temporary differences (note 23(b))	803	(317)
Income tax expense/(credit)	1,225	(93)

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*

(a) Taxation in the consolidated statement of profit or loss represents: *(continued)*

Notes:

(i) The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first $2,000,000 of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision of Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018.

(ii) The provision for Philippines Income Tax for 2019 is calculated at 30% (2018: 30%) of the estimated taxable income or 2% (2018: 2%) on gross income incurred for the year, whichever is higher, in accordance with the National Internal Revenue Code of the Philippines.

(iii) In accordance with the relevant PRC corporate income tax laws, regulations and implementation guidance notes, the statutory income tax rate applicable to the Company's subsidiaries in the PRC is 25%, except for the following companies:

(a) Logyi Limited ("Logyi")

Logyi was granted the "small and micro sized enterprise" status and enjoys the preferential corporate income tax rate of 10% from 2018 onwards.

(b) ACS Technologies (Shenzhen) Limited ("ACS Shenzhen")

ACS Shenzhen was granted the "high and new technology enterprise" status and enjoys the preferential corporate income tax rate of 15% for three years between 2018 and 2020.

(iv) Taxation for other entities is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*

(b) Reconciliation between tax expense/(credit) and accounting loss at applicable tax rates:

	2019	2018
	$'000	*$'000*
Loss before taxation	**(7,034)**	(23,547)
Notional tax on loss before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**(1,336)**	(3,826)
Tax effect of non-deductible expenses	**3,280**	810
Tax effect of non-taxable income	**(507)**	(244)
Tax effect of unused tax losses not recognised	**2,584**	4,421
Tax effect of utilisation of tax losses previously not recognised	**(901)**	(31)
Tax effect of temporary differences not recognised	**(24)**	880
Tax effect of tax exemption/deduction from tax authority	**(1,765)**	(2,168)
Over-provision in respect of prior years	**(26)**	(53)
Others	**(80)**	118
Actual tax expense/(credit)	**1,225**	(93)

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2019				
	Directors' fees *$'000*	Salaries, allowances and benefits in kind *$'000*	Discretionary bonuses *$'000*	Retirement scheme contributions *$'000*	Total *$'000*
Executive directors					
Mr. Jiang Hao *(appointed on 17 July 2019)*	–	–	–	–	–
Mr. Peng Zhi (note) *(appointed on 20 December 2019)*	–	1,561	240	18	1,819
Mr. Xu Jie *(appointed on 17 June 2019)*	–	–	–	–	–
Mr. Wang Jing *(appointed on 17 July 2019)*	–	–	–	–	–
Mr. Wong Chi Ho	–	1,200	–	18	1,218
Mr. Zhang Tao *(retired on 30 May 2019)*	–	–	–	–	–
Mr. Tong Fu *(resigned on 17 June 2019)*	–	–	–	–	–
Mr. Cui Yijun *(resigned on 17 July 2019)*	–	–	–	–	–
Mr. Zheng Xuedong *(resigned on 5 August 2019)*	–	1,648	–	11	1,659
Non-executive director					
Mr. Kwan Kin Man Keith *(appointed on 20 December 2019)*	–	–	–	–	–
Independent non-executive directors					
Mr. Guo Dan	240	–	–	–	240
Dr. Lin Tat Pang	240	–	–	–	240
Ms. O Wai *(appointed on 15 March 2019)*	190	–	–	–	190
	670	4,409	240	47	5,366

Note: During the year, Mr. Peng Zhi also acted as the financial director of the Group before 5 August 2019 and the chief executive officer of the Group from 5 August 2019 onwards. His emoluments for acting in the above capacities which were included in staff costs as disclosed in note 6(b) are also included in the table above.

8 DIRECTORS' EMOLUMENTS *(continued)*

	2018				
	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'000
Executive directors					
Mr. Tong Fu	–	1,467	–	15	1,482
Mr. Wong Chi Ho	–	1,200	–	18	1,218
Mr. Zheng Xuedong *(appointed on 10 May 2018)*	–	1,156	1,236	12	2,404
Mr. Cui Yijun *(appointed on 10 May 2018)*	–	358	–	–	358
Mr. Peng Fang *(resigned on 10 May 2018)*	–	605	–	3	608
Mr. Wang Ho *(resigned on 31 July 2018)*	–	1,526	–	11	1,537
Independent non-executive directors					
Mr. Guo Dan	240	–	–	–	240
Dr. Lin Tat Pang	240	–	–	–	240
Ms. Kaung Cheng Xi Dawn *(resigned on 31 December 2018)*	240	–	–	–	240
	720	6,312	1,236	59	8,327

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2018: four) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two individuals (2018: other individual) is as follow:

	2019	2018
	$'000	*$'000*
Salaries and other emoluments	2,280	1,320
Retirement scheme contributions	36	18
Discretionary bonuses	189	150
	2,505	1,488

The emoluments of the two individuals (2018: one individual) with the highest emolument is within the following band:

	2019	2018
	Number of Individuals	*Number of Individuals*
$1,000,001 to $1,500,000	2	1

10 OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income:

	2019			2018		
	Before-tax amount $'000	Tax expense $'000	Net-of-tax amount $'000	Before-tax amount $'000	Tax expense $'000	Net-of-tax amount $'000
Exchange differences on translation of financial statements of foreign operations	(237)	–	(237)	(1,604)	–	(1,604)
Remeasurement of defined benefit obligations	(849)	254	(595)	230	(69)	161
	(1,086)	254	(832)	(1,374)	(69)	(1,443)

11 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of $8,259,000 (2018: $23,454,000) and the weighted average of 319,565,000 ordinary shares (2018: 319,565,000 ordinary shares) in issue during the year.

