ALPHA ERA INTERNATIONAL HOLDINGS LIMITED

合寶豐年控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 8406

Annual Report 2019

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This report, for which the directors (the "**Directors**") of Alpha Era International Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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BOARD OF DIRECTORS

Executive Directors
Mr. Huang Xiaodong *(Chairman)*
Mr. Xiao Jiansheng *(Chief Executive Officer)*

Non-executive Director
Mr. Lee Kin Kee

Independent non-executive Directors
Mr. Mao Guohua
Mr. Liu Zexing (appointed on 1 March 2020)
Mr. Ho Hin Chung
Mr. Gan Minqing (resigned on 1 March 2020)

BOARD COMMITTEE

Audit Committee
Mr. Ho Hin Chung *(Chairman)*
Mr. Liu Zexing (appointed on 1 March 2020)
Mr. Mao Guohua
Mr. Gan Minqing (resigned on 1 March 2020)

Remuneration Committee
Mr. Liu Zexing *(Chairman)* (appointed on 1 March 2020)
Mr. Mao Guohua
Mr. Ho Hin Chung
Mr. Xiao Jiansheng
Mr. Gan Minqing *(Chairman)* (resigned on 1 March 2020)

Nomination Committee
Mr. Mao Guohua *(Chairman)*
Mr. Liu Zexing (appointed on 1 March 2020)
Mr. Ho Hin Chung
Mr. Xiao Jiansheng
Mr. Gan Minqing (resigned on 1 March 2020)

COMPLIANCE OFFICER

Mr. Xiao Jiansheng

AUTHORISED REPRESENTATIVES

Mr. Huang Xiaodong
Mr. Wan Hon Keung

COMPANY SECRETARY

Mr. Wan Hon Keung

REGISTERED OFFICE IN THE CAYMAN ISLANDS

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

HEAD OFFICE

Dongcheng Industrial Zone
Xinping Road, Minzhong Town
Zhongshan City, Guangdong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 1902, 19th Floor
Tamson Plaza
161 Wai Yip Street, Kwun Tong
Kowloon, Hong Kong

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
31/F., Gloucester Tower, The Landmark
11 Pedder Street, Central, Hong Kong

LEGAL ADVISERS

CFN Lawyers in association with Broad & Bright
Room 4101-04, 41st Floor, Sun Hung Kai Centre
30 Harbour Road, Wan Chai, Hong Kong

COMPLIANCE ADVISER

Frontpage Capital Limited
26th Floor, Siu On Centre
188 Lockhart Road, Wan Chai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East, Hong Kong

PRINCIPAL BANKERS

Industrial & Commercial Bank of China
Industrial & Commercial Bank of China (Asia) Limited

GEM STOCK CODE

8406

COMPANY'S WEBSITE

www.alpha-era.co

CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Alpha Era International Holdings Limited (the "**Company**"), I am pleased to present the annual report of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2019 (the "**Year**").

In 2019, our important U.S. market has been affected by the uncertain trading environment during the U.S. – China trade tensions. However, thanks to the efforts of our U.S. partners and team, the Group's sales to the North America during the year ended 31 December 2019 increased by approximately 139.7% as compared to the corresponding period in 2018 under adverse condition, and the Group's total revenue was approximately RMB223,831,000 for the year ended 31 December 2019, representing an increase of 16.0% as compared to the corresponding period in 2018.

The Group's inflatable products with electronic interactive features incorporating sound and light effects, which have been launched since the fourth quarter of 2018, have also successfully entered into the mainstream market. Over the past year, the production team of the Group has devoted great efforts to technological transformation and the addition of many advanced equipment, in an effort to improve production efficiency. In addition, in order to meet the future production capacity requirement and reduce production costs, the Group has set up a new factory in Heyuan City, Guangdong Province in December 2019. Trial production has begun in March 2020, and I believe it will assist in the production capacity and profit contribution of the Group.

Looking forward to 2020, I believe it will be full of opportunities and challenges. The novel coronavirus outbreak earlier this year has costed us more than a month of capacity during peak season, and factory production is estimated to return to normal levels by April 2020. At the same time, due to the economic impact of the global epidemic, many customers have reduced their orders this year. To this end, the Group has formulated the main direction of "broadening source of income and reducing expenditure" for the operation of this year, by making use of the foundation laid by the production department of the Zhongshan factory in 2019 and the newly established factory in Heyuan City, I believed that it will contribute to the expenditure reduction. In respect of broadening source of income, the Group, in view of the impact of the current global epidemic, predicts that there will be a great demand for materials of medical and healthcare in the future. Therefore, on 4 March 2020, the Group entered into a purchase agreement to acquire a spunbord meltblown spunbord ("**SMS**") non-woven fabric production line, by using the existing factory, supporting facilities and management team of a wholly-owned subsidiary of the Group, Zhongshan Runhe Macromolecular Materials Manufacture Limited, to produce non-woven fabrics of medical and healthcare, and has planned to start production of spunbonds in September 2020 and meltblown fabrics in January 2021, so then three layers of SMS mask fabrics with levels of medical care can be produced simultaneously. Moreover, this production line can also produce non-woven fabrics for a wide range of uses. Combined with the Group's advantages in the development and production of end products, I believe that this investment will strengthen the Group's product portfolio and will also bring good returns to the Group.

I would like to take this opportunity to express my sincere gratitude to each shareholder, client, business partner and supplier for their continuing support, and hereby thank our management and staff for their support, trust and contributions throughout the years.

Huang Xiaodong
Chairman and Executive Director
Alpha Era International Holdings Limited

Hong Kong, 11 May 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in the manufacturing and sales of inflatable products and related accessories. Founded in 2003, the Group has over 10 years' experience in designing, manufacturing and marketing high quality inflatable playgrounds and other inflatable products. The Group sells inflatable products under various brand. Through years of effort in marketing and promotion, the inflatable products the Group produce have been sold widely in various overseas markets.

The Group manufactures its products in the production facilities in Dongcheng Industrial Zone located in Zhongshan City, Guangdong Province. The Group is committed to maintain high standards of quality in all of the products and follow stringent quality control procedures throughout its production processes. The Group believes its product design and development capabilities will help strengthen its competitiveness through product differentiation and innovation.

Although the Group's business has been affected by the uncertain trading environment during the U.S. – China trade tensions which has resulted in delays in customer orders, thanks to the efforts made by various departments and business partners of the Group and the long-standing support from the customers, the Group still managed to record an increase of approximately 16% in revenue for the Year as compared with the corresponding period in 2018. In addition, the production department of the Group devoted a lot of efforts in enhancing production technology and efficiency, which have contributed to the Group's sales and long-term development.

In order to meet the production capacity requirement and reduce costs, the Group has set up a new factory in Heyuan City, Guangdong Province in December 2019, and has started trial production in March 2020. Looking forward to the first half of 2020, the Group's principal business is expected to remain stable and the newly developed products will gradually enter a mature stage. Meanwhile, it is expected that the new factory in Heyuan City, which started production in March, will contribute to the improvement of the Group's production capacity and gross profit margin.

FINANCIAL REVIEW

REVENUE

The Group's revenue was approximately RMB223,831,000 for the Year, representing an increase of approximately RMB30,854,000 or 16% as compared to the revenue RMB192,977,000 for the year ended 31 December 2018. Revenue from the sales of inflatable playgrounds with air blowers for the Year was approximately RMB196,769,000 (2018: RMB168,758,000), increased by approximately RMB28,011,000 or 16.6% as compared with last year, which accounted for approximately 87.9% of the Group's total revenue (2018: 87.4%); revenue from the sales of other inflatable products for the Year was approximately RMB6,547,000 (2018: RMB10,538,000), decreased by approximately RMB3,991,000 or 37.9% as compared with last year, which accounted for approximately 2.9% of the Group's total revenue (2018: 5.5%); revenue from the sales of inflatable products related accessories and subcontracting work for the Year was approximately RMB20,515,000 (2018: RMB13,681,000), increased by approximately RMB6,834,000 or 50.0% as compared with last year, which accounted for approximately 9.2% of the Group's total revenue (2018: 7.1%).

An analysis of the Group's revenue for the Year by geographical location is set out in Note 5 to the consolidated financial statements.

COST OF SALES

The cost of sales increased by approximately RMB27,298,000 or 18.9% from approximately RMB144,139,000 for the corresponding period in 2018 to approximately RMB171,437,000 for the Year which is generally in line with the increase in revenue.

GROSS PROFIT AND GROSS PROFIT MARGIN

The Group recorded a gross profit of approximately RMB52,394,000 for the Year, an increase of approximately RMB3,556,000 compared with that for the year ended 31 December 2018 (2018: RMB48,838,000). The gross profit margin was approximately 23.4% for the current year, representing a slight decrease of approximately 1.9% as compared to the previous year (2018: 25.3%).

OTHER INCOME AND GAINS

Total other income and gains was approximately RMB1,205,000 for the Year, representing a decrease of approximately RMB228,000 as compared with that for the year ended 31 December 2018 (2018: RMB1,433,000). The decrease was mainly due to (i) the Group recorded a decrease in grants and subsidies from the PRC government of approximately RMB782,000, partially offset by (ii) an increase in interest income of approximately RMB157,000 and (iii) an increase in other income and gains of approximately RMB397,000.

DISTRIBUTION AND SELLING EXPENSES

Total distribution and selling expenses was approximately RMB13,385,000 for the Year (2018: RMB8,347,000), representing an increase of approximately RMB5,038,000 or 60.4% as compared with last year. The increase was mainly due to the Group increased spending in freight and transportation expenses of approximately RMB2,800,000 and advertising and promotion expenses of approximately RMB1,976,000. Such increase was mainly incurred in the operation of overseas sales platforms in North America and Europe.

ADMINISTRATIVE EXPENSES

The administrative expenses was approximately RMB14,625,000 for the year ended 31 December 2019 (2018: RMB14,936,000), representing a decrease of approximately RMB311,000 or 2.1% as compared with last year. The decrease was mainly resulted from a decrease in product development expenses of approximately RMB299,000.

FINANCE COSTS

The Group recorded an interest on lease liabilities of approximately RMB1,650,000 for the Year (2018: Nil).

INCOME TAX EXPENSE

Income tax expenses was approximately RMB5,196,000 for the Year (2018: RMB3,577,000), representing an increase of approximately RMB1,619,000 or 45.3% as compared with last year. An analysis of the Group's income tax expense for the Year is set out in Note 8 to the consolidated financial statements.

PROFIT AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit and total comprehensive income attributable to owners of the Company for the Year was approximately RMB19,818,000 (2018: RMB22,615,000).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group finances its liquidity and financial requirements primarily through cash generated from operations and equity contributed from the shareholders of the Company.

The Group's shares were successfully listed on GEM on 7 December 2017. There has been no change in the capital structure of the Group since the date of Listing and up to the date of this annual report.

As at 31 December 2019, the Group's total equity attributable to owners of the Company amounted to approximately RMB104.9 million (2018: RMB90.3 million).

The current ratio of the Group as at 31 December 2019 was approximately 3.56 times as compared to that of approximately 3.70 times as at 31 December 2018. The quick ratio of the Group as at 31 December 2019 was approximately 2.58 times as compared to that of approximately 2.68 times as at 31 December 2018. The Directors believe that the Group is in a healthy financial position to expand its core business and to achieve its business objectives.

Since no borrowings was outstanding as at 31 December 2019 and 31 December 2018, no gearing ratio was applicable.

PROPOSED FINAL DIVIDEND

The Board has proposed the payment of a final dividend of HK0.75 cents per ordinary share for the year ended 31 December 2019 (2018: HK0.75 cents) to the shareholders of the Company whose names appear on the register of members of the Company on Tuesday, 23 June 2020. Subject to the approval of the Company's shareholders at the Company's annual general meeting to be held on Monday, 15 June 2020, the proposed final dividend will be paid to the Company's shareholders on Tuesday, 7 July 2020. There is no arrangement under which a shareholder of the Company has waived or agreed to waive any dividends.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities (2018: Nil).

PLEDGE OF ASSETS

As at 31 December 2019, the Group had no assets pledged for bank borrowings or for other purpose (2018: Nil).

CAPITAL COMMITMENTS

At 31 December 2019, the Group is committed to contribute RMB200,000 to the registered capital of an indirect wholly-owned subsidiary (2018: Nil) and entered into contractual commitments for the acquisition of property, plant and equipment of approximately RMB208,000 (2018: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year ended 31 December 2019, the Group did not have any material acquisitions and disposal of subsidiaries and affiliated companies (2018: Nil).

SIGNIFICANT INVESTMENTS HELD BY OUR GROUP

During the year ended 31 December 2019, there was no significant investment held by the Group (2018: Nil).

FUTURE PLAN FOR MATERIAL INVESTMENT AND CAPITAL ASSETS

Save as disclosed in the section headed "Business Objectives and Future Plans" in the prospectus of the Company dated 23 November 2017 (the "**Prospectus**"), the announcement dated 31 December 2019 in relation to the expansion of production facilities in Heyuan City, and the announcement dated 4 March 2020 in relation to acquisition of machinery, the Group does not have any plan for material investment and capital assets for the coming year.

FOREIGN CURRENCY EXPOSURE

As approximately 84.7% and 78.2% of the Group's revenue for the years ended 31 December 2019 and 31 December 2018 respectively are denominated in US Dollars but the costs incurred for the production are denominated in Renminbi ("**RMB**"), significant fluctuation in the exchange rate between RMB against US Dollars may materially affect the Group's business results of operations. As a result of the Group's business expansion to overseas markets, the Group may continue to generate a significant amount of sales, assets and liabilities denominated in a currency other than RMB. In this case, the Group would be exposed to risks related to the exchange rate and the currency in which its assets and liabilities are denominated. A depreciation of RMB would require the Group to use more RMB funds to service the same amount of foreign currency liabilities, or a depreciation of foreign currency against RMB would result in receipts from receivables substantially less than the contractual amounts in terms of RMB at the settlement date.

Having considered the cost effectiveness with reference to the Group's business model, the Group currently does not have a formal foreign currency hedging policy or engage in hedging activities designed or intended to manage such exchange rate risk during the reporting years. Because RMB is not freely convertible, the Group's ability to reduce foreign exchange rate risk is limited.

TREASURY POLICIES

The Group is exposed to credit risk primarily arising from trade receivables and bank deposits. Trade receivables are from customers with good collection track records with the Group. For trade receivables, the Group adopts the policy of dealing only with customers of appropriate credit history to mitigate credit risks. During the year ended 31 December 2019, a reversal of allowance for credit losses in relation to trade receivables of approximately RMB139,000 was recognised (2018: allowance for credit losses RMB2,149,000).

Bank deposits are mainly deposits with banks with good credit ratings assigned by international credit-rating agencies or with good reputation. For bank deposits, the Group adopts the policy of dealing only with high credit quality counterparties.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had 536 full-time employees (31 December 2018: 552). Most of the employees are located in Zhongshan City, Guangdong Province, the PRC. The total employee remuneration, including remuneration of the Directors, for the year ended 31 December 2019 amounted to approximately RMB41,665,000 (2018: RMB35,749,000).

The Group entered into separate labour contracts with each of the Group's employees in accordance with the applicable labour laws in Hong Kong and the PRC. The Group provides its employees with various benefits including discretionary bonus, contribution to social insurance premium and housing provident fund, and contribution to mandatory provident fund. The Group also offers options that may be granted to employees under the share option scheme.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's business plan as set out in the Prospectus with actual business progress up to 31 December 2019.

Business plan as set in the Prospectus	Progress up to 31 December 2019
Expand and enhance the product offerings through continuous product development efforts and continue to strengthen the brand recognition of the Group	
– Develop new products offerings and adjust product mix	Ten newly developed small sized inflatable playgrounds and eight newly designed inflatable tents enhance the comprehensiveness and product mix in the Group's product range
– Improve manufacturing for the products	Improved the production efficiency of 40 products in the catalogue by further optimising the product mix
– Register trademarks and patents for the new product design and new corporate trademark	In 2019, six trademarks were applied and sixteen patents were applied by the Group, including eleven patents in the PRC and five patents in overseas
Expand production capacity	
– Acquire new production facility or machinery	Had acquired 250 sewing machines, greatly increasing existing production capacity and improving production efficiency
– Upgrade production facility or machinery for the existing production line	Completed the re-integration of four production lines of 195 metres long, the entired production environment has been improved and the processes are relatively matched
Attract and retain quality personnel	
– Provide continuous structured training track to motivate and incentise the staff	Arranged employees to participate in enterprise production safety management training and social responsibility system standard training; also arranged employees to participate in first aid training and infection knowledge training held by hospitals
Increase marketing effort, expand distribution network and explore new business opportunities	
– Expand the wholesale distribution network	After the replacement of new agents in the United Kingdom and the Middle East, the Group has received orders of approximately US$1 million from the new agents; the Group has also enhanced the co-operation with an e-commerce company, sales revenue generated from overseas sales platform substantially increased from approximately RMB0.35 million in 2018 to approximately RMB8.5 million in 2019

– Strengthen marketing efforts such as placing of advertisements and participating in more exhibitions to explore new business opportunities	The Group has spent approximately RMB1.0 million in advertising and promotion expenses in the sales platform of an e-commerce company, relevant revenue increased. Actively visit far away customers and increased participation in exhibitions, improved the customer relationship and brand image

USE OF PROCEEDS FROM SHARE OFFER

The net proceeds from the issue of new shares of the Company at the time of its listing on GEM on 7 December 2017 through a share offer of 120,000,000 shares of HK$0.01 each in the share capital of the Company at the price of HK$0.315 per share, after deduction of the related underwriting fees, professional service fees and issuance expenses paid by the Group in connection thereto, were approximately HK$20,658,000.