(b) Diluted loss per share

Diluted loss per share for the year ended 31 December 2019 and 2018 are the same as the basic loss per share as there are no dilutive potential ordinary shares.

12 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements $'000	Furniture and fixtures $'000	Computer and office equipment $'000	Mould $'000	Motor vehicles $'000	Other properties leased for own use carried at depreciated cost $'000	Total $'000
Cost:							
At 1 January 2018	2,091	1,214	15,584	12,577	448	–	31,914
Exchange adjustments	(45)	(18)	(130)	–	(3)	–	(196)
Additions	518	–	824	1,778	–	–	3,120
Disposals	–	(4)	(136)	–	–	–	(140)
At 31 December 2018	2,564	1,192	16,142	14,355	445	–	34,698
Accumulated depreciation:							
At 1 January 2018	1,462	870	13,122	10,859	331	–	26,644
Exchange adjustments	(45)	(16)	(113)	–	(2)	–	(176)
Charge for the year	573	107	1,166	934	101	–	2,881
Written back on disposals	–	(4)	(119)	–	–	–	(123)
At 31 December 2018	1,990	957	14,056	11,793	430	–	29,226
Net book value:							
At 31 December 2018	574	235	2,086	2,562	15	–	5,472

12 PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Leasehold improvements *$'000*	Furniture and fixtures *$'000*	Computer and office equipment *$'000*	Mould *$'000*	Motor vehicles *$'000*	Other properties leased for own use carried at depreciated cost *$'000*	Total *$'000*
Cost:							
At 31 December 2018	2,564	1,192	16,142	14,355	445	–	34,698
Impact on initial application of HKFRS 16 (Note)	–	–	–	–	–	6,402	6,402
At 1 January 2019	2,564	1,192	16,142	14,355	445	6,402	41,100
Exchange adjustments	9	16	80	–	5	–	110
Additions	509	80	3,195	225	–	2,057	6,066
Disposals	(787)	(130)	(624)	–	–	–	(1,541)
Lease modification	–	–	–	–	–	(288)	(288)
At 31 December 2019	2,295	1,158	18,793	14,580	450	8,171	45,447
Accumulated depreciation:							
At 1 January 2019	1,990	957	14,056	11,793	430	–	29,226
Exchange adjustments	9	16	53	–	4	–	82
Charge for the year	395	95	1,572	1,040	16	4,094	7,212
Written back on disposals	(783)	(117)	(573)	–	–	–	(1,473)
At 31 December 2019	1,611	951	15,108	12,833	450	4,094	35,047
Net book value:							
At 31 December 2019	684	207	3,685	1,747	–	4,077	10,400

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. See note 2(c).

12 PROPERTY, PLANT AND EQUIPMENT *(continued)*

(a) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Note	31 December 2019 *$'000*	1 January 2019 *$'000*
Other properties leased for own use, carried at depreciated cost	(i)	**4,077**	6,402

The analysis of expense/(income) items in relation to leases recognised in profit or loss is as follows:

	2019 *$'000*	2018 (Note) *$'000*
Depreciation charge of right-of-use assets by class of underlying asset:		
Other properties leased for own use	**4,094**	–
Gain on lease modification	**(5)**	–
Interest on lease liabilities (note 6(a))	**322**	–
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	**2,982**	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	**–**	8,159

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2(c).

12 PROPERTY, PLANT AND EQUIPMENT *(continued)*

(a) Right-of-use assets *(continued)*

During the year, additions to right-of-use assets were $2,057,000. This is primarily related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 19(c) and 21, respectively.

(i) Other properties leased for own use

The Group has obtained the right to use other properties as its warehouses and offices through tenancy agreements. The leases typically run for an initial period of 2 to 3 years.

Some leases include an option to renew the lease for an additional period after the end of the contract term. Where practicable, the Group seeks to include such extension options exercisable by the Group to provide operational flexibility. The Group assesses it is not reasonably certain to exercise the extension options, therefore the future lease payments during the extension periods are not included in the measurement of lease liabilities. None of the leases includes variable lease payments. As at 31 December 2019, the Group has no potential exposure to future lease payments.

13 INTANGIBLE ASSETS

	Development costs $'000	Customer relationships $'000	Technical know-how $'000	Total $'000
Cost:				
At 1 January 2018	121,906	2,503	1,950	126,359
Additions through internal development	7,739	–	–	7,739
At 31 December 2018	129,645	2,503	1,950	134,098
Accumulated amortisation and impairment loss:				
At 1 January 2018	76,402	1,252	1,705	79,359
Charge for the year	9,318	356	245	9,919
Impairment loss	1,085	–	–	1,085
At 31 December 2018	86,805	1,608	1,950	90,363
Net book value:				
At 31 December 2018	42,840	895	–	43,735

13 INTANGIBLE ASSETS *(continued)*

	Development costs *$'000*	Customer relationships *$'000*	Technical know-how *$'000*	Total *$'000*
Cost:				
At 1 January 2019	129,645	2,503	1,950	134,098
Additions through internal development	655	–	–	655
At 31 December 2019	130,300	2,503	1,950	134,753
Accumulated amortisation and impairment loss:				
At 1 January 2019	86,805	1,608	1,950	90,363
Charge for the year	13,504	359	–	13,863
Impairment loss	–	–	–	–
At 31 December 2019	100,309	1,967	1,950	104,226
Net book value:				
At 31 December 2019	29,991	536	–	30,527

The amortisation charges of $13,504,000 (2018: $9,318,000) and $359,000 (2018: $601,000) for the year are included in "research and development expenses" and "administrative expenses" respectively in the consolidated statement of profit or loss.