The actual net proceeds from the issue of new shares of the Company under the share offer was different from the estimated net proceeds of approximately HK$17,014,000 as set out in the Prospectus. The Group adjusted the use of proceeds in the same manner and in the same proportion as shown in the Prospectus, which is (i) approximately 26.5% of the net proceeds, or approximately HK$5,464,000, will be used for expanding and enhancing product offerings through continuous product development efforts and continuing to strengthen brand recognition; (ii) approximately 26.5% of the net proceeds, or approximately HK$5,464,000, will be used for expanding production capacity; (iii) approximately 21.1% of the net proceeds, or approximately HK$4,371,000, will be used for attracting and retaining quality personnel; (iv) approximately 20.7% of the net proceeds, or approximately HK$4,282,000, will be used for uplifting marketing effort, expanding distribution network and exploring new business opportunities; and (v) approximately 5.2% of the net proceeds, or approximately HK$1,077,000, will be used as general working capital.

	Planned use of net proceeds up to 31 December 2019 HK$'000	Actual use of net proceeds up to 31 December 2019 HK$'000
Expand and enhance the product offerings through continuous product development efforts and continue to strengthen the brand recognition	**5,464**	**4,993**
Expand production capacity	**5,464**	**5,464**
Attract and retain quality personnel	**4,371**	**4,371**
Increase marketing effort, expand distribution network and explore new business opportunities	**4,282**	**4,282**
General working capital	**1,077**	**1,077**
	20,658	**20,187**

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

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's key risk exposures are summarised as follows:–

1. The Group's past revenue and profit margin may not guarantee the Group's future revenue and profit margin.

2. The Group is subject to risks of fluctuations in the exchange rate between RMB and US Dollars.

3. The Group is subject to risks associated with marketing, distribution and sales of its products internationally.

4. Sales of the Group's products are subject to changes in consumer perception and preference.

5. The Group may be subject to product liability claims.

6. Fluctuations in the price and supply of raw materials may bring negative impact to the performance of the Group.

7. The Group is dependent on a skilled workforce in the PRC to run its production facilities and the Group may experience a shortage of labour or its labour costs may increase.

8. The Group is subject to environmental protection regulations and requirements.

9. The Group is subject to changes in economic, political and social conditions in the PRC and policies adopted by the PRC government.

10. The PRC legal system is not fully developed and has inherent uncertainties which could limit the legal protections available to the Group.

COMPLIANCE WITH LAWS AND REGULATIONS

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries during the Year.

RELATIONSHIP WITH CUSTOMERS, SUPPLIES, SUBCONTRACTORS AND EMPLOYEES

Customers

The Group considers its customers as one of the most important stakeholders. The Group's commitment to continue its dedication to quality control, product safety and customer service are essential in maintaining the trust of its customers. Besides selling its products in the domestic market, the Group also sold to over 40 countries in Europe, Australia and Oceania, North America, Asia, Central and South America and Africa during the year ended 31 December 2019. During the Year, the Group recorded revenue of approximately RMB191,128,000 from the sales to overseas customers (2018: RMB150,283,000), which accounted for approximately 85.4% of the total revenue (2018: 77.9%). The Group recorded approximately 56.3% of the total revenue from the Group's top five customers (2018: 54.8%). The Directors believe that the well-established relationships with major customers of the Group and market conditions, together with the reliable and high-quality products and dedicated customer service, will continue to strengthen market presence and future expansion of the Group.

To the best knowledge of the Directors, none of the Directors or any of their respective close associates, or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers.

Suppliers

The Group selects the suppliers on the basis of product quality, their background and credibility, reputation, service, price, scale of production and ability to meet the delivery schedule and requests. The Group typically works with reputable and reliable suppliers to secure key raw materials such as air blowers used in production process. The Group has established stable and good relationships with its suppliers of principal raw materials. The raw materials are generally available from a number of domestic suppliers, and the Group normally will have at least two sources of supply for each type of raw materials to avoid dependency. The Group requires goods provided by the Group's suppliers to meet high quality standards and to conduct regular evaluation on suppliers. During the Year, purchases of materials from the Group's five largest suppliers amounted to approximately RMB78,302,000 (2018: RMB64,906,000) and represented approximately 68.8% of the total cost of goods purchased (2018: 70.5%).

To the best knowledge of the Directors, none of the Directors or any of their respective close associates, or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the Group's five largest suppliers.

Subcontractors

During the year ended 31 December 2019, the Group subcontracted a portion of sewing, printing and packaging works to 16 subcontractors (2018: 11), which are mainly local factories involving in sewing and packaging works. The total subcontracting fees amounted to approximately RMB17,567,000 (2018: RMB16,909,000), representing approximately 10.2% of the total cost of goods (2018: 11.7%). Subcontractors are selected based on assessment of (i) service quality; (ii) timeliness on delivery; (iii) quotation; and (iv) whether they have a quality assurance system that meets the Group's work requirements.

To the best knowledge of the Directors, none of the Directors or any of their respective close associates, or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the Group's subcontractors.

Employees

The Group recognises employees as valuable assets of the Group, the Group intends to use the best effort and retain appropriate and suitable personnel to serve the Group. The Group assesses available human resources on a continuous basis and will determine whether additional personnel are required to cope with the business development of the Group. The Directors believe that good working relationship is maintained with its employees.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Huang Xiaodong (黃小冬), aged 58, is the Chairman and an executive Director of the Company. Mr. Huang is responsible for the overall strategic management and development of the Group's business operations. Mr. Huang joined the Group in June 2003, he was appointed as the director on 3 November 2015 and re-designated as the Chairman and executive Director on 5 March 2016. He is a director of all subsidiaries of the Company.

Mr. Huang has about 20 years of experience in the toy manufacturing industry, he is currently the deputy chairman of the Guangdong Province Toys Association (廣東省玩具協會副會長). Mr. Huang obtained his associate degree in art and crafts (工藝美術) from Guangzhou Academy of Fine Arts (廣州美術學院) in July 1987.

Mr. Xiao Jiansheng (肖健生), aged 57, is the Chief Executive Officer and an executive Director of the Company. Mr. Xiao is responsible for overseeing the Group's operation, business development, finance and administration. Mr. Xiao joined the Group in June 2003, he was appointed as the director on 1 February 2016 and re-designated as the Chief Executive Officer and executive Director on 5 March 2016. Mr. Xiao is also a member of each of the remuneration committee of the Company (the "**Remuneration Committee**") and the nomination committee of the Company (the "**Nomination Committee**"), he is a director of all subsidiaries of the Group.

Mr. Xiao has over 30 years of experience in the amusement products design and manufacturing industry. Mr. Xiao obtained a bachelor's degree in hydraulic transmission from Wuhan Huazhong Institute of Technology (武漢華中工學院) in July 1982.

NON-EXECUTIVE DIRECTOR

Mr. Lee Kin Kee (李建基), aged 56, was appointed as the non-executive Director on 5 March 2016.

Mr. Lee has about 30 years of experience in the finance profession, he obtained a Master's degree in Business Administration from the University of Canberra in Australia in May 2001. He was admitted as a certified public accountant of the Hong Kong Institute of Certified Public Accountants in February 1992, and became a fellow thereof in October 2000.

Mr. Lee was a non-executive director of Super Strong Holdings Limited (Stock Code: 8262) since December 2015 and was re-designated as an executive director from August 2016 to April 2018.

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Mao Guohua (毛國華), aged 52, was appointed as an independent non-executive Director on 20 June 2017. He is also the chairman of the Nomination Committee and a member of each of the Audit Committee of the Company (the "**Audit Committee**") and the Remuneration Committee.

Mr. Mao obtained a bachelor's degree in Business Administration from the Capital University of Economics and Business (首都經貿大學) in October 1989. He started his legal career as a professional lawyer since March 1999.

Mr. Liu Zexing (劉澤星), aged 51, was appointed as an independent non-executive Director on 1 March 2020. He is also the chairman of Remuneration Committee and a member of each of the Audit Committee and Nomination Committee.

Mr. Liu graduated from Zhongshan City Huancheng High School (中山市環城中學) in 1986. From 1987 to 1992, Mr. Liu worked at Zhongshan Aluminum Window Factory, Zhongshan City (中山市中航鋁窗廠), a business principally engaged in the manufacture of aluminum windows as a general worker. From 1992 to 2007, Mr. Liu principally engaged in the business of aluminum window sales as a sole proprietor. Since 2007, Mr. Liu has served as the managing director of Zhongshan Xing Guang Doors and Windows Manufacturing Company Limited (中山市星光門窗製造有限公司).

Since 2017, Mr. Liu has also served as a committee member of The Chinese People's Political Consultative Conference of Zhongshan (政協中山市委員會), and a member of the managing committee of the Federation of Industry and Commerce of Zhongshan City (中山市工商業聯合會).

Mr. Ho Hin Chung (何顯聰), aged 49, was appointed as an independent non-executive Director on 7 December 2018. He is also the chairman of the Audit Committee and a member of each of the Remuneration Committee and Nomination Committee. He obtained a Bachelor of Social Science from Lingnan College Hong Kong (currently known as Lingnan University) in November 1995. He has further obtained a Master of Arts degree in Professional Accounting and Information Systems from City University of Hong Kong in November 2005 and a Master of Laws in Chinese Business Law from The Chinese University of Hong Kong in December 2008.

Mr. Ho has about 10 years of experience in auditing and over 10 years of experience in the provision of consultancy, corporate secretarial and advisory services. Mr. Ho holds professional qualifications as an accountant. He was admitted as a member and a fellow member of The Association of Chartered Certified Accountants in September 2005 and September 2010, respectively, and was admitted as a member and a fellow member of the Hong Kong Institute of Certified Public Accountants in December 2005 and May 2013, respectively.

SENIOR MANAGEMENT

Mr. Wang Haifeng (王海峰), aged 49, joined the Group in June 2003 and is the Financial Controller of the Group now. Mr. Wang is primarily responsible for overseeing and enhancing the accounting function of the Group's accounts and finance department. He has been a director of one of the subsidiaries, Swiftech Company, since August 2015. Mr. Wang obtained his associate degree in corporate financial accounting from Shaanxi Finance & Economics Institute (陝西財經學校) in July 1995. He obtained the qualification of assistant accountant conferred by the Ministry of Finance of the PRC in May 1998. He obtained an associate degree in accounting from China Central Radio and TV University (中央廣播電視大學) in January 2009. Mr. Wang has over 20 years of experience in financial accounting.

Ms. Lin Yannong (林燕儂), aged 47, joined the Group in June 2003 and is the Marketing Director of the Group now. Ms. Lin is primarily responsible for planning and handling marketing and promotional activities. She obtained a bachelor's degree in international business and economics from Shantou University (汕頭大學) in June 1994 and a postgraduate diploma in business-to-business market management from the School of Professional and Continuing Education of the University of Hong Kong (香港大學專業進修學院) in August 2015. Ms. Lin has over 20 years of experience in sales and marketing.

Ms. Li Qiuhong (李秋紅), aged 48, joined the Group in June 2003 and is the Head of Production Department of the Group now. Ms. Li is primarily responsible for overseeing the production of the Group, she has over 20 years of experience in factory management. Ms. Li completed an international business administration workshop (國際高級工商管理總裁研修班) at the School of Continuing Education, Tsinghua University (清華大學繼續教育學院) in October 2011.

Mr. Zhu Wenyi (朱文軼), aged 41, joined the Group in May 2004 and is the Art Director of the Group now. Mr. Zhu is primarily responsible for product design of the Group, he has over 10 years of experience in product design. Mr. Zhu obtained a bachelor's degree in Arts and Design from Guangzhou Academy of Fine Arts (廣州美術學院) in July 2003.

COMPANY SECRETARY AND CHIEF FINANCIAL OFFICER

Mr. Wan Hon Keung (温漢強), aged 58, joined the Group in September 2015 and was appointed as the Company Secretary and the Chief Financial Officer of the Company on 5 March 2016. Mr. Wan is primarily responsible for overseeing corporate finance, investor relations and financial management of the Group. He has over 30 years' experience in commercial accounting, administration and corporate governance. Mr. Wan was admitted as an associate member of the Hong Kong Institute of Certified Public Accountants, formerly, known as Hong Kong Society of Accountants, in June 1997. Mr. Wan was also admitted as a fellow member of The Association of Chartered Certified Accountants in May 2002.

The Directors are pleased to present their report and the audited consolidated financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in the manufacturing and sales of inflatable products and related accessories. There were no significant changes in the nature of the Group's principal activities during the Year.

An analysis of the Group's performance for the Year by geographical segments is set out in Note 5 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the Year and the financial position of the Group at that date are set out in the consolidated financial statements on pages 56 to 57.

The Board has recommended the payment of a final dividend of HK0.75 cents per Share for the year ended 31 December 2019 to the shareholders of the Company whose names appear on the register of members of the Company on Tuesday day, 23 June 2020. Subject to approval by the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Monday, 15 June 2020, the proposed final dividend is expected to be paid on Tuesday, 7 July 2020 to the shareholders of the Company. (2018: HK0.75 cents)

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years, as set out on page 110 in this annual report as extracted from this report and the Prospectus.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in Note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in Note 23 to the consolidated financial statements.

RESERVES

Details of 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 58 of this annual report, Notes 24 and 33 to the consolidated financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the Year attributable to the Group's major customers and suppliers are as follows:

Sales	
– the largest customer	24.9%
– five largest customers in aggregate	56.3%
Purchases	
– the largest supplier	28.2%
– five largest suppliers in aggregate	68.8%

None of the Directors or any of their close associates or any shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in these major customers or suppliers.

RELATED PARTY TRANSACTION

Save as disclosed in Note 32 to the consolidated financial statements, no other related party transactions were conducted by the Group during the Year.

None of the related party transactions constituted connected transactions under Chapter 20 of the GEM Listing Rules which were required to be disclosed.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution to the shareholders, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands amounted to approximately RMB55.8 million.

DIVIDEND POLICY

The Group adopted a dividend policy (the "**Dividend Policy**") on 31 December 2018. A summary of this policy is disclosed as below.

The dividend policy of the Company is to distribute to its shareholder the funds surplus to the operating needs, current and future business development of the Group as determined by the Board. The Company may declare and pay dividends to the shareholders of the Company, subject to the criteria as set out below.

In accordance with the articles of association of the Company and subject to the relevant laws under the Cayman Islands, the Company in general meeting may from time to time declare dividends in any currency to be paid to the shareholders of the Company but no dividend shall be declared in excess of the amount recommended by the Board.

Dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the Board determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the relevant laws under the Cayman Islands.

Subject to compliance with applicable laws, rules, regulations and the articles of association of the Company, in deciding whether to propose an dividend payout, the Board will take into account, among other things, the financial results, the earnings, losses and distributable reserves, the operations and liquidity requirements, the debt ratio and possible effect on the credit lines, the capital requirements, the current and future development plans of the Company, the interests of the shareholders of the Company, dividends received from the Company's subsidiaries, and other factors that the Board considered relevant.

SHARE OPTION SCHEME

The Company has conditionally adopted a share option scheme on 15 November 2017 (the "**Scheme**") pursuant to the written resolution of the shareholders of the Company on 15 November 2017 for the purpose of providing additional incentives eligible participants for their contribution to the Group and/or enabling the Group to attract and retain best available personnel that are valuable to the Group.

The terms of the Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

The summary of the principal terms of the Scheme are as follows:

1. Purpose of the Scheme	Provide additional incentive to eligible participants for attracting and retaining the best available personnel, to promote the success of the business of our Group.
2. Eligible participants	Any eligible employee (full-time or part-time), director, consultant or adviser of the Group, or any substantial shareholder of the Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of the Group.
3. Total number of shares available for issue under the Scheme and percentage to the issued share capital as at the date of this report	80,000,000 shares (equivalent to 10% of total issued share capital as at the date of this report).
4. Maximum entitlement of each participant	Not exceeding 1% of the issued share capital of the Company for the time being in any 12 month period. Any further grant of share option in excess of such limit must be separately approved by Company's shareholders in general meeting.
5. The period within which the shares must be taken up under an option	A period (which may not expire later than 10 years from the date of offer of that option) to be determined and notified by Directors to the grantee thereof.
6. The minimum period for which an option must be held before it can be exercised	Unless otherwise determined by the Directors, there is no minimum period required under the Scheme for the holding of an option before it can be exercised.
7. The amount payable on application or acceptance of the option	An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK$1.

8. The basis of determining the exercise price	Being determined by the Directors and being not less than the highest of: (a) the closing price of shares of the Company as stated in the Stock Exchange's daily quotation sheet on the offer date; (b) the average closing prices of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for the five business days immediately proceeding the offer date; and (c) the nominal value of the share on the offer date.
9. The remaining life of the Scheme	The Scheme is valid and effective for a period of 10 years commencing on 15 November 2017 (being the date of adoption of the Scheme).

No share option has been granted under the Scheme since its adoption and up to the date of this annual report.

DIRECTORS

The Directors during the year and up to the date of this annual report were as follows:

Executive Directors
Mr. Huang Xiaodong *(Chairman)*
Mr. Xiao Jiansheng *(Chief Executive Officer)*

Non-executive Director
Mr. Lee Kin Kee

Independent non-executive Directors
Mr. Mao Guohua
Mr. Liu Zexing (appointed on 1 March 2020)
Mr. Ho Hin Chung
Mr. Gan Minqing (resigned on 1 March 2020)

In accordance with the articles of association of the Company, at each annual general meeting one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. Such retiring Directors may, being eligible, offer themselves for re-election at the annual general meeting. All Directors appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after their appointment and be subject to re-election at such meeting and all Directors appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting and shall then be eligible for reelection.

PREMITTED INDEMNITY PROVISION

Every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings, whether civil or criminal, in which judgement is given in his favour, or in which he is acquitted.

DIRECTORS' SERVICE CONTRACTS

Each of our Directors has entered into a service contract or an appointment letter (as the case may be) with our Company for an initial fixed term of three years commencing on the Listing Date which may only be terminated in accordance with the provisions of the service contract or the appointment letter (as the case may be) or by (i) our Company giving to any Director not less than three months' prior notice in writing or (ii) by any Director giving to our Company not less than three month's prior notice in writing.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in the Prospectus and in this annual report, neither the Company nor any of its subsidiaries had entered into any contract of significance with the Company's controlling shareholders (the "**Controlling Shareholders**") or their subsidiaries, or any contract of significance for the provision of services to the Company or any of its subsidiaries by the Controlling Shareholders or their subsidiaries, during the Year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance in relation to the Group's business to which the Company, its holding companies, subsidiaries or fellow subsidiaries was a party and in which any director of the Company or a connected entity of the director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Year.

MANAGEMENT CONTRACTS

The Board is not aware of any contract during the year ended 31 December 2019 entered into with the management and administration of the whole or any substantial part of the business of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Interests of Directors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" below and the Scheme disclosures in Note 25 to the consolidated financial statements, at no time during the Year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or the Company's subsidiary or holding company or a subsidiary of the Company's holding company a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 14 to 15 of this annual report.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the section headed "Share Option Scheme", no equity-linked agreements were entered into by the Company at any time during the year ended 31 December 2019 or subsisted at the end of the year.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in Notes 10 and 11 to the consolidated financial statements, respectively. The emolument of the number of the highest paid individuals who are not the Directors for the year ended 31 December 2019 are set out in Note 11 to the consolidated financial statements.

The emoluments of the senior management of the Group for the year ended 31 December 2019 falls within the following band:

Emolument Band	**Number of Senior Management**
Nil to HK$1,000,000	5

EMOLUMENT POLICY

The Company's remuneration policy comprises primarily a fixed component (in the form of a base salary) and a variable component (which includes discretionary bonus and other merit payments), considering other factors such as their experience, level of responsibility, individual performance, the profit performance of the Group and general market conditions.

The Remuneration Committee will meet at least once for each year to discuss remuneration related matters (including the remuneration of Directors and the senior management) and review the remuneration policy of the Group. It has been decided that the Remuneration Committee would determine, with delegated responsibility, the remuneration packages of individual executive Directors and the senior management.

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

As at 31 December 2019, the interests of the Directors and chief executive of the Company (the "**Chief Executive**") in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**") as recorded in the register required to be kept under section 352 of SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules (the "**Required Standard of Dealings**") or Rule 23.07 of the GEM Listing Rules are as follows:

Long position in ordinary shares of the Company

Name of Director/Chief Executive	Capacity/Nature of interest	Number of underlying Shares	Percentage of shareholding *(Note 2)*
Mr. Lee Kin Kee *(Note 1)*	Interest in a controlled corporation	172,244,000	21.53%

Notes:

(1) Mr. Lee Kin Kee ("**Mr. Kevin Lee**") beneficially owns the entire issued share capital of Blink Wishes Limited. Therefore, Mr. Kevin Lee is deemed, or taken to be, interested in all the Shares held by Blink Wishes Limited for the purpose of the SFO.

(2) The percentage is calculated on the basis of 800,000,000 shares in issue as at the date of this report.

Save as disclosed above, as at 31 December 2019, none of the Directors or the Chief Executive or their respective associates had any interests in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Required Standard of Dealings.

INTERESTS OF SUBSTANTIAL AND OTHER SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2019, so far as is known to the Directors and the Chief Executive and based on the public records filed on the website of the Stock Exchange and records kept by the Company, the interest of the persons or corporations (other than the Directors and the Chief Executive) in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

Name	**Capacity/Nature of interest**	**Number of underlying Shares**	**Percentage of shareholding** *(Note 4)*
Nonton Limited	Beneficial owner	427,756,000	53.47%
Mr. Lee King Sun *(Note 1)*	Interest in a controlled corporation	427,756,000	53.47%
Ms. Chak Lai Hung Theresa *(Note 2)*	Interest of spouse	427,756,000	53.47%
Blink Wishes Limited	Beneficial owner	172,244,000	21.53%
Ms. Law Siu Ling *(Note 3)*	Interest of spouse	172,244,000	21.53%

Notes:

(1) Mr. Lee King Sun ("**Mr. Lee**") beneficially owns the entire issued share capital of Nonton Limited. Therefore, Mr. Lee is deemed, or taken to be, interested in all the Shares held by Nonton Limited for the purpose of the SFO.

(2) Ms. Chak Lai Hung Theresa ("**Ms. Chak**") is the spouse of Mr. Lee. Under the SFO, Ms. Chak is deemed to be interested in the same number of Shares held by Mr. Lee is interested.

(3) Ms. Law Siu Ling ("**Ms. Law**") is the spouse of Mr. Kevin Lee. Under the SFO, Ms. Law is deemed to be interested in the same number of Shares held by Mr. Kevin Lee is interested.

(4) The percentage is calculated on the basis of 800,000,000 shares in issue as at the date of this report.

Save as disclosed above, as at 31 December 2019, there was no person or corporation (other than the Directors and the Chief Executive) who had any interest in the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company under section 336 of the SFO.

COMPETING AND CONFLICT OF INTERESTS

The Directors, the Controlling Shareholders and their respective close associates do not have any interest in a business apart from the Group's business which competes and is likely to compete, directly or indirectly, with its business.

DEED OF NON-COMPETITION

On 15 November 2017, Mr. Lee and Nonton Limited (each a "**Covenantor**" and collectively the "**Covenantors**") entered into a deed of non-competition (the "**Deed of Non-Competition**") in favour of the Company (for itself and for the benefit of each other member of the Group). Pursuant to the Deed of Non-Competition, each of the Covenantors has irrevocably and unconditionally undertaken to the Company (for itself and as trustee for its subsidiaries) that during the period that the Deed of Non-Competition remains effectly, he/it shall not and shall procure that his/its associates (other than any member of the Group) not to develop, acquire, invest in, participate in, carry on or be engaged, concerned or interested or otherwise be involved, whether directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of the Group.

Each of the Covenantors further undertakes that if any of he/it or his/its close associates other than any member of the Group is offered or becomes aware of any business opportunity which may compete with the business of the Group, he/it shall (and he/it shall procure his/its associates to) notify the Group in writing and the Group shall have a right of first refusal to take up such business opportunity. The Group shall, within 6 months after receipt of the written notice (or such longer period if the Group is required to complete any approval procedures as set out under the GEM Listing Rules from time to time), notify the Covenantor(s) whether the Group will exercise the right of first refusal or not.

The Group shall only exercise the right of first refusal upon the approval of all the independent non-executive Directors (who do not have any interest in such opportunity). The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of the independent non-executive Directors for considering whether or not to exercise the right of first refusal.

Each of the Convenantors also gave certain non-competition undertakings under the Deed of Non-Competition as set out the paragraph headed "Relationship with our Controlling Shareholders – Non-Competition Undertakings" in the Prospectus.

During the year, the Covenantors have confirmed in writing to the Company of their compliance with the Deed of Non-Competition, and the independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied by each of the controlling shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the Year.

INTERESTS OF THE COMPLIANCE ADVISER

As at 31 December 2019, as notified by the Company's compliance adviser, Frontpage Capital Limited (the "**Compliance Adviser**"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser, neither the company adviser nor its directors, employees or close associates has any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting is scheduled to be held on Monday, 15 June 2020 (the "**AGM**").

In order to establish entitlements to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 10 June 2020 to Monday day, 15 June 2020, both days inclusive, during which period no transfer of the shares of the Company will be registered. Shareholders are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 9 June 2020.

In order to qualify for the proposed final dividend, the register of members of the Company will be closed from Monday, 22 June 2020 to Tuesday, 23 June 2020, both days inclusive, during which period no transfer of shares of the Company will be registered. Shareholders are reminded to ensure that all properly completed share transfer documents accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 19 June 2020.

USE OF PROCEEDS FROM LISTING

The net proceeds from the Listing (after deducting the underwriting fees, capitalised professional service fees and related expenses) amounted to approximately HK$20.7 million of which suggested purposes as set out in the section headed "Business Objectives and Future Plans" of the Prospectus.

EVENTS AFTER THE REPORTING PERIOD

Save for the proposed final dividend as disclosed under the paragraph headed "Proposed Final Dividend" in this annual report and Note 35 to the consolidated financial statements, the Board is not aware of any significant event requiring disclosure that has been taken place subsequent to 31 December 2019 and up to the date of this annual report.

DONATIONS

Charitable donations made by the Group during the year ended 31 December 2019 amounted to RMB50,000 (2018: RMB52,000).

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 27 to 36 of this report.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this annual report, based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the GEM Listing Rules.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

INDEPENDENT AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by HLB Hodgson Impey Cheng Limited. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint HLB Hodgson Impey Cheng Limited as the auditors of the Company.

On behalf of the Board

Mr. Huang Xiaodong
Chairman and Executive Director

Hong Kong, 11 May 2020

CORPORATE GOVERNANCE PRACTICE

The Board considers that good corporate governance of the Company is central to safeguarding the interests of the shareholders and enhancing the performance of the Group. The board is committed to maintaining and ensuring high standards of corporate governance. The Company has applied the principles and code provisions in the Corporate Governance Code and Corporate Governance Report (the "**Code**") as set out in Appendix 15 to the GEM Listing Rules. In the opinion of the Board, the Company has complied with the Code during the Year.

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

BOARD OF DIRECTORS

Compositions and Responsibilities

The Board as at the date of this annual report:

Executive Directors

Mr. Huang Xiaodong *(Chairman)*
Mr. Xiao Jiansheng *(Chief Executive Officer)*

Non-executive Director

Mr. Lee Kin Kee

Independent non-executive Directors

Mr. Liu Zexing	(appointed on 1 March 2020)
Mr. Mao Guohua	
Mr. Ho Hin Chung	
Mr. Gan Minqing	(resigned on 1 March 2020)

In compliance with Rules 5.05A, 5.05(1) and 5.05(2) of the GEM Listing Rules, the Company has appointed three independent non-executive Directors representing more than one-third of the board and at least one of whom has appropriate professional qualifications, or accounting or related financial management expertise. The independent nonexecutive Directors play a significant role in the Board as they bring an impartial view on the Company's strategies, performance and control, as well as ensure that the interests of all shareholders are taken into account. None of the independent non-executive Directors held any other offices in the Company or any of its subsidiaries or is interested in any shares of the Company. The Company has received from each independent non-executive Director an annual confirmation of his independence, and the Company considers such directors to be independent in accordance with each and the various guidelines set out in Rule 5.09 of the GEM Listing Rules.

The principal focus of the Board is on the overall strategic development of the Group. The Board also monitors the financial performance and the internal controls of the Group's business operations. With a wide range of expertise and a balance of skills, the non-executive Directors bring independent judgement on issues of strategic direction, development, performance and risk management through their contribution at board meetings and committee work.

The day-to-day management, administration and operation of the Company are delegated to the executive Directors and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the executive Director(s) and senior management. The Board also assumes the responsibilities of maintaining high standard of corporate governance, including, among others, developing and reviewing the Company's policies and practices on corporate governance, reviewing and monitoring the training and continuous professional development of Directors and senior management, reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, and reviewing the Company's compliance with the Code and the disclosures in this annual report. All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective delivery of the Board functions. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee (as defined under the paragraph headed "**Board Committees**").

The biographical details of the Directors and senior management of the Company are set out in the section headed with "Biographical Details of the Directors and Senior Management" from pages 14 to 15 of this annual report. Save as disclosed in the section "Biographical Details of the Directors and Senior Management" in this annual report, each of the Board members has no financial, business, family or other material or relevant relationships with each other.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties as set out in paragraph D.3.1 of the Code, which include the following:

1. to develop and review the policies and practices on corporate governance of the Group and make recommendations;

2. to review and monitor the training and continuous professional development of the Directors and senior management;

3. to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Directors and employees; and

5. to review the Company's compliance with the Code and disclosure in the corporate governance report of the Company.

APPOINTMENT AND RE-ELECTION

Each of the executive Directors and the non-executive Director entered into a service contract with the Company and each of the independent non-executive Directors entered into letters of appointment with the Company. The service contracts with the executive Directors and the non-executive Director and the letters of appointment with each of the independent non-executive Directors are for an initial fixed term of three years. The aforementioned service contracts and letters of appointment are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with the articles of association of the Company and the applicable GEM Listing Rules.

According to article 108 of the articles of association of the Company, one-third of the Directors for the time being shall retire from office by rotation at every annual general meeting of the Company, provided that every Director shall retire from office by rotation and are subject to re-election at annual general meeting at least once every three years. Accordingly, Mr. Huang Xiaodong and Mr. Mao Guohua will retire as Directors at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

According to article 112 of the articles of association of the Company, Directors who are appointed to fill casual vacancies shall hold office only until the next following general meeting after their appointment, and are subject to re-election by shareholders of the Company. Accordingly, Mr. Liu Zexing will retire as Director of the Company at the forthcoming annual general meeting of the Company and, being eligible, will offer himself for re-election.

At the forthcoming annual general meeting of the Company, separate ordinary resolutions will be put forward to the shareholders of the Company in relation to the proposed election of Mr. Huang Xiaodong as executive Director, Mr. Mao Guohua and Mr. Liu Zexing as independent non-executive Directors, all for a term commencing from the date of the annual general meeting which approves their appointments and ending at the conclusion of the third subsequent annual general meeting of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of Chairman and Chief Executive Officer are separate and not performed by the same individual to avoid power being concentrated in any one individual. Mr. Huang Xiaodong was the Chairman of the Board and Mr. Xiao Jiansheng is the Chief Executive Officer of the Company throughout the year.

CONTINUOUS PROFESSIONAL DEVELOPMENT

To assist Directors' continuing professional development, the Company recommends Directors to attend relevant seminars to develop and refresh their knowledge and skills. All the Directors have received training hosted by the Company's legal adviser which was about, inter alias, the listing rules, Companies Ordinance and Securities and Futures Ordinance.

All the Directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

BOARD COMMITTEES

The Board has established three Board Committees, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board Committees have been established with defined written terms of reference, which are posted on the Stock Exchange's website "www.hkexnews.hk" and the Company's website at "www.alpha-era.co". All the Board Committees should report to the Board on their decisions or recommendations made.

The practices, procedures and arrangements in conducting meetings of Board Committees follow in line with, so far as practicable, those of the board meetings set out below.

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

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

Audit Committee

The Audit Committee was established on 20 June 2017. The chairman of the Audit Committee is Mr. Ho Hin Chung, an independent non-executive Director, and other members include Mr. Mao Guohua and Mr. Gan Minqing, the independent non-executive Directors. The written terms of reference of the Audit Committee are in compliance with paragraphs C.3.3 and C.3.7 of the Code and posted on the Stock Exchange's website and on the Company's website.

The primary duties of the Audit Committee are mainly to review the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Company has complied with Rule 5.28 of the GEM Listing Rules in that at least one of the members of the Audit Committee (which must comprise a minimum of three members and must be chaired by an independent non-executive Director) is an independent non-executive Director who possesses appropriate professional qualifications or accounting related financial management expertise.

The Audit Committee has held four meetings during the Year to review and comment on the Company's 2018 annual results, 2019 interim results and quarterly results as well as the Company's internal control procedures and risk management system, the attendance of the members of the Audit Committee are summarised below:

	Number of attendance/ number of meetings
Mr. Ho Hin Chung *(Chairman)*	4/4
Mr. Gan Minqing (resigned on 1 March 2020)	4/4
Mr. Mao Guohua	4/4
Mr. Liu Zexing (appointed on 1 March 2020)	N/A

N/A represents not applicable

The Group's consolidated financial statements for the year ended 31 December 2019 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the consolidated financial statements of the Group for the year ended 31 December 2019 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

Remuneration Committee

The Remuneration Committee was established on 20 June 2017. The chairman of the Remuneration Committee is Mr. Gan Minqing, an independent non-executive Director, and other members include Mr. Mao Guohua and Mr. Ho Hin Chung, being the independent non-executive Directors, Mr. Xiao Jiansheng, being the Chief Executive Officer and executive Director. The written terms of reference of the Remuneration Committee are in compliance with paragraph B.1.2 of the Code and posted on the Stock Exchange's website and the Company's website.

The primary duties of the Remuneration Committee are, amongst other things, to make recommendations to the Board on the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management and on the Group's policy and structure for all remuneration of the Directors and senior management.

The Remuneration Committee has held one meeting during the Year, the attendance of the members of the Remuneration Committee are summarised below:

	Number of attendance/ number of meetings
Mr. Gan Minqing *(Chairman)* (resigned on 1 March 2020)	1/1
Mr. Mao Guohua	1/1
Mr. Ho Hin Chung	1/1
Mr. Xiao Jiansheng	1/1
Mr. Liu Zexing *(Chairman)* (appointed on 1 March 2020)	N/A

N/A represents not applicable

Nomination Committee

The Nomination Committee was established on 20 June 2017. The chairman of the Nomination Committee is Mr. Mao Guohua, an independent non-executive Director, and other members include Mr. Gan Minqing and Mr. Ho Hin Chung, being the independent non-executive Directors, Mr. Xiao Jiansheng, being the Chief Executive Officer and executive Director. The written terms of reference of the Nomination Committee are in compliance with paragraph A.5.2 of the Code and posted on the Stock Exchange's website and on the Company's website.