During the year, the directors assessed the recoverable amounts of projects under development. Based on their review, no impairment loss was recognised as at 31 December 2019. As at 31 December 2018, the net book value of certain projects under development was written down to the corresponding recoverable amount as it was estimated that there would be insufficient future economic benefits generated from these projects due to a change in market demand. Accordingly, an impairment loss amounting to $1,085,000 was recognised.

(Expressed in Hong Kong dollars unless otherwise indicated)

14 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment and business	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest %	Held by the Company %	Held by a subsidiary %	Principal activities
Advanced Card Systems Limited	Hong Kong	18,000,000 shares	100	100	–	Development, sales and distribution of smart card products, software and hardware and the provision of smart card related services in Hong Kong
*Advanced Card Systems Japan Limited	Japan	100 shares of JPY1,000 each	100	–	100	Sales and distribution of smart card products, software and hardware and the provision of smart card related services in Japan
ACS Technologies Limited	Hong Kong	1 share	100	100	–	Development, sales and distribution of smart card products, software and hardware and the provision of smart card related services in the Philippines

(Expressed in Hong Kong dollars unless otherwise indicated)

14 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ establishment and business	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest %	Held by the Company %	Held by a subsidiary %	Principal activities
*ACS Shenzhen	PRC	Registered capital of HK$14,000,000	100	–	100	Development, sales and distribution of smart card products, software and hardware and the provision of smart card related services in the PRC
HNA Technology Investments Limited	Hong Kong	1 share	100	100	–	Provision of financial advisory services and investment holding in Hong Kong
*Logyi	PRC	Registered capital of HK$3,500,000	100	–	100	Development of smart card products, software and hardware and the provision of smart card related services in the PRC
TaptoPay Limited	Hong Kong	1 share	100	–	100	Development and provision of products and solutions for automatic revenue collection in Hong Kong

* Companies not audited by KPMG. The financial statements of the subsidiaries not audited by KPMG reflect total net assets and total revenue constituting approximately 12% and 12% respectively of the related consolidated totals.

15 INTEREST IN A JOINT VENTURE

(a)

	2019	2018
	$'000	*$'000*
Share of net assets	–	–
Non-current receivables from a joint venture	–	–
	–	–

Details of the Group's interest in a joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

				Proportion of ownership interest			
Name of joint venture	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Group's effective interest %	Held by the Company %	Held by a subsidiary %	Principal activity
Goldpac ACS Technologies Inc. ("GATI")	Incorporated	Philippines	350,000 shares of 100 Pesos each	45	–	45	Card personalisation (Note)

Note: GATI was established by the Group with two other secure payment product suppliers to expand its smart card business in the Philippines.

GATI, the only joint venture in which the Group participates, is an unlisted corporate entity whose quoted market price is not available.

GATI does not have a significant financial impact on the Group's results of operations and financial position.

(b) Amount due from a joint venture

The amount due from a joint venture included in "trade and other receivables" is unsecured, interest-free and recoverable on demand. At 31 December 2019, due to the fact that the joint venture suffered from continued losses in recent years, the directors assessed the recoverable amount of amount due from a joint venture to be $nil (2018: $nil). Based on the assessment, a loss allowance of $nil (2018: $1,513,000) was recognised during the year.

16 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2019 *$'000*	2018 *$'000*
Raw materials	**15,495**	19,902
Work in progress	**604**	1,294
Finished goods	**14,661**	14,995
	30,760	36,191

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2019 *$'000*	2018 *$'000*
Carrying amounts of inventories sold	**72,427**	61,565
Write down of inventories	**799**	1,081
	73,226	62,646

All of the inventories are expected to be recovered within one year.

17 TRADE AND OTHER RECEIVABLES

	Note	2019 *$'000*	2018 *$'000*
Trade receivables, net of loss allowance	(i)	20,601	34,725
Prepayments		1,146	2,365
Deposits paid		1,752	1,939
Other receivables		854	522
Amounts due from other fellow subsidiaries, net of loss allowance (note 17(b))		407	439
Amount due from immediate holding company (note 17(b))		51	–
		24,811	39,990

Note:

(i) Included in trade receivables is an amount due from a fellow subsidiary with a gross balance (before loss allowance) of $12,000,000 (2018: $14,830,000). The amount is unsecured, interest-free and past due for more than one year.

Given the time lapsed since this amount has been overdue, and upon evaluating the uncertainties pertaining to the amount due from the fellow subsidiary, the Group recorded a provision of expected credit loss of $8,000,000 (2018: $4,000,000) during the year based on its estimated probability-weighted outcome and reasonable and supportable information that is available. As at 31 December 2019, the provision for expected credit loss increased to $12,000,000 (2018: $4,000,000).

The amount of the Group's other receivables, deposits and prepayments expected to be recovered or recognised as expense after more than one year is $121,000 (2018: $1,186,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

17 TRADE AND OTHER RECEIVABLES *(continued)*

(a) Ageing analysis

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

	2019	2018
	$'000	*$'000*
Within 1 month	**12,495**	9,906
1 to 2 months	**4,134**	3,920
2 to 3 months	**2,102**	4,163
3 to 12 months	**1,505**	181
Over 1 year	**365**	16,555
	20,601	34,725

Trade receivables are generally due within 7 days to 3 months from the date of billing. Trade receivables in relation to sales of software and sales under solution business are due according to respective payment terms, which may exceed 3 months. For advisory services entered, invoices are due upon presentation. Further details on the Group's credit policy are set out in note 25(a).

(b) Amounts due from/(to) immediate holding company and other fellow subsidiaries

The amount due from/(to) immediate holding company is unsecured, interest-free and recoverable on demand.

The amounts due from fellow subsidiaries are unsecured, interest-free and recoverable on demand. At 31 December 2019, the directors assessed the recoverable amount of one of the balance of amount due from a fellow subsidiary to be $nil (2018: $32,000). Based on the assessment, a loss allowance of $32,000 (2018: $nil) was recognised during the year.

18 OTHER FINANCIAL ASSETS

	2019	2018
	$'000	*$'000*
Financial assets measured at amortised cost		
Philippines Treasury bills	**316**	874

The treasury bills are listed outside Hong Kong and have a fixed yield of 6% (2018: 3%) per annum and will mature on 19 February 2020 (2018: 13 February 2019). The market value of these financial assets is $314,000 (2018: $869,000).

19 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2019	2018
	$'000	*$'000*
Cash at bank and on hand	**22,045**	23,990
Bank deposits maturing within three months when placed	**23,404**	3,947
Cash and cash equivalents	**45,449**	27,937

As at 31 December 2019, cash at bank and deposits of $2,181,000 (2018: $2,632,000) were placed with banks in the PRC. Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

19 CASH AND CASH EQUIVALENTS *(continued)*

(b) Reconciliation of loss before taxation to cash generated from operations:

	Note	2019 $'000	2018 $'000
Loss before taxation		(7,034)	(23,547)
Adjustments for:			
Depreciation	6(c)	7,212	2,881
Amortisation of intangible assets	6(c)	13,863	9,919
Impairment losses on trade and other receivables	6(c)	9,752	5,923
Impairment losses on intangible assets	6(c)	–	1,085
Finance costs	6(a)	322	–
Interest income	5	(252)	(237)
Net loss on disposal of property, plant and equipment	6(c)	68	17
Gain on lease modification	6(c)	(5)	–
Effect of foreign exchange gain		(16)	(66)
Changes in working capital:			
Decrease in inventories		5,488	1,668
Decrease in trade and other receivables		6,305	8,471
(Decrease)/increase in trade and other payables		(9,574)	6,170
(Decrease)/increase in employee retirement benefit obligations		(159)	172
Cash generated from operations		25,970	12,456

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Previously, cash payments under operating leases made by the Group as a lessee of $8,159,000 were classified as operating activities in the consolidated cash flow statement. Under HKFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see note 19(c)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2(c).

19 CASH AND CASH EQUIVALENTS *(continued)*

(c) Reconciliation of liabilities arising from financing activities

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

	Lease liabilities (Note) *$'000*
At 31 December 2018	–
Impact on initial application of HKFRS 16 (Note)	6,402
At 1 January 2019	6,402
Changes from financing cash flow:	
Capital element of lease rentals paid	(3,951)
Interest element of lease rentals paid	(322)
Total changes from financing cash flows	(4,273)
Other changes:	
Increase in lease liabilities from entering into new leases during the period	2,057
Lease modification – lease termination	(293)
Interest expenses (note 6(a))	322
Total other changes	2,086
At 31 December 2019	4,215

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. See notes 2(c) and 19(b).

19 CASH AND CASH EQUIVALENTS *(continued)*

(d) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2019	2018
		(Note)
	$'000	*$'000*
Within operating cash flows	**2,982**	8,159
Within financing cash flows	**4,273**	–
	7,255	8,159

Note: As explained in the note to note 19(b), the adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

All of these amounts relate to the lease rentals paid.

20 TRADE AND OTHER PAYABLES

	Note	**2019**	2018
		$'000	*$'000*
Trade payables	(i)	**8,847**	12,541
Accruals		**7,212**	8,832
Receipt in advance from customers	(ii)	**4,336**	7,269
Amount due to immediate holding company (note 17(b))		**329**	285
		20,724	28,927

20 TRADE AND OTHER PAYABLES *(continued)*

(i) As of the end of the reporting period, the ageing of trade payables, based on the invoice date, is as follows:

	2019 *$'000*	2018 *$'000*
Within 1 month	**4,853**	6,191
1 to 3 months	**3,876**	6,342
3 months to 1 year	**94**	6
Over 1 year	**24**	2
	8,847	12,541

(ii) Typical payment terms which impact on the amount of contract liabilities recognised when the Group receives a deposit from customer before the production activity commences. This will give rise to contract liabilities at the start of a contract, until the revenue recognised exceeds the amount of the deposit. The Group typically receives a 50% deposit on acceptance of sales orders and was negotiated on a case by case basis with customers.

Movements in receipt in advance from customers

	2019 *$'000*	2018 *$'000*
At 1 January	**7,269**	3,991
Decrease in receipt in advance from customers as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(5,769)**	(2,839)
Decrease in receipt in advance from customers as a result of recognising revenue during the year	**(27,862)**	(21,111)
Increase in receipt in advance from customers as a result of receiving sales deposits during the year	**30,682**	27,224
Exchange adjustment	**16**	4
At 31 December	**4,336**	7,269

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

21 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	31 December 2019		1 January 2019 (Note)		31 December 2018 (Note)	
	Present value of the lease payments $'000	Total lease payments $'000	Present value of the lease payments $'000	Total lease payments $'000	Present value of the lease payments $'000	Total lease payments $'000
Within 1 year	3,045	3,116	3,935	4,093	–	–
After 1 year but within 2 years	705	774	2,352	2,523	–	–
After 2 years but within 5 years	465	536	115	132	–	–
	1,170	1,310	2,467	2,655	–	–
	4,215	4,426	6,402	6,748	–	–
Less: total future interest expenses		(211)		(346)		–
Present value of lease liabilities		4,215		6,402		–

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated.