The primary duties of the Nomination Committee are to review and assess the composition of the Board and independence of the independent non-executive Directors and provide recommendations to the Board on appointment of new Directors of the Company. In recommending candidates for appointment to the Board, the Nomination Committee considers candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board.

The Nomination Committee has held one meeting during the Year, the attendance of the members of the Nomination Committee are summarised below:

	Number of attendance/ number of meetings
Mr. Mao Guohua *(Chairman)*	1/1
Mr. Gan Minqing (resigned on 1 March 2020)	1/1
Mr. Ho Hin Chung	1/1
Mr. Xiao Jiansheng	1/1
Mr. Liu Zexing (appointed on 1 March 2020)	N/A

N/A represents not applicable

ATTENDANCE RECORDS OF BOARD MEETING AND GENERAL MEETING

During the Year, six Board meetings were held. Details of the attendance of each Director at the Board meetings and annual general meeting of the Company held on 2 May 2019 are set out below:

	Number of attendance	
	Number of meetings	AGM
Executive Director		
Mr. Huang Xiaodong *(Chairman)*	5/6	1/1
Mr. Xiao Jiansheng *(Chief Executive Officer)*	6/6	1/1
Non-executive Director		
Lee Kin Kee	6/6	1/1
Independent non-executive Director		
Mr. Gan Minqing (resigned on 1 March 2020)	5/6	0/1
Mr. Mao Guohua	6/6	1/1
Mr. Ho Hin Chung	6/6	1/1
Mr. Liu Zexing (appointed on 1 March 2020)	N/A	N/A

N/A represents not applicable

COMPANY SECRETARY

The company secretary of the Company (the “**Company Secretary**”) assists the Board by ensuring the Board policy and procedures are followed. The Company Secretary is also responsible for advising that Board on corporate governance matters.

During the Year, the Company Secretary is an employee of the Company and has day-to-day knowledge of the Company’s affairs. The Company Secretary complied with the relevant requirement under Rule 5.15 of the GEM Listing Rules.

During the Year, the Company Secretary undertook no less than 15 hours of relevant professional training to update his skill and knowledge. The Biographical of the Company Secretary is set out in the section headed “Biographical Details of the Directors and Senior Management” of this annual report.

AUDITORS’ REMUNERATION

The amount of fees charged by the external auditors generally depends on the scope and volume of the external auditors’ work performed. For the Year, the remuneration paid or payable to the external auditors of the Company in respect of the statutory audit services amounted to approximately RMB546,000.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has overall responsibility for the establishment, maintenance and review of the Group's internal control system to safeguard shareholder investments and the assets of the Group. The internal control system of the Group aims to facilitate effective and efficient operation which in turn minimises the risks to which the Group is exposed. The system can only provide reasonable but not absolute assurance against misstatement or losses.

The Board has conducted a review of the implemented system and procedures, covering financial, operational and legal compliance controls and risk management functions. The Directors consider that the Group has implemented appropriate procedures safeguarding the Group's assets against unauthorised use or misappropriation, maintaining proper accounting records, execution with appropriate authority and compliance of the relevant laws and regulations.

A review on the internal control systems of the Company, including financial, operational and compliance controls and risk management functions has been carried out by an independent consultancy company with staff in possession of relevant expertise to conduct an independent review.

The Audit Committee reviewed the internal control review report issued by the independent consultancy company and the Company's risk management and internal control systems in respect of the year ended 31 December 2019 and considered that they are effective and adequate. The Board assessed the effectiveness of internal control systems by considering the internal control review report and reviews performed by the Audit Committee and concurred the same.

The Group has yet to establish its internal audit function during the year ended 31 December 2019 as required under Code Provision C.2.5. The Audit Committee and the Board, has considered the internal control review report prepared by an independent consultancy company to form the basis to review the adequacy and effectiveness of the Group's risk management and internal control systems. The Audit Committee and the Board will continue to review the need for an internal audit function on an annual basis.

There is currently no internal audit function within the Group. The Directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it would be more cost effective to appoint external independent professionals to perform internal audit function for the Group in order to meet its needs. Nevertheless, the Directors will continue to review at least annually the need for an internal audit function.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for dealing in securities of the Company by the Directors in accordance with Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company since the date of Listing.

BOARD DIVERSITY POLICY

The Board adopted a board diversity policy (the "**Board Diversity Policy**") on 31 December 2018. The Company embraced the benefits of having a diverse Board, as such, the Board Diversity Policy aimed to set out the approach to maintain diversity of the Board. A summary of the Board Diversity Policy, together with the measurable objectives set for implementing the Board Diversity Policy, and the progress made towards achieving those objectives are disclosed as below.

Summary of the Board Diversity Policy

When determining the composition of the Board, the Company will consider board diversity in terms of, among other things, gender, age, experience, cultural and educational background, expertise, skills and know-how. All Board appointments will be based on merits, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Measurable Objectives

Selection of candidates for Board membership will be based on a range of diversity perspectives, including but not limited to gender, age, experience, cultural and educational background, expertise, skills and know-how.

Monitoring and Reporting

The Nomination Committee will disclose the composition of the Board annually in the corporate governance report and monitor the implementation of the Board Diversity Policy.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure the effectiveness of the policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2019, as far as the Board and management are aware, there was no material breach of non-compliance with the applicable laws and regulations by the Group that has a significant impact on the businesses and operations of the Group.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONSHIP

The Company has adopted shareholders communication policy with objective of ensuring that the shareholders and potential investors are provided with ready, equal and timely access to balanced and understandable information about the Company.

The Company has established several channels to communicate with the shareholders as follows:

(i) corporate communications such as annual reports, quarterly reports, interim reports and circulars are issued printed form and are available on the Stock Exchange's website and the Company's website;

(ii) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;

(iii) corporate information is made available on the Company's website; and

(iv) the Hong Kong share registrar of the Company serves the shareholders in respect of share registration, dividend payment and related matters.

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Enquires to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong.

SHAREHOLDERS' RIGHTS

In order to enhance minority shareholders' rights, all resolutions put to votes by shareholders at general meetings were passed by poll. The poll results will be published on the websites of the Company and the Stock Exchange on the same date of the meetings. The Company's corporate communications including interim and annual reports, announcements and circulars as required under the Listing Rules are published on the websites of the Company and the Stock Exchange.

Extraordinary general meeting may be convened by the Board on requisition of shareholders holding not less than one-tenth of the paid up capital of the Company or by such shareholders who made the requisition (the "**Requisitionists**") (as the case may be) pursuant to Article 64 of the articles of association. Such requisition must state the object of business to be transacted at the meeting and must be signed by the Requisitionists and deposited at the registered office of the Company or the Company's principal place of business in Hong Kong. Shareholders should follow the requirements and procedures as set out in such article for convening an extraordinary general meeting. Shareholders may put forward proposals at a general meeting of the Company by sending the same to the Company at the principal office of the Company in Hong Kong. For putting forward any enquiries to the Board, shareholders may send written enquiries to the Company.

Shareholders may send their enquiries or requests in respect of their rights to the Company's principal place of business in Hong Kong.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge and understand their responsibility for preparing the consolidated financial statements and to ensure that the consolidated financial statements of the Group are prepared in a manner which reflects the true and fair view of the financial position, financial performance and cash flows of the Group and are in compliance with the relevant accounting standards and principles, applicable laws and disclosure provisions required of the GEM Listing Rules. The Directors are of the view that the consolidated financial statements of the Group for the Year has been prepared on this basis.

To the best knowledge of the Directors, there are no uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing the consolidated financial statements. The Company's external auditors' responsibilities in respect of the consolidated financial statements is set out in the Independent Auditors' Report on pages 52 to 55 of this annual report.

CHANGES IN CONSTITUTIONAL DOCUMENTS

During the Year, there is no significant change in the Company's memorandum and articles of association.

ABOUT THE REPORT

This report is the "Environmental, Social and Governance Report" (collectively "**the ESG Report**") published by the Group, which discloses the Group's measures and performance on sustainable development topics in a transparent and open manner, in order to increase stakeholders' confidence and understanding on the Group.

REPORTING YEAR

All the information in the ESG Report reflects the performance of the Group in environmental management and social responsibility from 1 January 2019 to 31 December 2019 (the "**Reporting Period**"). This ESG Report is released annually by the Group for public review so as to improve the transparency and responsibility of information disclosure.

REPORTING STANDARDS

The ESG Report is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" (the "**ESG Guide**") of the Stock Exchange set out in Appendix 20 of GEM Listing Rules. The ESG Report provides a simplified overview on the environmental, social and governance (the "**ESG**") performance of the Group. The information in the ESG Report is derived from the Group's official documents and statistics, as well as the integration and summary of monitoring, management and operational information provided by subsidiaries of the Group.

REPORTING SCOPE

The ESG Report covers the factory operated in the PRC for the production of new and marketable inflatable playgrounds and inflatable products and also its Hong Kong headquarter. After the comprehensive completion of data collection system and the Group's deepening in its environmental, social and governance work, the Group has identified certain ESG issues relevant to the Group, which have been assessed by considering their materiality and importance to the Group's principle activities, stakeholders as well as the Group. Those identified ESG issues and key performance indicators ("**KPIs**") have been disclosed in the ESG Report.

STAKEHOLDER ENGAGEMENT

The Stock Exchange has set forth four principles for reporting in the ESG Guide: materiality, quantitative, balance and consistency, which should form the basis for preparing the ESG Report. As the Stock Exchange emphasises, stakeholder engagement is the method by which materiality is assessed. Through stakeholder engagement, companies can understand wide-ranging views and identify material environmental and social issues.

The Group believes that effective feedback from stakeholders not only contributes to comprehensive and impartial evaluation of our ESG performance, but also enables us to improve our performance based on their feedbacks. Therefore, the Group has engaged in open and regular communication with our stakeholder groups including shareholders and investors, clients, employees, suppliers, and government. Over the years, the Group has continued to fine-tune our sustainability focus, addressing pressing issues. The table below shows how the Group communicate with key stakeholder groups and their respective concerns.

Stakeholders and Engagement Methods

Stakeholders	Interests and concerns	Engagement channels
Shareholders and investors	• Return on investment • Corporate strategy and governance • Risk mitigation and management	• Annual General Meeting • Interim and annual reports, corporate websites • Announcements, notices of meetings, circulars
Clients	• Robust operation management • Full compliance with regulations • Sustainability performance of operations	• Interim and annual reports, corporate websites • Regular meetings and communication
Employees	• Compensation and benefits • Occupational health and safety • Career development opportunities • Corporate culture and wellbeing	• Provide leisure activities and increase cohesion • In-house training programmes • Performance reviews and appraisals • Promote career development and enhance competence at all levels
Suppliers	• Long-term partnership • Ethical business practices • Supplier assessment criteria	• Procurement processes • Audits and assessments
Government	• Laws and regulation compliance	• Review latest laws and regulations • Inspection

The business of the Group affects different stakeholders, and stakeholders have different expectations on the Group. The Group will maintain communication with stakeholders continuously, collect opinions from stakeholders through different forms and more extensively, and make substantive analysis more comprehensively. At the same time, the Group will enhance the reporting principles of quantification, balance and consistency, in order to define the content of the ESG Report and presentation of the information that is more in line with the expectations of stakeholders.

ENVIRONMENTAL

Emissions

Emissions from the course of production

Major emissions from manufacturing factories are air pollutants, sewage, noise and hazardous waste. The Group manages these emissions and is committed to seeking practical means to reduce their impact on the environment.

To deal with the air pollutants produced from the boiler, the Group has a strict control on the emissions of various kinds of pollutants due to the fuel consumed in the course of production; for instance, the sulphur dioxide ("**SO_x**"), nitrogen oxide ("**NO_x**"), smoke dust and the blackness of the smoke. Regular inspection has been performed by an external professional assessment company to inspect the degree of the pollutants generated. According to the inspection results, the Group has been checked according to the Determination of Particulate Matter in Exhaust Gas and Sampling Method of Gaseous Pollutants in a Fixed Source of Pollution (GB/T 16157-1996) and passed the National Standard Air Pollutant Release Standard (DB44/27-2001) and the Emission Standard for Order Pollutants (GB 14554-93). This means the degree of exhaust gas like benzene, toluene and xylene generated from oil injection into the inflatable playgrounds are satisfactory.

Emissions from vehicle usage

During the Group's operation, the usage of private cars and light goods vehicles generate the emissions of NO_x, SO_x and Particulate Matters ("**PM**"). The approximate amount of NO_x, SO_x and PM produced from the Group's operation in PRC regions are shown in the following table:

Air pollutants from vehicle usage

Types of key air pollutants	**2019**	2018
NO_x emissions	**0.13**	0.10
SO_x emissions	**0.0004**	0.0005
PM emissions	**0.011**	0.008

The level of the air pollutants from vehicle usage remains steady. The Group would continue the work to become a low carbon organisation. Further action will be taken to reduce the environmental impact.

In respect of reducing the NO_x, SO_x and PM emissions, the Group is committed to reducing and ensure the efficient usage of private cars and light goods vehicles. The Group has implemented the following measures so as to achieve the environmental friendly approach; (i) avoid peak hour traffic; (ii) encourage the use of public transport; (iii) encourage the use of bicycle; and (iv) utilize the vehicle usage by car pooling with different staff.

Greenhouse Gas Emissions

During the course of operations in the PRC, there are greenhouse gas ("**GHG**") emissions principally resulting from vehicle usage, business air travel by employees, electricity consumed and the use of electricity for processing fresh water and sewage water at Zhongshan's factory.

Scope 1 – Direct emissions

During the operations of the Group in the PRC, due to the intense usage of private cars and light goods vehicles, a certain amount of greenhouse gases is produced.

The Group strictly controls the emissions of GHG through the establishment of a comprehensive data collection system. This system helps the Group to monitor the monthly usage of all vehicles to maintain the efficiency at a prominent level.

Scope 2 – Energy indirect emissions

Apart from the direct emissions of PM and fumes, the Group has incurred energy indirect emissions of GHG, principally resulting from electricity consumed at the Zhongshan's factory and Hong Kong's headquarter.

Scope 3 – Other indirect emissions

Other indirect GHG emissions of the Group are principally generated from electricity used for processing fresh water and sewage by government departments and aircraft navigation during employee's business trip.

Compared to that of the last financial year, the total amount of GHG emissions between 2018 and 2019 have increased slightly, mainly due to the increase in indirect emissions from air travel. The reason is that the Group has developed a closer partnership with customers this year, by having more face to face meetings and attending expos in worldwide.

The summary of GHGs emitted from our operations in PRC are shown in the following table:

Summary of GHG emissions

Types of GHG	**2019 CO_2 equivalent emission**	2018 CO_2 equivalent emission
Scope 1 – Direct emissions (tonnes)	**65**	83*
Scope 2 – Energy indirect emissions (tonnes)	**1,324**	1,375
Scope 3 – Other indirect emissions (tonnes)	**29**	18*
Total	**1,418**	1,476

* All data of Year 2018 has been updated due to the availability of the data.

Sewage discharge

Stable water supply is crucial to the Group's operation in Zhongshan's factory where the Group currently sources water from the local government. The Group provides accommodation to staff and therefore the discharge comprises of the waste water and drinking water for living. The Group has a strict control to the emissions of sewage. Regular inspection has been performed by an external professional assessment company to check against various standards. For examples, the Standard Examination Methods for Drinking Water – Organoleptic and Physical Parameters (GB 5749-2006), and Technical Specifications Requirements for Monitoring of Surface Water and Waste Water (HJ/T 91-2002).

The licensed third party concluded the result is satisfactory that the Group complies with the Standard for Drinking Water Quality (GB 5749-2006) and Discharge Limits of Water Pollutants (DB44/26-2001) in the PRC.

Besides, another source of sewage discharged by the Group is the water used in the production processes of producing the inflatable products. It is the hazardous waste water which is harmful to the environment. To deal with it, the Group has engaged a government authorised service company to collect those waste water and perform the water purification to remove undesirable matters from water through the process of screening, grit removal and sedimentation. In terms of waste water recycling, the Group is continuously looking possible way to enhance recycling of waste water in the future.

Noise pollution

It is inevitable that the production process of the Group producing noise pollution to the community around. According to the annual inspection from the licensed third party, the noise level of the Group at daytime and mid-night had maintained at a reasonable level. Such results concluded that the Group has complied with Emission Standard for Industrial Enterprises Noise at Boundary (GB12348-2008) in the PRC.

The Group is always aware of its noise pollution to the community around as well as the health condition of our workers. The Group is always listening to the voice and committing to maintain communication with the community nearby about the noise issue. Health and safety gears are also replaced from time to time in order to protect the working condition of our workers.

Hazardous and non-hazardous waste

For the process of producing inflatable products, both hazardous and non-hazardous waste are generated. The Group's production process involved the following hazardous and non-hazardous waste emissions figures:

Types of hazardous and non-hazardous waste produced

Types	2019 Volume (Tonnes)	2018 Volume (Tonnes)
Hazardous waste		
Waste lamp	**0.015**	0.008
Waste of packaging bucket	**0.250**	0.043
Waste of screen printing	**0.050**	0.024
Used cleaning cloth from production	**0.422**	0.076
Used battery	**0.010**	0.007
Used active charcoal	**0.148**	0.010
Used photographic plastic	**–**	0.024
Waste water	**2.99**	–
Non-hazardous waste		
Scrap metal	**2,935**	–
Scrap paper	**2,666**	–

The Group is dedicated to proper management of the hazardous and non-hazardous waste. Specific area is assigned for the temporary storage of hazardous waste for safety purpose. Licensed third party is engaged for the collection of the waste for recycle and reuse purpose.