22 EMPLOYEE RETIREMENT BENEFITS

The Group operates and participates in a number of defined contribution and defined benefit retirement plans in and outside Hong Kong.

(a) Defined contribution retirement plans

(i) The Group operates a Mandatory Provident Fund scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by an independent corporate trustee. Under the MPF scheme, the Group and the employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $30,000. Contributions to the MPF scheme vest immediately.

(ii) Pursuant to the relevant labour rules and regulations in the PRC, employees of the subsidiaries in the PRC are members of the central pension scheme operated by the PRC municipal government authorities. The Group is required to contribute a certain percentage of employees' remuneration to the central pension scheme to fund the benefits. The only obligation for the Group with respect to the central pension scheme is the associated required contribution under the central pension scheme. Contributions to the plan vest immediately.

(b) Defined benefit retirement plan

The Group makes contributions to a separate defined benefit retirement plan for qualifying employees in the Philippines. Contributions are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan. Employees are not required to contribute to the plan. The defined benefit plan is administrated by a trustee that is legally separated from the Group. The trustee shall be responsible for the general administration of the plan and the management of the fund and is required by the law to act in the best interest of the plan participants and responsible for the investment policy with regard to the assets of the fund. The benefits are based on the qualifying employees' latest monthly salary and the number of years of services.

22 EMPLOYEE RETIREMENT BENEFITS *(continued)*

(b) Defined benefit retirement plan *(continued)*

The plan is funded by contributions from the Group in accordance with an independent actuary's recommendation based on annual actuarial valuation. The latest actuarial valuation of the plan was at 31 December 2019 and was prepared by independent professionally qualified actuaries at E.M. Zalamea Actuarial Services, Inc. (who is a Member of the International Actuarial Association, Fellow of the Actuarial Society of the Philippines and Member of the International Association of consulting Actuaries), using the projected unit credit method. The actuarial valuation indicates that the Group's obligation under this defined benefit retirement plan is 31% (2018: 23%) covered by the plan assets held by the trustee.

The plan exposes the Group to actuarial risks, such as interest rate risk, investment risk and longevity risk.

(i) The amounts recognised in the consolidated statement of financial position are as follows:

	2019	2018
	$'000	*$'000*
Present value of wholly funded obligations	2,931	1,676
Fair value of plan assets	(905)	(383)
	2,026	1,293

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay $473,000 in contributions to defined benefit retirement plan in 2020 (2019: $304,000).

22 EMPLOYEE RETIREMENT BENEFITS *(continued)*

(b) Defined benefit retirement plan *(continued)*

(ii) The major categories of the plan assets at the end of the reporting period are as follows:

	2019	2018
	$'000	*$'000*
Unit investment trust funds	**905**	383

The plan assets are valued by the fund manager of the pension fund at fair value using the mark-to-market valuation.

(iii) ***Movements in the present value of the defined benefit obligation***

	2019	2018
	$'000	*$'000*
At 1 January	**1,676**	1,775
Remeasurement:		
– Actuarial losses/(gains) arising from changes in financial assumptions	**848**	(202)
Benefits paid by the plan	**(31)**	(213)
Current service cost	**252**	246
Interest cost	**130**	99
Exchange difference	**56**	(29)
At 31 December	**2,931**	1,676

The weighted average duration of the defined benefit obligation is 15.3 years (2018: 13.4 years).

22 EMPLOYEE RETIREMENT BENEFITS *(continued)*

(b) Defined benefit retirement plan *(continued)*

(iv) Movements in plan assets

	2019 *$'000*	2018 *$'000*
At 1 January	383	402
Contributions paid to the plan	485	152
Benefits paid by the plan	(31)	(213)
Return on plan assets, excluding interest income	(1)	28
Interest income	46	21
Exchange difference	23	(7)
At 31 December	905	383

(v) Amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2019 *$'000*	2018 *$'000*
Current service cost	247	246
Net interest on net defined benefit liability	81	78
Total amounts recognised in profit or loss	328	324
Actuarial losses/(gains)	848	(202)
Return on plan assets, excluding interest income	1	(28)
Total amounts recognised in other comprehensive income	849	(230)
Total defined benefit costs	1,177	94

The current service cost and the net interest on net defined benefit liability are recognised in the administrative expenses in the consolidated statement of profit or loss.

22 EMPLOYEE RETIREMENT BENEFITS *(continued)*

(b) Defined benefit retirement plan *(continued)*

(vi) Significant actuarial assumptions and sensitivity analysis are as follows:

	2019	2018
Discount rate	**5.22%**	7.53%
Future salary increases	**5% per annum**	5% per annum

The below analysis shows how the defined benefit obligation as at 31 December 2019 would have (decreased)/increased as a result of 1% change in the significant actuarial assumptions:

	2019		2018	
	Increase in 1%	**Decrease in 1%**	Increase in 1%	Decrease in 1%
	$'000	***$'000***	*$'000*	*$'000*
Discount rate	**(403)**	**497**	(203)	248
Future salary increases	**493**	**(407)**	252	(209)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2019	2018
	$'000	*$'000*
Current tax recoverable	**1,663**	1,607
Current tax payable	**(118)**	(118)
	1,545	1,489

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(b) Deferred tax (liabilities)/assets recognised:

The components of deferred tax (liabilities)/assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation *$'000*	Employee retirement benefits *$'000*	Amortisation of intangibles *$'000*	Tax losses *$'000*	Provisions *$'000*	Others *$'000*	Total *$'000*
Deferred tax arising from:							
At 1 January 2018	(223)	444	(468)	398	936	1,112	2,199
Exchange adjustments	(26)	(7)	–	–	(16)	8	(41)
(Charged)/credited to profit or loss	(37)	37	(852)	1,362	–	(193)	317
Credited to reserves	–	(69)	–	–	–	–	(69)
At 31 December 2018	(286)	405	(1,320)	1,760	920	927	2,406
At 1 January 2019	(286)	405	(1,320)	1,760	920	927	2,406
Exchange adjustments	6	43	–	–	10	24	83
Credited/(charged) to profit or loss	52	(18)	395	(395)	(909)	72	(803)
Charged to reserves	–	254	–	–	–	–	254
At 31 December 2019	(228)	684	(925)	1,365	21	1,023	1,940

Reconciliation to the consolidated statement of financial position

	2019 *$'000*	2018 *$'000*
Net deferred tax assets recognised in the consolidated statement of financial position	**1,940**	2,406

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(q), the Group has not recognised deferred tax assets in respect of tax losses and other temporary differences of $36,324,000 (2018: $39,256,000) as it is not probable that future taxable profits against which the losses and other temporary differences can be utilised will be available in the relevant tax jurisdictions and entities.

Included in unrecognised tax losses and other temporary differences is an amount of $6,922,000 (2018: $7,036,000) which can be carried forward up to five years from the year in which the loss originated. The remaining balance of $29,402,000 (2018: $32,220,000) does not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

At 31 December 2019, temporary differences relating to undistributed profits of subsidiaries amounted to $26,547,000 (2018: $23,059,000). Deferred tax liabilities of $1,327,000 (2018: $1,153,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

24 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital *$'000*	Share premium *$'000*	Retained profits *$'000*	Total equity *$'000*
Balance at 1 January 2018	31,956	53,383	4,889	90,228
Changes in equity for the year:				
Total comprehensive income for the year	–	–	(1,845)	(1,845)
Balance at 31 December 2018	31,956	53,383	3,044	88,383
Balance at 1 January 2019	31,956	53,383	3,044	88,383
Changes in equity for the year:				
Total comprehensive income for the year	–	–	(1,782)	(1,782)
Balance at 31 December 2019	31,956	53,383	1,262	86,601

24 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

Dividends payable to equity shareholders of the Company attributable to the year

	2019	2018
	$'000	*$'000*
Final dividend proposed after the end of the reporting period of nil cent per ordinary share (2018: Nil cent per ordinary share)	**–**	–

(c) Share capital

Authorised and issued share capital

	2019		2018	
	Number of shares	**Amount**	Number of shares	Amount
	'000	***$'000***	*'000*	*$'000*
Authorised:				
Ordinary shares of $0.1 each	**1,000,000**	**100,000**	1,000,000	100,000
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	**319,565**	**31,956**	319,565	31,956

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

24 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Nature and purpose of reserves

(i) Share premium

Under the Companies Law (2009 Revision) of the Cayman Islands, the share premium of the Company is available for distributions or paying dividends to shareholders subject to the provisions of its memorandum and articles of association and provided that immediately following the payment of distribution or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's articles of association, distribution shall be payable out of profits or other reserves, including the share premium account of the Company.

Included in the reserves of the Company available for the distribution is share premium arising from the issuance of Series A preference shares which were redeemed on 7 November 2003.

(ii) Merger reserve

Merger reserve of the Group represents reserve of a subsidiary that have been capitalised as a result of a share-for-share exchange in prior year.

(iii) Surplus reserve

Pursuant to the applicable PRC regulations, PRC entity is required to appropriate 10% of its profit-after-tax (after offsetting prior year losses) to the reserve until such reserve reaches 50% of the registered capital. The transfer to the reserve must be made before distribution of dividends to shareholders. The surplus reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the PRC subsidiaries, provided that the balance after such issue is not less than 50% of its registered capital.

(iv) Exchange reserve

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

24 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(e) Distributability of reserves

At 31 December 2019, the aggregate amount of reserve available for distribution to equity shareholders of the Company, including the distributable amounts disclosed in note 24(d)(i), was $54,645,000 (2018: $56,427,000).

(f) Capital management

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

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

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables (including an amount due from a fellow subsidiary of trade nature (note 17(i))). The Group's exposure to credit risk arising from cash and cash equivalents and other financial assets are limited because the counterparties are banks and financial institutions with a minimum credit rating of Baa2 assigned by Moody's Corporation, for which the Group considers to have low credit risk. Management has a credit policy in place and the exposure to these credit risks are monitored on an on-going basis.

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(a) Credit risk *(continued)*

Trade receivables (including an amount due from a fellow subsidiary)

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 11% (2018: 1%) and 22% (2018: 18%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables in relation to sales of smart card products and hardware are generally due within seven days to three months from the date of billing. For sales of software, sales under solution business, specific payment term such as payment by instalment or credit term of more than three months may be granted, which depends on the trading history of customers and nature of the project. For advisory services entered, invoices are due upon presentation. Normally, the Group does not obtain collateral from customers.

The Group does not provide any guarantees which would expose the Group to credit risk.

The Group measures loss allowances for trade receivables (including an amount due from a fellow subsidiary) at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group and the fellow subsidiary belongs to the same larger group, the Group considers the loss pattern associated with the fellow subsidiary may be different from other customers. The Group's historical credit loss experience does not indicate significantly different loss patterns for external customers, the loss allowance based on past due status is thus not further distinguished between the Group's different customer bases.