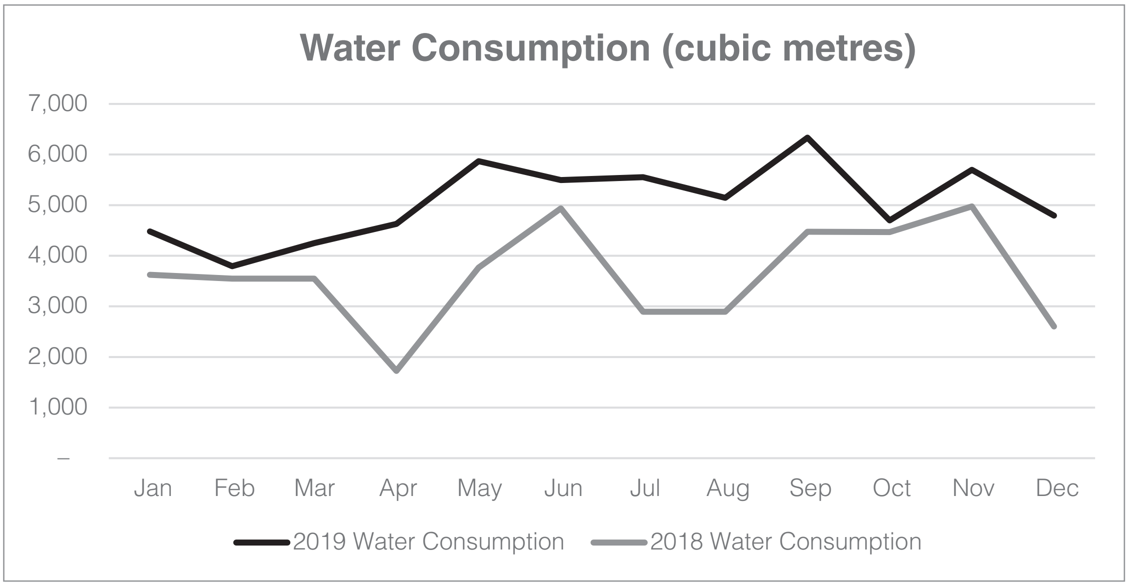
During the Reporting Period, the Group has taken action to reduce the emissions of hazardous and non-hazardous waste. The Group has made use of the technical skills from the experienced staff in the manufacturing factory in Zhongshan to lower the waste generated from the operations. Various internal trainings have been conducted to improve the working efficiency and create a higher awareness to all staff that hazardous and non-hazardous waste should be limited.

During the Reporting Period, we were not aware of any material non-compliance with the environmental laws and regulations in respect of both emissions from the course of production and vehicle usage (2018: nil).

Use of Resources

The Group adheres to the concept of energy conservation and emission reduction for green production. The major resources used by the Group are principally attributed to electricity and water consumed in Zhongshan's factory and Hong Kong's headquarter. The Group aims to improve the energy utilization efficiency to achieve low-carbon practices and emission reduction throughout the production and operation, and strives to save the resources.

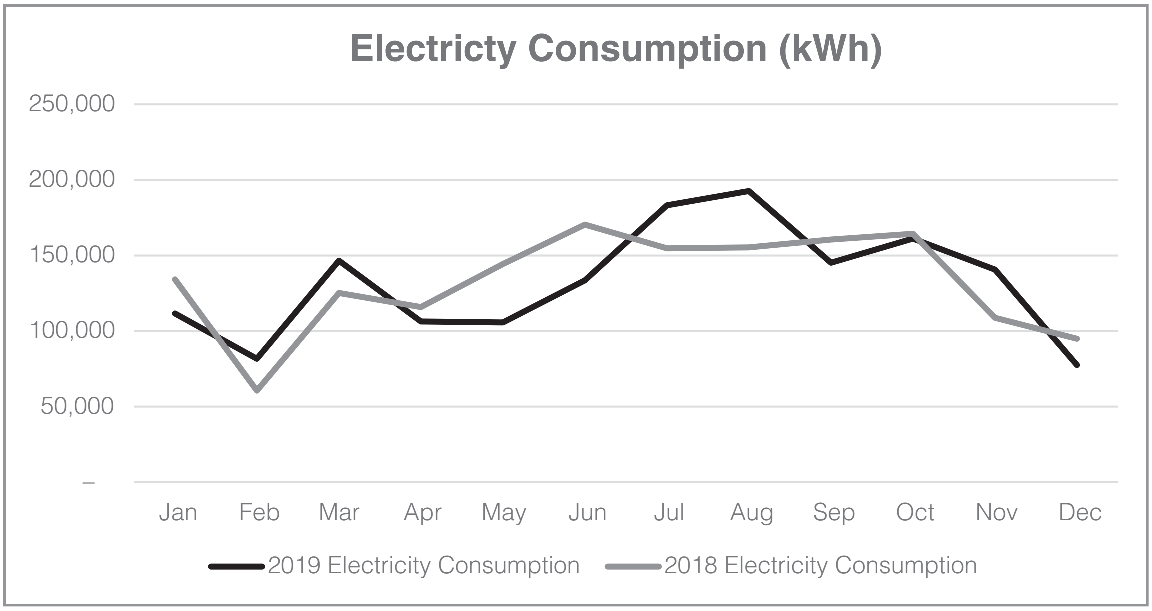
The Group records and analyzes the monthly consumption rate of water regularly. After identifying the causes of high rates of water consumption, the Group will take remedial action to minimize water use. From the graph below, it shows the monthly water consumption in cubic metres of the Group:



The total water consumption in cubic metres and intensity are shown in the table below:

Water consumption	**2019**	2018
Total water consumption (cubic metres)	**60,740**	43,444
Intensity of total water consumption per no. of employees (cubic metres)	**113**	79

The Group determines to maximize energy conservation in its office by promoting efficient use of power and adopting green technologies. To identify energy saving opportunities, the Group measures and records the energy consumption level from time to time. The monthly electricity consumption in kilowatt hour (kWh) is shown below:



The total electricity consumption in kWh and intensity are shown in the table below:

Electricity Consumption	2019	2018
Total electricity consumption (kWh)	**1,585,989**	1,589,468
Intensity of total electricity consumption per no. of employees (kWh)	**2,959**	2,879

The intensity of electricity consumption remains at a steady level. The Group believes the energy conservation norm has been developed among all staff through the internal training. The Group expects more progress would be made after the energy conservation norm has been well developed among the staff. The Group expects this can be reflected in the key performance result next year.

Apart from the use of electricity and water, the Group has also used various packaging materials for its operation. During the Reporting Period, the Group recorded the following packaging materials usage:

Packaging materials consumed	2019 (Pcs)	2018 (Pcs)
Plastic products (plastic bags, repair patches and adhesive tape)	**1,393,954**	921,634
Paper products (paper cartons, paper instructions and paper holders)	**1,693,478**	761,738
Others (wave balls, camp nails and repair glues)	**1,564,546**	492,184
Total	**4,651,978**	2,175,556

Compared to the last financial year, the packaging materials consumed has increased dramatically, due to the production capacity of both electronic and tradition inflatable products has been raised in 2019. Besides, the Group is also planning to source recyclable packaging materials from suppliers with eco-friendly practice and engagement in order to limit the adverse impact to the environment.

In the meantime, the Group has continued to give careful consideration to minimize all significant impact on the environmental resources. Various practices have been implemented which can be concluded as follows:

Implemented practice

- Switch off computers, printers, machines and other electronic devices after office hours or when leaving the workplace to reduce power consumption
- Maximize the use of nature light and energy-saving lighting systems
- Apply optimal temperature setting of air-conditioning
- Encourage duplex printing
- Reuse of single-side used paper
- Upgrade the electrical equipment with high efficient energy label continuously

THE ENVIRONMENT AND NATURAL RESOURCES

With respect to raw materials usage, plasticizers were the main raw materials used to soften the PVC to make it elastic, flexible and bendable. Many studies have been conducted to evaluate plasticizers' effects on humans and on the environment. It is concluded by the Member States Committee of European Chemicals Agency (ECHA) that some elements of plasticizers are the endocrine disruptor that cause adverse endocrine effects in fish and other aquatic organisms.

Therefore, the Group continues to use the polyethylene terephthalate ("**PET**"), an eco-friendly plasticizer which is easy to reprocess, and readily breaks down into its basic monomers. Recycled PET can be used in several different things, including polyester fibers for carpeting, parts for cars, fiberfill for coats and sleeping bags, shoes, luggage, t-shirts, and more. Moreover, according to a study by scientists at the University of Pittsburgh examined the environmental consequences of biopolymer production, PET is also ranked last in terms of negative impact based on such factors as biodegradability, recycled percentage, mass from renewable sources, life cycle health hazards and life cycle energy use.

In conclusion, the Group's put its initiative in reducing the adverse impact to the environment by using a widely-recognized eco-friendly plasticizer.

To develop a green approach at the factory and offices, the Group has developed the following measures, rather than those as stated in the previous pages, for our daily operation so as to minimize the impact brought to the environmental and natural resources consumption.

Factory machine and office equipment

- Affix save energy posters near the main switches in order to remind our employees of energy saving
- The last-man-out is dedicated to check and turn off all machines and equipment

Lighting

- Switch off non-essential lighting if there are only few people working in the office or factory
- After office hours or during lunch time of business days, only turning on light for areas essential for safety and security purpose
- The last-man-out is dedicated to check and turn off all lighting of the factory and offices

Other practice

- Refill instead of new pen when used up

As a socially responsible enterprise, protecting nature and the environment has become the inescapable social responsibility, the Group constantly looks for ways to maximize benefits with minimal resource consumption and environmental impact, and continue to strive for sustainable development.

The Group has set up an environmental system management task force as part of its effort to develop an environmental management system that supports sustainable development through the implementation of ISO14001 Environmental Management Systems. By the implementation of ISO14001 Environmental Management System, the Group has given careful consideration to minimize all significant impact on the environment resources.

PEOPLE

Employment

The Group reckons that employees are the most valuable assets of an enterprise and also the cornerstone for sustaining corporate development. It is always the Group's initiative to provide a fair and competitive compensation package to attract and retain quality talents, in the form of a basic salary, incentives bonus, mandatory provident fund, and other fringe benefits. Remuneration packages are reviewed periodically. The Group also has a set of comprehensive human resources management policy to support human resources function. The policies include compensation and dismissal, recruitment and promotion, working hours, appraisal, training and benefits.

The Group aims to refrain from any form of harassment and discrimination with respect to age, gender, race, nationality, religion, marital status or disability in the workplace. Hence, the ratio of number of male to female employees show that the problem of gender inequality is not existed.

The Group has always strictly observed the relevant legislations in the PRC and Hong Kong regarding the equal employment opportunities, child labour and forced labour. The Group abides by the employment regulations, relevant policies and guidance of the relevant jurisdictions where it operates, including the "Employment Ordinance", the "Employees' Compensation Ordinance" in Hong Kong; and the"Labour Law of the People's Republic of China" and the "Labour Contract Law of the People's Republic of China" in the PRC.

The Group has its internal procedure to report employees' information regularly in order to review employment practices so as to avoid any non-compliance. Furthermore, the Group strictly complies with the internal recruitment process during recruitment to ensure no employment of child labour and forced labour in any form. The Group also strives to establish harmonious labour relationships. The Group protects the rights of staff in terms of providing rest and leave days according to relevant government laws and regulations. Therefore, the percentage of new recruitment to total number of employees and ratio of employee turnover to total number of employees are maintained at a low level generally.

During the Reporting Period, the Group was not aware of any material non-compliance with relevant standards, rules and regulations regarding operations and activities, labour practices (2018: nil).

Employment Key Performance Indicators (Employee)

As at 31 December 2019, the Group had a total of 535 employees and 1 employee in the PRC and HK respectively. A breakdown of total employees, employees recruited and employee turnover by gender and age are set out as follows:

Total workforce structure as at 31 December 2019

Gender	Age below 30	Age 30-50	Age over 50	Number of employees by gender	Total number of employees	**2019 ratio of number of male to female employees**	2018 ratio of number of male to female employees
Male	37	130	62	229	536	0.75: 1	0.77: 1
Female	52	196	59	307			
Total	89	326	121	536			

Employees recruited in the Reporting Period

Gender	Age below 30	Age 30-50	Age over 50	Number of new recruits by gender	Total number of new recruits	**2019 percentage of new recruits to total number of employees**	2018 percentage of new recruits to total number of employees
Male	54	61	12	127	267	50%	43%
Female	44	81	15	140			
Total	98	142	27	267			

Employee turnover in the Reporting Period

Gender	Age below 30	Age 30-50	Age over 50	Staff turnover by gender	Total staff turnover	**2019 Ratio of employee turnover to total number of employees**	2018 Ratio of employee turnover to total number of employees
Male	58	66	8	132	271	51%	35%
Female	46	74	19	139			
Total	104	140	27	271			

Health and Safety

The Company is an investment holding company located in Hong Kong and the nature of the daily operation is mainly office-based where the safety risk is limited. The Group has equipped its office with suitable fire-fighting facilities like fire extinguishers.

The Group's subsidiaries in Zhongshan engage in manufacturing of PVC coating, PVC laminated oxford, plastic products and inflatable products. The Group strongly believes that ensuring stable and safety production is the most important social responsibility to its shareholders, employees and the community where it situates. Therefore, the Group has always regarded ensuring safety and stable production as one of the priorities in corporate management. Sound management systems have been established in occupational health and safety in strict compliance with the regulations on occupational health and safety in the PRC.

The Zhongshan factory of the Group had obtained ISO9001 Quality Management System Certification and ISO14001 Environmental Management System Certification formulated by the International Organisation for Standardisation ("**ISO**"). The Group strictly requires employees to comply with the safety policy and the requirement of ISO9001 and ISO14001.

Daily operations are inspected by relevant department assigned by the Group, against the established risk assessment program that consists of a number of sequential steps such as risk identification, analysis, evaluation, treatment, monitoring and reviewing based on the existing controls and recommendations to reduce those risks which are not deemed to be under acceptable limits. Any non-compliance will also be identified and rectified on a timely basis.

Thus, it is a proof of guaranteeing the establishment of a healthy, safe and stable working environment effectively.

Every case of injury (if any) is required to be reported to the Group and be assessed individually under the internal guideline procedures. The Group is pleased to report that the rate of accidents and injuries during the reporting period was extremely low with zero fatal accident (2018: nil).

Health and Safety Key Performance Indicators (Employee)

	2019	2018
Number of work injuries	**10**	4
Rate of work injury (per thousand employees)	**18.66**	7.25

Development and Trainings

The Group recognizes the importance of skilled and professionally trained employees to its business growth and future success. Therefore, the Group encourages them to participate in job-related training and courses. During the year, the Group formulates quality management and environment management training programs to update the staff with the most updated standard of ISO9001 and ISO14001, in order to maintain the highest standard of professionalism by the employees. These two programs include quality assurance training in production process, inspection assurance of materials received from supplier, health and safety precautions in using production equipment and machinery as well as customer relationship management.

In daily operation, the Group provides induction training for new employees and experienced employees act as mentors to guide new comers. The Group believes such arrangement can be the best practice to facilitate communication and team spirit, also improve technical skills and managerial capability and encourage the learning and further development of employees at all levels.

The Group will continue to intensify its efforts to promote staff training programs which the Group believes that by means of offering comprehensive training opportunities, it could help providing the necessary protection for talent reserves for corporate development. The Group annually evaluates the training needs of its employees to ensure that employees are offered with suitable and appropriate training according to their job nature and position.

Training and Development Key Performance Indicators (Employee)

Trained staff	Senior managerial level	Supervisory level	General staff	Percentage of employees receiving training by gender	**2019 Overall percentage of employees receiving training**	2018 Overall percentage of employees receiving training
Male	93%	100%	100%	98%	98%	100%
Female	94%	100%	100%	98%		

Average training hours	Senior managerial level	Supervisory level	General staff	Average training hours by gender	**2019 Overall average training hour**	2018 Overall average training hour
Male	1.5 hours	1.5 hours	1.3 hours	1.7 hours	1.4 hours	3.8 hours
Female	1.6 hours	1.5 hours	1.3 hours	1.4 hours		

Labour Standards

The Group always respects and strictly complies with all applicable national laws and local regulations as well as relevant labour laws and regulations in the place where it operates, including the Policy of Employment of Children under the Employment Ordinance in Hong Kong. The Group has also developed rigorous and systematic measures for approval and selection, to prevent ourselves from illegally hiring child labour and ensure that the employment is in compliance with relevant laws and regulations.

The Group arranges the employees' working hours based on the statutory working hour standards and allows them to entitle paid leaves and sick leaves in accordance with labour laws.

Supply Chain Management

Air blowers, PVC cloth and PVC laminated oxford are the major materials used by the Group's Zhongshan factory in its fabrics processing where they are all procured in the PRC.

The Group implements supplier management in accordance with internal guidance which governs the engagement of suppliers. Suppliers are chosen subjecting to screening and evaluation procedures among the suppliers, based on the quality and price. Also, to ensure supplier capability in quality assurance, safety and environmental responsibility, field visit and investigation is conducted. The investigation reviews the production capacity, technology level, quality assurance capabilities, supply capacity, safety and environment management qualifications if needed. Only the highly qualified suppliers complied with regulatory requirements are eligible for the supplier selection by the Group. The Group also carry out regular assessment on suppliers' overall capabilities, assets position, nature of business, reputation in the industry, quality of products, goods delivery and compliance with law and regulations.