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(a) Credit risk *(continued)*

Trade receivables (including an amount due from a fellow subsidiary) *(continued)*

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2019:

	2019					
	Gross carrying amount *$'000*	Gross carrying amount not considered for provision on individual basis *$'000*	Expected loss rate	Provision on collective basis *$'000*	Provision on individual basis *$'000*	Total loss allowance *$'000*
Current (not past due)	12,632	12,632	–	–	–	–
Less than 1 month past due	5,541	5,541	0.9%	48	–	48
1 to 3 months past due	1,880	1,880	0.9%	17	–	17
More than 3 months but less than 12 months past due	211	211	0.9%	2	–	2
More than 1 year past due	13,479	57	16.2%	9	13,066	13,075
	33,743	20,321		76	13,066	13,142

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(a) Credit risk *(continued)*

Trade receivables (including an amount due from a fellow subsidiary) *(continued)*

	2018					
	Gross carrying amount $'000	Gross carrying amount not considered for provision on individual basis $'000	Expected loss rate	Provision on collective basis $'000	Provision on individual basis $'000	Total loss allowance $'000
Current (not past due)	9,624	9,624	–	–	–	–
Less than 1 month past due	8,211	8,211	0.9%	74	–	74
1 to 3 months past due	390	390	1.1%	4	–	4
More than 3 months but less than 12 months past due	22	22	1.1%	–	–	–
More than 1 year past due	24,848	1,671	13.0%	217	8,075	8,292
	43,095	19,918		295	8,075	8,370

Expected loss rates are based on actual loss experience over the past 5 years. These rates are adjusted to reflect the factors that are specific to the debtors and differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(a) Credit risk *(continued)*

Trade receivables (including an amount due from a fellow subsidiary) *(continued)*

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2019 *$'000*	2018 *$'000*
Balance at 1 January	8,370	4,050
Amounts written off during the year	(4,952)	–
Impairment losses recognised during the year	9,720	4,410
Exchange adjustments	4	(90)
Balance at 31 December	13,142	8,370

(b) Liquidity risk

The Group manage their cash management for daily operation, including placing short term bank deposits. Cash surplus over operating needs are closely monitored and managed by the Group's central cash and treasury management system. The Group's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash and adequate funding from the larger group of the Group to meet its liquidity requirements in the short and longer term. The Group's exposures to the liquidity risk and its policies for managing such risk were unchanged from the year ended 31 December 2018.

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk *(continued)*

The following tables show the remaining contractual maturities at the end of the reporting period of the group's non-derivative financial liabilities which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates and the earliest date the Group can be required to pay:

	2019 Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Lease liabilities (note)	3,116	774	536	–	4,426	4,215
Trade and other payables (excluding receipt in advance from customers)	16,388	–	–	–	16,388	16,388

	2018 Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Trade and other payables (excluding receipt in advance from customers)	21,658	–	–	–	21,658	21,658

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Lease liabilities include amounts recognised at the date of transition to HKFRS 16 in respect of leases previously classified as operating leases under HKAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See note 2(c).

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(c) Interest rate risk

The Group's interest rate risk arises solely from lease liabilities. The Group's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements. The Group does not use derivative financial instruments to hedge its fixed rate debt obligations. All of the lease liabilities of the Group as of 31 December 2019 were calculated based on the Group's incremental borrowing rate. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's lease liability at the end of the reporting period:

	2019		2018	
	Incremental borrowing rate		Incremental borrowing rate	
	%	*$'000*	%	*$'000*
Lease liabilities	6%	4,215	–	–

The lease liabilities is not re-measured in the financial statements in response to changes in market risk variables and therefore the changes in market risk variables would not affect profit or loss or equity. Therefore no sensitivity analysis is performed.

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars ("USD") and Renminbi ("RMB").

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HKD, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in HKD)			
	2019		2018	
	USD	**RMB**	USD	RMB
	$'000	***$'000***	*$'000*	*$'000*
Cash and cash equivalents	**28,056**	**415**	14,852	895
Amounts due from/(to) group companies	**407**	**(38,499)**	407	4,166
Trade and other receivables	**17,354**	**6**	15,990	5
Trade and other payables	**(3,307)**	**(2,697)**	(3,947)	(4,645)
	42,510	**40,775**	27,302	421

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(d) Currency risk *(continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's loss after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

	2019		2018	
	Increase/ (decrease) in foreign exchange rates	Decrease/ (increase) in loss after taxation and increase/ (decrease) in retained profits *$'000*	Increase/ (decrease) in foreign exchange rates	Decrease/ (increase) in loss after taxation and increase/ (decrease) in retained profits *$'000*
RMB	5%	1,702	5%	18
	(5)%	(1,702)	(5)%	(18)

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis as 2018.

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(e) Fair value measurement

HKFRS 13, *Fair value measurement* categories fair value measurements into a three-level hierarchy. The level into which fair value is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

– Level 3 valuations: Fair value measured using significant unobservable inputs.

At 31 December 2019, the fair value of the treasury bills listed outside Hong Kong held by the Group was $314,000 (2018: $869,000) (see note 18). The costs of these financial assets measured at amortised cost are not materially different from their fair values at 31 December 2019 and 2018. These instruments fall into level 1 of the fair value hierarchy described above.

During the years ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The carrying amount of the Groups all other financial instruments carried at costs or amortised costs were not materially different from their fair values as at 31 December 2018 and 2019.