As customers are becoming more concerned about environmental issues, and stress the importance of using environmentally friendly materials. The Group will continue to act as a corporate citizen in communicating and stressing those environmental issues to our suppliers. Hence, the Group has changed to use PET as mentioned above. The Group aims at strengthening the cooperation with suppliers, coordinating with them in product trials, and work with them to produce socially responsible products.

Product Responsibility

The Group is committed to achieving high product and service quality by implementing stringent and comprehensive quality control procedures. The Group has implemented quality control manual throughout the production process from purchase of raw materials to product packaging for employees to follow. Raw materials are inspected to ensure the quality and it is in a good condition before putting into production so as to minimize possible disruptions during the operation.

During the Reporting Period, the number of defective products produced by the Group was minimal and complaints by customers in respect of defective products were insignificant (2018: nil).

Anti-corruption

The Group is committed to maintaining the integrity of its corporate culture. Staff members are not allowed to solicit or accept any advantages. The Group sets out the relevant policies in the employee handbook and guides the employees to abide by the code of conduct. The code of conduct provides a clear definition of the provision and acceptance of interests, such as gifts and souvenirs, and ways to deal with conflicts of interest.

Directors and employees are required to make a declaration to the management through the reporting channels when actual or potential conflict of interest arises. Employees cannot receive any gifts from any external parties (i.e. customers, suppliers, contractors, etc.) unless approval is obtained from the management.

The Group has whistle-blowing procedures in effect, encouraging the employees to report directly to the Company's senior management any misconduct and dishonest behavior, such as bribery, fraud and other offences. Furthermore, the Group has specified in the employees' handbook that the Group is entitled to terminate the employment contract with any employee who is bribed with money, gifts or commission, etc., and reserve the right to take further legal actions against such person.

Community Investment

The Group has been actively involved in charitable activities in the communities and cities where our factories are operating, and encourages the employees to participate in in-house or external community activities. The Group played a vital role in supporting the Red Cross Society of China ("**RCSC**"), a humanitarian social relief organization, through donation. RCSC is a well-developed organization that has been participated in numerous social work, including volunteering, community health & care, organizing first-aid and health training, etc.

The Group will continue to explore other means to contribute more to the environment and strive to facilitate the building of a healthy and sustainable society.

Environmental performance indicators have been summarized in the following tables.

Environmental performance indicators

Aspect A1: Emissions

Performance indicator		2019 Data	2018 Data	HKEx ESG Reporting Guide KPI
Emission	Total NO_x emissions (tonnes)	0.13	0.10	KPI A1.1
	Total PM emissions (tonnes)	0.011	0.008	KPI A1.1
	Total SO_x emissions (tonnes)	0.0004	0.0005	KPI A1.1
	Total GHGs emissions – scope 1 (tonnes)	65	–*	KPI A1.2
	Total GHGs emissions – scope 2 (tonnes)	1,324	1,375	KPI A1.2
	Total GHGs emissions – scope 3 (tonnes)	29	18*	KPI A1.2
Hazardous waste	Waste lamp (tonnes)	0.015	0.008	KPI A1.3
	Waste of packaging bucket (tonnes)	0.250	0.043	KPI A1.3
	Waste of screen printing (tonnes)	0.050	0.024	KPI A1.3
	Used cleaning cloth from production (tonnes)	0.422	0.076	KPI A1.3
	Used battery (tonnes)	0.010	0.007	KPI A1.3
	Used active charcoal (tonnes)	0.148	0.010	KPI A1.3
	Used photographic plastic (tonnes)	–	0.024	KPI A1.3
	Waste water (tonnes)	2.99	–	KPI A1.3
Non-hazardous waste	Scrap metal (tonnes)	2,935	–	KPI A1.4
	Scrap paper (tonnes)	2,666	–	KPI A1.4

* Figures have been adjusted to conform current year's presentation.

Aspect A2: Use of resources

Performance indicator		2019 Data	2018 Data	HKEx ESG Reporting Guide KPI
Electricity	Total electricity consumption (kWh)	1,585,989	1,589,468	KPI A2.1
Water	Total water consumption (cubic metres)	60,740	43,444	KPI A2.2
Packaging materials	Total volume (pcs)	4,651,978	2,175,556	KPI A2.5

Social performance indicators

Aspect B1: Employees

Performance indicator		2019 Data	2018 Data	HKEx ESG Reporting Guide KPI
Number of employees	Age			KPI B1.1
	– Below 30 years old	89	114	
	– Between 30 to 50 years old	326	337	
	– Over 50 years old	121	101	
	Region			KPI B1.1
	– Hong Kong	1	1	
	– China	535	551	
Employee recruit	Gender			KPI B1.1
	– Male	127	108	
	– Female	140	131	
Employee turnover	Gender			KPI B1.2
	– Male	132	89	
	– Female	139	107	

Aspect B2: Health and safety

Performance indicator	2019 Data	2018 Data	HKEx ESG Reporting Guide KPI
Number of work injuries	10	4	KPI B2.1
Rate of work injury (per thousand employees)	18.66	7.25	KPI B2.1

Aspect B3: Development and training

Performance indicator		2019 Data	2018 Data	HKEx ESG Reporting Guide KPI
The percentage of employees receiving training	Percentage of employees receiving training by gender			KPI B3.1
	– Male	98%	100%	
	– Female	98%	100%	
Average training hours completed per employee	Average training hours by gender			KPI B3.2
	– Male (hours)	1.7	4.1	
	– Female (hours)	1.4	3.5	

國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

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The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
ALPHA ERA INTERNATIONAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Alpha Era International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 56 to 109, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Key audit matters	How our audit addressed the key audit matters
Valuation of trade receivables Refer to note 18 to the consolidated financial statements. We identified the valuation of trade receivables as a key audit matter due to the use of judgement and estimations in assessing the recoverability of trade receivables. In determining the allowance for trade receivables, the management considers the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables. Management also considered forward-looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment.	Our procedures in relation to valuation on trade receivables mainly included: • Obtaining an understanding of how allowance for doubtful debts is estimated by the management and testing the aging analysis of the trade receivables to the source documents; • Reviewing the aging analysis of the trade receivables throughout the year to understand the settlement patterns by the customers; • Assessing the reasonableness of recoverability of trade receivables with reference to the credit history including default or delays in payments, settlement records, subsequent settlements and aging analysis of each individual customer; and • Assessing the appropriateness of the expected credit loss provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit losses.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITORS' 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 auditors' 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 skepticism throughout the audit. We also:

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

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

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement director on the audit resulting in this independent auditors' report is Mr. Chan Ching Pang.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Chan Ching Pang
Practising Certificate Number: P05746

Hong Kong, 11 May 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019** **RMB'000**	2018 RMB'000
Revenue	5	**223,831**	192,977
Cost of sales		**(171,437)**	(144,139)
Gross profit		**52,394**	48,838
Other income and gains	6	**1,205**	1,433
Distribution and selling expenses		**(13,385)**	(8,347)
Administrative expenses		**(14,625)**	(14,936)
Net reversal of impairment/(impairment losses) on financial assets		**139**	(2,149)
Finance costs	7	**(1,650)**	–
Profit before tax		**24,078**	24,839
Income tax expense	8	**(5,196)**	(3,577)
Profit for the year	9	**18,882**	21,262
Other comprehensive income, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**936**	1,353
Other comprehensive income for the year		**936**	1,353
Total comprehensive income for the year		**19,818**	22,615
		RMB cents	RMB cents
Earnings per share			
– Basic and diluted	13	**2.4**	2.7

Details of the dividends are disclosed in note 12 to the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	14	**8,273**	6,394
Right-of-use assets	15	**15,788**	–
Intangible assets	16	**560**	591
Deferred tax assets	22	**1,335**	1,604
		25,956	8,589
Current assets			
Inventories	17	**36,516**	31,555
Trade and other receivables	18	**51,379**	64,168
Cash and bank balances	19	**44,447**	18,630
		132,342	114,353
Total assets		**158,298**	122,942
Current liabilities			
Trade and other payables	20	**31,534**	28,619
Lease liabilities	21	**2,710**	–
Current tax liabilities		**2,923**	2,271
		37,167	30,890
Net current assets		**95,175**	83,463
Total assets less current liabilities		**121,131**	92,052
Non-current liabilities			
Lease liabilities	21	**14,209**	–
Deferred tax liabilities	22	**2,060**	1,770
		16,269	1,770
Net assets		**104,862**	90,282
Capital and reserves			
Equity attributable to owners of the Company			
Share capital	23	**6,969**	6,969
Reserves	24	**97,893**	83,313
Total equity		**104,862**	90,282

The consolidated financial statements were approved and authorised for issue by the board of directors on 11 May 2020 and signed on its behalf by:

Mr. Huang Xiaodong	**Mr. Xiao Jiansheng**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital RMB'000	Share premium RMB'000 *(Note 24)*	Special reserve RMB'000 *(Note 24)*	Statutory reserve RMB'000 *(Note 24)*	Foreign currency translation reserve RMB'000 *(Note 24)*	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2018	6,969	26,558	17,429	3,318	(345)	13,738	67,667
Profit for the year	–	–	–	–	–	21,262	21,262
Other comprehensive income for the year	–	–	–	–	1,353	–	1,353
Total comprehensive income for the year	–	–	–	–	1,353	21,262	22,615
Statutory reserve appropriation	–	–	–	1,548	–	(1,548)	–
Balance at 31 December 2018	6,969	26,558	17,429	4,866	1,008	33,452	90,282
Profit for the year	–	–	–	–	–	18,882	18,882
Other comprehensive income for the year	–	–	–	–	936	–	936
Total comprehensive income for the year	–	–	–	–	936	18,882	19,818
Dividends recognised as distribution *(Note 12)*	–	–	–	–	–	(5,238)	(5,238)
Statutory reserve appropriation	–	–	–	1,663	–	(1,663)	–
Balance at 31 December 2019	**6,969**	**26,558**	**17,429**	**6,529**	**1,944**	**45,433**	**104,862**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Profit before tax		**24,078**	24,839
Adjustments for:			
Depreciation of property, plant and equipment		**1,740**	1,637
Depreciation of right-of-use assets		**3,283**	–
Amortisation of intangible assets		**106**	108
Interest income		**(243)**	(86)
Write-down of inventories		**1,002**	–
Finance costs		**1,650**	–
Net (reversal of impairment)/impairment losses on financial assets		**(139)**	2,149
Gain on disposal of property, plant and equipment, net		**(8)**	(122)
		31,469	28,525
Movements in working capital			
Increase in inventories		**(5,963)**	(4,955)
Decrease/(increase) in trade and other receivables		**12,928**	(23,036)
Increase/(decrease) in trade and other payables		**2,915**	(17,171)
Cash generated from/(used in) operations		**41,349**	(16,637)
Income taxes paid		**(3,513)**	(2,053)
Net cash generated by/(used in) operating activities		**37,836**	(18,690)
Cash flows from investing activities			
Interest received		**243**	86
Decrease/(increase) in short-term bank deposit		**8,782**	(8,782)
Payments for property, plant and equipment		**(3,627)**	(1,213)
Proceeds from disposal of property, plant and equipment		**16**	537
Payments for intangible assets		**(75)**	(39)
Net cash generated by/(used in) investing activities		**5,339**	(9,411)
Cash flows from financing activities			
Capital element of lease liabilities		**(2,115)**	–
Interest element of lease liabilities		**(1,650)**	–
Dividends paid		**(5,238)**	–
Net cash used in financing activities		**(9,003)**	–
Net increase/(decrease) in cash and cash equivalents		**34,172**	(28,101)
Cash and cash equivalents at the beginning of year		**9,848**	37,272
Effect of foreign exchange rate changes, net		**427**	677
Cash and cash equivalents at the end of year		**44,447**	9,848
Analysis of balances of cash and cash equivalents			
Cash and bank balances	19	**44,447**	18,630
Less: short-term bank deposit with original maturity of more than 3 months	19	**–**	(8,782)
Cash and cash equivalents at the end of year		**44,447**	9,848

1 GENERAL INFORMATION

Alpha Era International Holdings Limited (the "Company") was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company with limited liability on 3 November 2015. The shares of the Company have been listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 7 December 2017. Its parent and ultimate holding company is Nonton Limited ("Nonton"), a company incorporated in the British Virgin Islands ("BVI") with limited liability and wholly-owned by Mr. Lee King Sun ("Mr. Lee").

The addresses of the registered office and the principal place of business of the Company are Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands and Units 1902, 19th Floor, Tamson Plaza, 161 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong respectively.

The Company is an investment holding company. The Company and its subsidiaries (collectively, the "Group") is principally engaged in the manufacturing and sales of inflatable products and related accessories.

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the respective entity operates (the "functional currency"). The functional currency of the Company is Hong Kong dollars ("HK$"). The consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand, which is different from the functional currency of the Company as the Group's dominated operations are substantially based in the People's Republic of China (the "PRC").

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

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

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

HKFRS 16	*Leases*
HK(IFRIC) – Int 23	*Uncertainty over Income Tax Treatments*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015 – 2017 Cycle*

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

HKFRS 16 *Leases*

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* and the related interpretations.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 16 *Leases* (Continued)

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

The Group as lessee

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application as an adjustment to the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent liabilities and Contingent assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application of HKFRS 16;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is approximately 11%.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 16 *Leases* (Continued)

The Group as lessee (Continued)

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

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	641
Add: adjustment as a result of different treatment of termination options	21,487
Less: short-term leases not recognised as a liability	(279)
	21,849
Less: total future interest expenses	(4,967)
Total lease liabilities as at 1 January 2019	16,882
Analysed as	
Current	2,462
Non-current	14,420
	16,882

The right-of-use assets have been recognised at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 December 2018.

Summary of financial effects arising from initial application of HKFRS 16

The following adjustments were made to the amount recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported as at 31 December 2018 RMB'000	Adjustments RMB'000	**Carrying amounts under HKFRS 16 at 1 January 2019 RMB'000**
Non-current assets			
Right-of-use assets	–	16,882	**16,882**
Current liabilities			
Lease liabilities	–	2,462	**2,462**
Non-current liabilities			
Lease liabilities	–	14,420	**14,420**

There is no impact on the opening retained profits by the initial application of HKFRS 16.

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

New and revised HKFRSs in issue but not yet effective

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

HKFRS 17	*Insurance Contracts*[1]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[4]
Amendments to HKFRS 3	*Definition of a Business*[2]
Amendment to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[4]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]

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

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the *Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

The directors anticipate the application of all these new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

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

Revenue from contracts with customers

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

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

Control of the goods or service may be transferred over time or at a point in time. Revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

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

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

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

The Group recognises revenue from the following goods and services:

(i) Sales of goods

The Group manufactures and sells inflatable products and related accessories. Revenue is recognised when the control of the products is considered to have been transferred to the customers.

Revenue from the sales of products is recognised when control of the products has transferred, being at the point the products are delivered to the customers and the customers have full discretions to sell the products and no unfulfilled obligation that could affect the customer's acceptance of the products.

Revenue from these sales is recognised based on the price specified in the contract, net of returns and value added taxes.

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

A contract liability is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. The Group recognised its contract liabilities under trade and other payables as receipt in advance from customers in the consolidated statement of financial position.

(ii) Provision of sub-contracting services

Revenue from providing services is recognised in the accounting period in which the services are rendered.

Revenue from provision of sub-contracting services is recognised based on the actual service provided.

Leases

Definition of lease (upon application of HKFRS 16 in accordance with transitions in note 2)

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.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assess whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions note 2)

Short-term leases and leases of low-value assets

The Group apply the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on a short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentive received;
- any initial direct costs incurred by the Groups; and
- an estimate of costs to be incurred by the Groups in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payment (including in-substance fixed payments) less any lease incentives receivables;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lease (Continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)

Lease liabilities (Continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- The lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increase by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to application to HKFRS 16)

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e RMB) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rate for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognise in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Exchange differences relating to the retranslation of the Group's net assets in Hong Kong dollars to the Group's presentation currency (i.e. RMB) are recognised directly in other comprehensive income and accumulated in foreign currency translation reserve. Such exchange differences accumulated in the foreign currency translation reserve are not reclassified to profit or loss subsequently.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use of sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

Retirement benefit costs

Payments to the defined contribution benefit plans are recognised as an expense when employees have rendered services entitling them to the contributions.

Obligations for contributions to retirement plans, including contributions payable under the Hong Kong Provident Fund Schemes Ordinance and the PRC central pension scheme, are recognised as an expense in profit or loss as incurred.

Short-term employee benefits

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

A liability is recognised for benefits accruing to employees after deducting any amount already paid.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

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

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

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bring the assets to the location and condition necessary for it to be capable of operating in the manner intended by the management and, for qualifying assets, borrowing costs capitalised in accordance with Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on property, plant and equipment, right-of-use assets and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment on property, plant and equipment, right-of-use assets and intangible assets (Continued)

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash generating-unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each assets in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on weighted average basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

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

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

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

Impairment of financial assets

The Group perform impairment assessment under expected credit loss ("ECL") model on financial assets which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individual and/or collectively using provision matrix with appropriate grouping which is adjusted for forward-looking estimates.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

***Financial assets* (Continued)**

Impairment of financial assets (Continued)

(i) Significant increase in credit risk

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

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

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

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payment are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Company considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

- significant financial difficulty of the issuer or the borrower;
- a breach of contract;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery or in the case of trade receivables when the amounts are over two year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

***Financial assets* (Continued)**

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL

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

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

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

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is impaired, in which case interest income is calculated based on amortised cost of the financial asset.

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

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities

Financial liabilities (including trade and other payables and lease liabilities) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Derecognition of financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 or of a parent of the Group.

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group 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 of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an 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.

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

Impairment losses on trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables based on the expected credit losses which use a lifetime expected loss allowance for all trade receivables. The loss allowances for trade receivables are based on assumptions about risk of default and expected loss rates. The Group use judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the client's past history collection record, existing market conditions as well as forward looking estimates at the end of each reporting period. Management reassesses the provision at reporting period.

5. REVENUE AND SEGMENT INFORMATION

HKFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the executive directors of the Company, being the chief operating decision maker, for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the manufacturing and sales of inflatable products and related accessories. Since this is the only operating segment of the Group, no further analysis for segment information is presented.

Revenue

	2019 **RMB'000**	2018 RMB'000
Revenue from customer		
– Sale of inflatable products and related accessories	**220,106**	191,530
– Sub-contracting income	**3,725**	1,447
	223,831	192,977

Disaggregation of revenue from contracts with customers

	2019 **RMB'000**	2018 RMB'000
Disaggregated by major products and services		
Inflatable playgrounds with air blowers	**196,769**	168,758
Other inflatable products	**6,547**	10,538
Inflatable products related accessories and sub-contracting work	**20,515**	13,681
	223,831	192,977
Time of revenue recognition		
A point of time	**223,831**	192,977

The Group's contract with customers for the sale of inflatable products and related accessories, and for the provision for sub-contracting services include only one single performance obligation. The Group has concluded that revenue from sale of inflatable products and related accessories and from provision of sub-contracting services should be recognised at the point of time when a customer obtains control goods and services.

Revenue recognised during the year in relation to sale of inflatable products and related accessories that was included in the contract liabilities at the beginning of year was approximately RMB1,305,000 (2018: RMB2,010,000). All of the Group's remaining performance obligation for contract with customers are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of revenue is based on the locations of the customers. Save for right-of-use assets of approximately RMB211,000 (2018: Nil) are located in Hong Kong, the Group's other major non-current assets are all located in the PRC.

	2019 **RMB'000**	2018 RMB'000
Revenue from external customers:		
– China	**32,703**	42,694
– Europe	**39,580**	39,776
– Australia and Oceania	**17,368**	11,937
– North America	**45,671**	19,053
– Asia	**85,711**	74,492
– Central and South America	**2,753**	4,693
– Africa	**45**	332
	223,831	192,977

Information about major customers

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

	2019 **RMB'000**	2018 RMB'000
Customer A	**55,757**	52,829
Customer B	**27,744**	N/A[1]

1 The corresponding revenue did not contribute over 10% of the Group's total revenue.

6. OTHER INCOME AND GAINS

	2019 RMB'000	2018 RMB'000
Interest income on bank deposits	**243**	86
Grants and subsidies *(Note)*	**367**	1,149
Others	**595**	198
	1,205	1,433

Note: Grants and subsidies mainly consist of gross grants and subsidies by local governments in relation to corporate development, high and new technology development, export encouragement scheme and compensation for expenses already incurred. The amounts of these grants and subsidies are subject to discretions of local governments and there are no unfulfilled conditions or contingencies.

7. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on lease liabilities	**1,650**	–

8. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Current tax		
Hong Kong Profits Tax		
– Current tax	**2,114**	1,625
– Over-provision in prior years	**(390)**	(43)
PRC withholding tax	**497**	–
PRC Enterprise Income Tax		
– Current tax	**2,559**	2,896
– Over-provision in prior years	**(154)**	(1,101)
Deferred tax *(Note 22)*	**570**	200
Total income tax recognised in profit or loss	**5,196**	3,577

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

8. INCOME TAX EXPENSE (Continued)

The Group is subjected to Hong Kong Profits Tax at a rate of 16.5% for both years.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both years, unless preferential rate is applicable. A wholly-owned subsidiary of the Company located in the Zhongshan City is registered as a High and New Technology Enterprise and is entitled to the preferential corporate income tax rate of 15% for a period of 3 years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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

	2019 **RMB'000**	2018 RMB'000
Profit before tax	**24,078**	24,839
Tax at PRC Enterprise Income Tax rate of 15% *(Note)*	**3,612**	3,725
Tax effect of expenses not deductible for tax purpose	**516**	251
Tax effect of non-taxable income	**(89)**	(42)
Tax concession	**(18)**	(17)
Temporary differences not recognised	**150**	–
Withholding tax on undistributed profits	**290**	701
Tax effect of unrecognised tax losses	**302**	–
PRC withholding tax	**497**	–
Over-provision in prior years	**(154)**	(1,144)
Effect of different tax rates of group entities operating in different jurisdictions	**90**	103
Income tax expense for the year	**5,196**	3,577

Note: The PRC Enterprise Income Tax rate is used as it is the domestic tax rate in the jurisdiction where the operation of the Group is substantially based.

9. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2019 **RMB'000**	2018 RMB'000
Auditors' remuneration	**546**	524
Cost of inventories recognised as an expense	**171,437**	144,139
Depreciation of property, plant and equipment *(Note (i))*	**1,740**	1,637
Depreciation of right-of-use assets *(Note (ii))*	**3,283**	–
Write-down of inventories	**1,002**	–
Amortisation of intangible assets	**106**	108
Net foreign exchange losses	**275**	135
Operating lease payments in respect of rented premises *(Note (iii))*	**–**	5,571
Short-term lease expenses *(Note (v))*	**437**	–
Employee benefits expense (including directors' emoluments *(Note 10)*):		
Salaries, wages and other benefits	**38,224**	32,729
Contribution to retirement benefits schemes	**3,441**	3,020
Total employee benefits expense *(Note (iv))*	**41,665**	35,749

Notes:

(i) Depreciation of property, plant and equipment amounting to approximately RMB1,503,000 (2018: RMB1,400,000) are capitalised in inventories and amounting to approximately RMB237,000 (2018: RMB237,000) are included in administrative expenses.

(ii) Depreciation of right-of-use assets amounting to approximately RMB3,071,000 (2018: Nil) are capitalised in inventories and amounting to approximately RMB212,000 (2018: Nil) are included in administrative expenses.

(iii) During the year ended 31 December 2018, operating lease payments in respect of rent premises previously classified as operating leases under HKAS 17 amounting to approximately RMB4,283,000 were capitalised in inventories and amounting to approximately RMB1,288,000 were included in administrative expenses, of which approximately RMB470,000 relating to staff quarter were included in employee benefits expense disclosed above.

(iv) Total employee benefits expense amounting to approximately RMB32,791,000 (2018: RMB26,664,000) are capitalised in inventories; amounting to approximately RMB1,681,000 (2018: RMB1,545,000) are included in distribution and selling expenses; and amounting to approximately RMB7,193,000 (2018: RMB7,540,000) are included in administrative expenses.

(v) These amounts are not included in the measurement of lease liabilities.

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the directors and the chief executive of the Company were as follows:

	Fees RMB'000	Salaries and other benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to retirement benefits schemes RMB'000	Total RMB'000
2019					
Executive directors					
Mr. Huang Xiaodong ("Mr. Huang")	106	240	120	1	467
Mr. Xiao Jiansheng ("Mr. Xiao")	71	324	120	1	516
Non-executive director					
Mr. Lee Kin Kee	211	–	–	–	211
Independent non-executive directors					
Mr. Mao Guohua	51	–	–	–	51
Mr. Gan Minqing *(Note (iii))*	51	–	–	–	51
Mr. Ho Hin Chung *(Note (i))*	211	–	–	–	211
	701	**564**	**240**	**2**	**1,507**
2018					
Executive directors					
Mr. Huang	101	240	100	1	442
Mr. Xiao	68	204	100	1	373
Non-executive director					
Mr. Lee Kin Kee	202	–	–	–	202
Independent non-executive directors					
Mr. Mao Guohua	51	–	–	–	51
Mr. Gan Minqing *(Note (iii))*	51	–	–	–	51
Mr. Ho Hin Chung *(Note (i))*	14	–	–	–	14
Mr. Chu Wai Wa Fangus *(Note (ii))*	189	–	–	–	189
	676	444	200	2	1,322

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

Notes:

(i) Mr. Ho Hin Chung was appointed as independent non-executive director of the Company on 7 December 2018.

(ii) Mr. Chu Wai Wa Fangus was appointed as independent non-executive director of the Company on 20 June 2017 and resigned on 7 December 2018.

(iii) Mr. Gan Minqing was resigned on 1 March 2020.

(iv) Subsequent to the end of reporting period, Mr. Lin Zexing was appointed as an independent non-executive director of the Company on 1 March 2020.

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

Neither the chief executive officer nor any of the directors waived or agreed to waive any emoluments during the year ended 31 December 2019 (2018: Nil).

11. FIVE HIGHEST PAID EMPLOYEES

Of the five individuals with the highest emoluments, two (2018: two) of them are directors of the Company whose emoluments are set out in note 10 above. Details of the emoluments in respect of the remaining three (2018: three) highest paid individuals are as follows:

	2019 **RMB'000**	2018 RMB'000
Salaries and other benefits in kind *(Note)*	**1,355**	1,051
Contributions to retirement benefits schemes	**30**	29
	1,385	1,080

Note: Amounts included discretionary bonuses of approximately RMB140,000 (2018: RMB85,000).

Their emoluments were all within Nil to HK$1,000,000.

During the year ended 31 December 2019, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office (2018: Nil).

12. DIVIDENDS

	2019	2018
	RMB'000	RMB'000
Dividends recognised as distribution	**5,238**	–

During the year ended 31 December 2019, a final dividend in respect of the year ended 31 December 2018 of HK$0.75 cents per ordinary share in an aggregate amount of HK$6,000,000 had been proposed and paid.

Subsequent to the end of reporting period, a final divided in respect of the year ended 31 December 2019 of HK$0.75 cents per ordinary share, in aggregate amount of HK$6,000,000, has been proposed by the directors and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

13. EARNINGS PER SHARE

	2019	2018
	RMB'000	RMB'000
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**18,882**	21,262

	2019	2018
	'000	'000
Number of Shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**800,000**	800,000

The diluted earnings per share is equal to the basic earnings per share as there is no dilutive potential ordinary share in issue during years ended 31 December 2019 and 2018.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and equipment RMB'000	Computer equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
Balance at 1 January 2018	6,951	11,936	1,168	265	1,914	–	22,234
Additions	–	1,203	–	–	10	–	1,213
Disposals	–	(405)	(400)	–	–	–	(805)
Effect of foreign exchange differences	2	–	–	1	1	–	4
Balance at 31 December 2018	6,953	12,734	768	266	1,925	–	22,646
Additions	173	1,408	–	–	29	2,017	3,627
Disposals	(40)	(80)	–	–	–	–	(120)
Effect of foreign exchange differences	1	–	–	–	–	–	1
Balance at 31 December 2019	7,087	14,062	768	266	1,954	2,017	26,154
Accumulated depreciation							
Balance at 1 January 2018	5,273	6,914	962	229	1,624	–	15,002
Depreciation expense	649	910	39	3	36	–	1,637
Eliminated on disposals	–	(30)	(360)	–	–	–	(390)
Effect of foreign exchange differences	2	–	–	1	–	–	3
Balance at 31 December 2018	5,924	7,794	641	233	1,660	–	16,252
Depreciation expense	649	1,020	32	4	35	–	1,740
Eliminated on disposals	(40)	(72)	–	–	–	–	(112)
Effect of foreign exchange differences	1	–	–	–	–	–	1
Balance at 31 December 2019	6,534	8,742	673	237	1,695	–	17,881
Carrying amounts							
Balance at 31 December 2019	**553**	**5,320**	**95**	**29**	**259**	**2,017**	**8,273**
Balance at 31 December 2018	1,029	4,940	127	33	265	–	6,394

The above items of property, plant and equipment are depreciated on a straight-line basis over their useful lives as follows:

Leasehold improvements	Over the shorter of the term of the lease, and 2 to 6 years
Plant and machinery	6 to 10 years
Motor vehicles	4 to 5 years
Furniture and equipment	3 to 5 years
Computer equipment	3 to 10 years

15. RIGHT-OF-USE ASSETS

	Land and buildings RMB'000
Cost	
Balance at 1 January 2019, upon adoption of HKFRS 16	16,882
Balance at 1 January 2019	16,882
Additions	1,203
Lease modification	859
Effect of foreign exchange differences	(4)
Balance at 31 December 2019	18,940
Accumulated depreciation	
Balance at 1 January 2019	–
Depreciation expense	3,283
Lease modification	(130)
Effect of foreign exchange differences	(1)
Balance at 31 December 2019	3,152
Carrying amounts	
Balance at 31 December 2019	**15,788**

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 other than those short-term leases. 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.

Amounts recognised in the consolidated statement of profit or loss and other comprehensive income relating to leases:

	2019 RMB'000
Depreciation of right-of-use assets	**3,283**
Interest expense on lease liabilities	**1,650**
Expense relating to short-term leases	**437**

During the year, additions to right-of-use assets were approximately RMB1,203,000. This amount primarily related to capitalised lease payments payable under new lease agreements.

Short-term leases relate to lease of office and machinery.

For the year ended 31 December 2019, total cash outflow for leases amounts to approximately RMB4,202,000.

16. INTANGIBLE ASSETS

	Patents RMB'000	Trademarks RMB'000	Total RMB'000
Cost			
Balance at 1 January 2018	291	1,127	1,418
Additions	23	16	39
Balance at 31 December 2018	314	1,143	1,457
Additions	58	17	75
Balance at 31 December 2019	372	1,160	1,532
Accumulated amortisation			
Balance at 1 January 2018	193	565	758
Amortisation expense	22	86	108
Balance at 31 December 2018	215	651	866
Amortisation expense	22	84	106
Balance at 31 December 2019	237	735	972
Carrying amounts			
Balance at 31 December 2019	**135**	**425**	**560**
Balance at 31 December 2018	99	492	591

The following useful lives are used in the calculation of amortisation:

Patents	10 years
Trademarks	10 years

17. INVENTORIES

	2019 **RMB'000**	2018 RMB'000
Raw materials	**9,545**	12,383
Work in progress	**15,902**	10,258
Finished goods	**11,069**	8,914
	36,516	31,555

18. TRADE AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**45,587**	59,430
Allowance for credit losses	**(221)**	(2,876)
	45,366	56,554
Value-added tax	**2,268**	4,194
Deposit paid	**1,206**	1,116
Other receivables and prepayment	**2,539**	2,304
	51,379	64,168

The following is an analysis of trade receivables by age, net of allowance for credit losses, presented based on the invoice date:

	2019 RMB'000	2018 RMB'000
0-30 days	**29,018**	41,445
31-60 days	**11,421**	14,025
61-90 days	**1,876**	1,061
91-120 days	**2,867**	23
121-365 days	**184**	–
	45,366	56,554

As at 31 December 2019, total bills received amounting to approximately RMB1,714,000 (2018: RMB298,000) are held by the Group for the future settlement of trade receivables. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

The credit terms granted to customers are varied and are generally the result of negotiations between individual customers and the Group. The Group generally allows credit period ranging from 0 to 120 days. No interest is charged on overdue receivables.

The management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality. As at 31 December 2019, trade receivables of approximately RMB43,627,000 (2018: RMB56,392,000) are neither past due nor impaired relate to a number of independent customers with good settlement history.

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which requires the use of the lifetime expected credit loss provision for trade receivables. To measure the expected credit losses, these receivables have been grouped based on the same credit risk characteristics. See note 28 for further information about expected credit loss provision.

18. TRADE AND OTHER RECEIVABLES (Continued)

As at 31 December 2019, the allowance for credit losses included impaired trade receivables of Nil (2018: approximately RMB2,523,000) that were default in payment and the management considers that such trade receivables are credit impaired. As a consequence, allowance for credit losses of Nil (2018: approximately RMB2,523,000) has been recognised in respect of such trade receivables.

Movement in the provision for impairment of trade receivables are as follows:

	Lifetime ECL (not credit-impaired) RMB'000	**Lifetime ECL (credit-impaired) RMB'000**	**Total RMB'000**
At 1 January 2018 (upon initial application of HKFRS 9)	727	–	727
Net impairment losses recognised	(386)	2,421	2,035
Exchange differences	12	102	114
At 31 December 2018	353	2,523	2,876
Reversal of impairment losses recognised	(139)	–	(139)
Written off	–	(2,544)	(2,544)
Exchange differences	7	21	28
At 31 December 2019	**221**	**–**	**221**

19. CASH AND BANK BALANCES

	2019 RMB'000	2018 RMB'000
Cash and bank balances	**44,447**	9,848
Short-term bank deposit with original maturity more than 3 months	**–**	8,782
	44,447	18,630

Cash at banks earn interest at floating rates based on daily bank deposit rates. The short-term bank deposit carried fixed interest rate at Nil (2018: 2.3%) per annum with original maturity over 3 months. As at 31 December 2019, the Group's cash and bank balances with an aggregate amount of approximately RMB3,770,000 (2018: RMB1,341,000) were denominated in RMB which is not a freely convertible currency in the international market. The government of the PRC has implemented foreign exchange control and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

20. TRADE AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	**20,029**	21,446
Contract liability	**2,618**	2,709
Accrued salaries and other benefits *(Note)*	**5,788**	2,746
Other payables and accruals	**3,099**	1,718
	31,534	28,619

Note: Accrued salaries and other benefits disclosed above included emoluments payable to the executive directors of the Company amounting to approximately RMB287,000 (2018: RMB37,000) as at 31 December 2019.