26 COMMITMENTS

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

	2018
	$'000
Within 1 year	6,449
After 1 year but within 5 years	2,655
	9,104

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2(j), and the details regarding the Group's future lease payments are disclosed in note 21.

27 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

(a) Transactions with related parties

(i)

	2019	2018
	$'000	*$'000*
Rental expenses from short-term lease charged by immediate holding company	**778**	1,033

27 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(a) Transactions with related parties *(continued)*

(ii) On 2 November 2017, a wholly owned subsidiary of the Group (the "subsidiary") entered into a mandate (the "Mandate") with a fellow subsidiary pursuant to which the subsidiary was appointed as a consultant to the fellow subsidiary in connection with the provision of certain consultancy and advisory services. The service fees of the advisory services were pre-determined in the Mandate. Total service fee recorded for the year ended 31 December 2019 amounted to $nil (2018: $nil). As at 31 December 2019, the gross balance (before loss allowance) of $12,000,000 (2018: $14,830,000) remained unpaid and was included in trade and other receivables (note 17(i)).

The related party transaction in respect of (i) above constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. However, the transaction is exempt from the disclosure requirements in Chapter 14A of the Listing Rules as it is below the de minimis threshold under Rule 14A.76(1).

The related party transaction in respect of (ii) above constitutes a continuing connected transaction under Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section "Connected Transactions" of the report of the directors.

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 is as follows:

	2019	2018
	$'000	*$'000*
Short-term employee benefits	4,649	10,558
Post-employment benefits	47	83
	4,696	10,641

Total remuneration is included in "staff costs" (see note 6(b)).

28 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2019 *$'000*	2018 *$'000*
Non-current assets			
Investments in subsidiaries		14,004	14,004
Amounts due from subsidiaries		72,488	74,170
		86,492	88,174
Current assets			
Other receivables		189	182
Amount due from immediate holding company		51	50
Cash and cash equivalents		106	325
		346	557
Current liability			
Other payables		237	348
		237	348
Net current assets		109	209
NET ASSETS		86,601	88,383
CAPITAL AND RESERVES			
Share capital	24(c)	31,956	31,956
Reserves		54,645	56,427
TOTAL EQUITY		86,601	88,383

Approved and authorised for issue by the Board of Directors on 24 March 2020.

Peng Zhi *Director*	Wong Chi Ho *Director*

29 COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2(c).

30 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2019, the directors consider the immediate parent and ultimate controlling party of the Group to be HNA EcoTech Pioneer Acquisition, which is incorporated in Cayman Islands and Hainan Province Cihang Foundation, which is established in PRC respectively.

These entities do not produce financial statements available for public use.

31 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

(i) The outbreak of novel coronavirus (COVID-19) in January 2020 has evolved into a worldwide emergency, and posed a significant threat to the global economy in 2020. The time duration and scope of these disruptions cannot be accurately assessed at this point in time. Given the dynamic nature of these circumstances, the full financial impact could not be reasonably quantified at this stage and will be reflected in the Group's 2020 interim and annual financial statements.

(ii) On 24 March 2020, the Board of Directors announced a plan to discontinue financial services and investment segment by the end of the first quarter in 2020 in view of the changes in the macroeconomic environment and the uncertainties involved in this segment. All of the assets, liabilities and items in the consolidated statement of profit or loss attributable to this segment would be transferred to the remaining parts of the Group. Further details of the financial information of this segment for the year ended 31 December 2019 are disclosed in note 4(b). No adjustment has been made in these financial statements in this regard.

32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

FINANCIAL SUMMARY

31 December 2019

(Expressed in Hong Kong dollars)

	2019	2018	2017	2016	2015
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
RESULTS					
Revenue	**165,727**	137,685	182,272	152,284	234,526
Cost of sales and services	**74,365**	63,315	78,498	78,095	118,287
Gross profit	**91,362**	74,370	103,774	74,189	116,239
Gross profit margin	**55%**	54%	57%	49%	50%
(Loss)/profit for the year	**(8,259)**	(23,547)	5,689	(18,503)	20,304
Net profit margin	**-5%**	-17%	3%	-12%	9%
ASSETS AND LIABILITIES					
Total assets	**145,866**	158,212	181,743	181,794	213,605
Total liabilities	**27,083**	30,338	28,042	34,765	82,755
Total equity	**118,783**	127,874	153,701	147,029	130,850

Notes to the five year summary:

1. As a result of the adoption of HKFRS 16, *Leases*, with effect from 1 January 2019, the Group has changed its accounting policies in respect of the lessee accounting model. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of opening balance adjustments to recognise right-of-use assets and lease liabilities as at 1 January 2019. After initial recognition of these assets and liabilities, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Figures in years earlier than 2019 are stated in accordance with the policies applicable in those years.

2. As a result of the adoption of HKFRS 15, *Revenue from contracts with customers*, with effect from 1 January 2018, the Group changed its accounting policies in respect of revenue recognition. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of opening balance adjustments to equity as at 1 January 2018. Figures in years earlier than 2018 are stated in accordance with the policies applicable in those years.

3. The Group adopted HKFRS 9, *Financial instruments*, from 1 January 2018. As a result, the Group changed its accounting policies in relation to financial instruments. As allowed by HKFRS 9, the Group did not restate information relating to prior years. Differences in the carrying amounts of the financial assets resulting from the adoption of HKFRS 9 were recognised in retained earnings and reserves at 1 January 2018. There was no difference in the carrying amounts of the financial liabilities. Figures in years earlier than 2018 are stated in accordance with the policies applicable in those years.