The following is an analysis of trade payables based on the invoice date:

	2019 RMB'000	2018 RMB'000
0-30 days	**9,432**	12,843
31-60 days	**6,173**	6,186
61-90 days	**2,701**	1,310
91-120 days	**1,359**	955
121-365 days	**296**	17
Over 365 days	**68**	135
	20,029	21,446

The trade payables are non-interest bearing.

21. LEASE LIABILITIES

Lease liabilities payable:

	31 December 2019 RMB'000	1 January 2019 (Note) RMB'000
Current	**2,710**	2,462
Non-current	**14,209**	14,420
	16,919	16,882

Note: For adjustment recognised on adoption of HKFRS 16 on 1 January 2019, please refer to note 2.

The Group leases certain properties for its operations. Lease contracts are entered into for term of approximately 2 to 6 years with no option to renew upon expiry. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants. Leased assets may not be used as security for borrowing purposes.

22. DEFERRED TAXATION

	ECL RMB'000	Decelerated tax depreciation RMB'000	Withholding tax on undistributed profits RMB'000	Total RMB'000
Balance at 1 January 2018	127	956	(1,069)	14
Credited/(charged) to profit or loss *(Note 8)*	328	173	(701)	(200)
Exchange differences	20	–	–	20
Balance at 31 December 2018	475	1,129	(1,770)	(166)
(Charged)/credited to profit or loss *(Note 8)*	(448)	168	(290)	(570)
Exchange differences	11	–	–	11
Balance at 31 December 2019	**38**	**1,297**	**(2,060)**	**(725)**

	2019 RMB'000	2018 RMB'000
Analysed for reporting purpose as:		
Deferred tax assets	**1,335**	1,604
Deferred tax liabilities	**(2,060)**	(1,770)
	(725)	(166)

Under the Enterprise Income Tax Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has been provided for in full in respect of undistributed profits retained by PRC entities in the consolidated financial statements.

At the end of reporting period, the Group has estimated unused tax losses of approximately RMB2,011,000 (2018: Nil) available for offsetting against future profits of the Group. These estimated unused tax losses of the Group may be carried forward for five years. No deferral tax assets have been recognised in respect of these estimated unused tax losses due to unpredictability of future profit streams.

23. SHARE CAPITAL

Details of the Company's authorised and issued ordinary share capital are as follows:

	2019	2018
	HK$'000	HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.01 each	**10,000**	10,000
Issued and fully paid:		
800,000,000 ordinary shares of HK$0.01 each	**8,000**	8,000
Equivalents to RMB'000	**6,969**	6,969

24. RESERVES

Share premium

Share premium is the excess of the proceeds received over the nominal value of the shares of the Company issued at a premium, less expenses incurred in connection with the issue of the shares.

Special reserve

Special reserve represents the reserve arose pursuant to the corporate reorganisation for the purpose of the listing of the Company's shares on the GEM.

Statutory reserve

In accordance with the PRC Company Law and the PRC subsidiaries' Articles of Association, every year the PRC subsidiaries are required to transfer at least 10% of the profit after taxation determined in accordance with PRC Accounting Standards to the statutory reserves until the balance reaches 50% of the registered capital. Such reserve can be used to reduce any losses incurred or to increase registered capital.

Foreign currency translation reserve

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. RMB) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve in respect of translating the net assets of foreign operations are reclassified to profit or loss on the disposal of the foreign operation.

25. SHARE OPTION SCHEME

The Company has adopted a share option scheme (“Scheme”) pursuant to a resolution passed on 15 November 2017. The purpose of the Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group and to promote the success of the business of the Group.

Under the Scheme, the board of directors may, at their absolute discretion and subject to the terms of the Scheme, grant options to any employees (full-time or part-time), directors, consultants or advisors of the Group, or any substantial shareholders of the Group, or any distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group, to subscribe for shares of the Company.

Under the Scheme, the maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the shares in issue upon the date of which the shares are listed and permitted to be dealt in the Stock Exchange. The 10% limit may be refreshed at any time by approval of the Company’s shareholders provided that the total number of Company’s shares which may be issued upon exercise of all options to be granted under the Scheme and any other share options schemes of the Company must not exceed 10% of the Company’s shares in issue as at the date of approval of the refreshed limit. Subject to the approval of the Company’s shareholders, the aggregate number of the Company’s shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the Company’s shares in issue from time to time. No options may be granted under the Scheme or any other share options schemes of the Company if this will result in the limit being exceeded.

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) under the Scheme or any other share option schemes of the Company in any 12-month period up to date of grant shall not exceed 1% of the shares of the Company in issue. Where any further grant of options to a participant under the Scheme would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such participant and his/her close associates abstaining from voting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or any of their respective associates must be approval by the independent non-executive directors of the Company (excluding any independent non-executive director who is the grantee). Where any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their respective close associates would result in the total number of shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) under the Scheme and any other share option schemes of the Company to such person in any 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the shares of the Company in issue and having an aggregate value in excess of HK$5 million must be approved by the Company’s shareholders at the general meeting of the Company, with voting to be taken by way of poll.

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK$1. An option may be exercised in accordance with the terms of the Scheme at any time during a period as the directors may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

25. SHARE OPTION SCHEME (Continued)

The subscription price shall be a price solely determined by the board of directors of the Company and notified to a participant and shall be at least the highest of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date; and (iii) the nominal value of the Company's share on the offer date.

The Scheme will remain in force for a period of ten years commencing on 15 November 2017 and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by the shareholders in general meeting.

There was no share option granted to eligible participants during the years ended 31 December 2018 and 2019. There was no outstanding share options as at 31 December 2018 and 2019.

26. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the plans are held separately from those of the Group in funds under the control of trustees.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit plans operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plans is to make the specified contributions.

The total expense recognised in profit or loss of approximately RMB3,441,000 (2018: RMB3,020,000) for the year ended 31 December 2019 represents contributions payable to the plans by the Group at rates specified in the rules of the plans.

27. CAPITAL MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes borrowings net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

At the end of the reporting period, the Group did not have any borrowings and therefore, had net debt-to-equity ratio of Nil.

Management of the Group review the capital structure regularly taking into account the cost of capital and the risks associated with the cost of capital. The Group will balance its overall capital structure through the issuance of new shares, raise of borrowings and repayment of existing borrowings.

28. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 RMB'000	2018 RMB'000
Financial assets		
Amortised cost	**91,317**	80,908
Financial liabilities		
Amortised cost	**45,835**	25,910

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, cash and bank balances, trade and other payables and lease liabilities. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The management has been monitoring these risk exposures to ensure appropriate measures are implemented on a timely and effective manner so as to mitigate or reduce such risks.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

Foreign currency risk management

For the year ended 31 December 2019, approximately 85% (2018: 78%) of the Group's revenue are denominated in United States dollar ("US$"). The Group's dominant operations are in the PRC and most of the operating expenses are primarily denominated in RMB. The Group is exposed to currency risk arising from currency exposures with respect to US$ and RMB. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

28. FINANCIAL INSTRUMENTS (Continued)

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

Foreign currency risk management (Continued)

At the end of the reporting period, the carrying amounts of the Group's major monetary assets and liabilities denominated in a currency other than the functional currencies of the relevant group entities are as follows:

	2019 **RMB'000**	2018 RMB'000
Assets		
US$	**38,014**	53,315
RMB	**750**	–
Liabilities		
US$	**3,738**	3,410

Since HK$ is pegged to US$, the directors consider that the foreign currency risk in respect of the Group's US$ denominated monetary assets and liabilities at the end of the reporting period held under the Group's subsidiary in Hong Kong is insignificant.

Sensitivity analysis

The following table details the Group's sensitivity to a 5% weakening in the RMB against US$. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rate. The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A positive number below indicates an increase in profit where RMB weakens against US$. For a 5% weakening of US$ against RMB, there would be an equal and opposite impact on the profit.

	2019 **RMB'000**	2018 RMB'000
US$	**826**	71

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

28. FINANCIAL INSTRUMENTS (Continued)

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

Interest rate risk management

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing financial assets and financial liabilities. The Group is exposed to cash flow interest rate risk to its variable-rate bank deposits and fair value interest rate risk in relation to its fixed-rate short-term bank deposit and lease liabilities. The management considers that the exposure to interest rate risk on variable-rates bank deposits is insignificant as interest rates on bank deposits are relatively low are not expected to change significantly. The fixed-rate instruments of the Group are insensitive to any change in market interest rates. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Credit risk management

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

In respect of trade and other receivables, credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure that follow-up action is taken to recover overdue debts. In addition, the Group impairment assessment under ECL model on its financial assets. In this regard, management considers that the Group's credit risk is significantly reduced.

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

At 31 December 2019	Notes	12m or life-time ECL	Gross carrying amounts RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000
Trade receivables	18	Life-time ECL (provision matrix)	45,587	(221)	45,366
Other receivables and deposits	18	12m ECL	1,504	–	1,504
Bank balances	19	12m ECL	44,405	–	44,405

28. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk management (Continued)

At 31 December 2018	Notes	12m or life-time ECL	Gross carrying amounts RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000
Trade receivables	18	Life-time ECL (provision matrix)	56,907	(353)	56,554
		Credit impaired	2,523	(2,523)	–
Other receivables and deposits	18	12m ECL	5,724	–	5,724
Bank balances	19	12m ECL	18,598	–	18,598

For trade receivables, the Group applies the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines ECL on these items by using provision matrix. The expected credit loss rates are estimated based on historical observed default rates over the expected life of the debtors and adjusted for forward-looking information that is available without undue cost of effort.

On that basis, the loss allowance as at 31 December 2019 and 2018 was determined as follows for trade receivables:

At 31 December 2019	Expected loss rate	Carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.4%	43,815	187
1-30 days past due	1.9%	1,585	30
61-90 days past due	1.9%	187	4
		45,587	221

At 31 December 2018	Expected loss rate	Carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.6%	56,736	344
1-30 days past due	5.4%	168	9
31-60 days past due	0.6%	3	–
More than 90 days past due	100%	2,523	2,523
		59,430	2,876

28. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk management **(Continued)**

The Group performs impairment assessment under ECL model on other receivables and bank balances based on 12m ECL as there have been no significant increase in credit risk since initial recognition.

The credit risk on other receivables is limited because the counterparties have no historical default record and the directors expect that the risk of default by the counterparties of other receivables is not significant.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or with good reputation. The Group is also subject to concentration of credit risk arising from its trade receivables. As at 31 December 2019, trade receivables that are due from the Group's largest five customers approximate to 82.5% (2018: 72.6%).

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings or good reputation and on trade receivables as disclosed above, the Group does not have any other significant concentration of credit risk.

Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents and banking facilities deemed adequate by management to finance the Group's operations and mitigate the effects of unexpected fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, the maturity analysis for non-derivative financial liabilities is prepared based on the scheduled repayment dates.

	Weighted average effective interest rate	On demand or within 1 year	More than 1 year but less than 2 years	More than 2 year but less than 5 years	Over 5 years	Total contractual undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2019							
Trade and other payables	–	28,916	–	–	–	28,916	28,916
Lease liabilities	11%	4,312	4,279	11,838	1,349	21,778	16,919
		33,228	4,279	11,838	1,349	50,694	45,835
At 31 December 2018							
Trade and other payables	–	25,910	–	–	–	25,910	25,910

(c) Fair value measurements of financial instruments

The Group has no financial instruments measured at fair value subsequent to initial recognition on a recurring basis throughout the years represented.

29. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	2018 RMB'000
Within one year	641
In the second to fifth years inclusive	–
	641

At 31 December 2018, operating leases relate to production facilities and office premises with lease terms of 2 to 6 years.

The Group leases certain of the properties in the PRC for a period of 6 years until 31 December 2023 at an aggregate monthly rental of approximately RMB362,000, with 5% increment every two years. The Group has an option to terminate such rental agreements by serving one month's notice.

In addition, the Group entered into a non-cancellable operating lease arrangement to lease for its office premises in Hong Kong for a period of 2 years commencing from October 2017 at a monthly rental of approximately RMB27,000.

Operating lease commitment disclosed above included (i) the one month's termination notice in relation to its PRC properties; and (ii) the remaining contractual period of the non-cancellable operating lease from its Hong Kong office premises.

The Group does not have an option to purchase the leased assets at the expiry of the lease period.

30. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2019 not provided for in the consolidated financial statements

At 31 December 2019, the Group is committed to contribute RMB200,000 to the registered capital of an indirect wholly-owned subsidiary (2018: Nil) and entered into contractual commitments for the acquisition of property, plant and equipment of approximately RMB208,000 (2018: Nil).

31 RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

	Lease liabilities RMB'000
As at 31 December 2018	–
Application of HKFRS 16	16,882
As at 1 January 2019	16,882
Non-cash changes	
Lease modifications	953
New leases	1,203
Interest on lease liabilities (Note 7)	1,650
Exchange differences	(4)
Cash flows	(3,765)
As at 31 December 2019	**16,919**

32. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these consolidated financial statements, the Group had the following transactions with related parties during the year:

Compensation of key management personnel

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

	2019 RMB'000	2018 RMB'000
Salaries and other benefits	**2,336**	1,828
Contributions to retirement benefits schemes	**32**	31
	2,368	1,859

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019	2018
	RMB'000	RMB'000
Non-current assets		
Investment in a subsidiary	**26,344**	26,344
Current assets		
Prepayments	**267**	263
Amounts due from subsidiaries	**35,931**	15,820
Bank balances	**178**	126
	36,376	16,209
Total assets	**62,720**	42,553
Capital and reserves		
Equity attributable to owners of the Company		
Share capital	**6,969**	6,969
Reserves	**55,751**	35,584
Total equity	**62,720**	42,553

The Company's statement of financial position were approved and authorised for issue by the board of directors on 11 May 2020 and signed on its behalf:

Mr. Huang Xiaodong
Director

Mr. Xiao Jiansheng
Director

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserve is as follows:

	Share premium RMB'000	**Special reserve** RMB'000	**Foreign currency translation reserve** RMB'000	**Retained profits/ (accumulated losses)** RMB'000	**Total** RMB'000
Balance at 1 January 2018	26,558	20,392	(340)	(10,379)	36,231
Loss for the year	–	–	–	(1,496)	(1,496)
Other comprehensive income for the year	–	–	849	–	849
Total comprehensive income/(expense) for the year	–	–	849	(1,496)	(647)
Balance at 31 December 2018	26,558	20,392	509	(11,875)	35,584
Profit for the year	–	–	–	24,422	24,422
Other comprehensive income for the year	–	–	983	–	983
Total comprehensive income for the year	–	–	983	24,422	25,405
Dividends recognised as distribution *(Note 12)*	–	–	–	(5,238)	(5,238)
Balance at 31 December 2019	**26,558**	**20,392**	**1,492**	**7,309**	**55,751**

Special reserve of the Company represents the difference between the total equity of Silver Bliss acquired by the Company pursuant to the corporate reorganisation over the nominal value of the Company's shares issued in exchange therefore.

34. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries at 31 December 2019 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and fully paid-up share/ registered capital	Proportion of ownership interest held by the Company	Principal activities
Silver Bliss	BVI	US$10,000	100% (direct)	Investment holding
Swiftech International Limited ("Swiftech International")	Hong Kong	HK$1	100% (indirect)	Trading and export business of inflatable products
中山新宏達日用制品有限公司 Swiftech Company Limited* ("Swiftech Company")	PRC	HK$28,000,000	100% (indirect)	Manufacturing of inflatable products in the PRC
中山市潤和高分子材料製造有限公司 Zhongshan Runhe Macromolecular Materials Manufacture Limited* ("Zhongshan Runhe")	PRC	RMB7,000,000	100% (indirect)	Manufacturing of PVC coating, PVC laminated oxford and plastic products in the PRC
河源市新達日用制品有限公司 Heyuan Swiftech Company Limited* ("Heyuan Swiftech Company")	PRC	RMB200,000	100% (indirect)	Manufacturing of PVC coating, PVC laminated oxford and plastic products in the PRC

* The english translation of the company names is for identification purpose only.

35. EVENTS AFTER THE REPORTING PERIOD

Due to the outbreak of the COVID-19 pandemic earlier this year, the production capacity has been affected and has certain impact to the operations of the Group. In the opinion of the directors of the Company, it is not practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group's financial statements at the date of these financial statements. The Group will continue to monitor and assess the development of the COVID-19 and evaluate its financial impact on the Group.

On 4 March 2020, Zhongshan Runhe entered into the purchase agreement for acquiring the spunbond meltblown spunbond machinery at total contract price of RMB9,450,000. The acquisition represents the capital investment for the construction of the production line to manufacture the spunbond meltblown spunbond non-woven fabrics. The acquisition of machinery constitutes a discloseable transaction of the Company under the GEM Listing Rules.

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements and the Prospectus, is set out below.

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Revenue	**223,831**	192,977	176,810	172,347	168,802
Gross profit	**52,394**	48,838	41,020	38,921	32,027
Profit before tax	**24,078**	24,839	13,972	14,683	10,536
Income tax expense	**(5,196)**	(3,577)	(4,423)	(5,258)	(3,174)
Profit for the year	**18,882**	21,262	9,549	9,425	7,362

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	**158,298**	122,942	116,001	83,961	71,707
Total liabilities	**(53,436)**	(32,660)	(47,734)	(46,540)	(43,601)
Total equity	**104,862**	90,282	68,267	37,421	28,106