Sinopharm Tech Holdings Limited
國藥科技股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8156)

ANNUAL REPORT

2020

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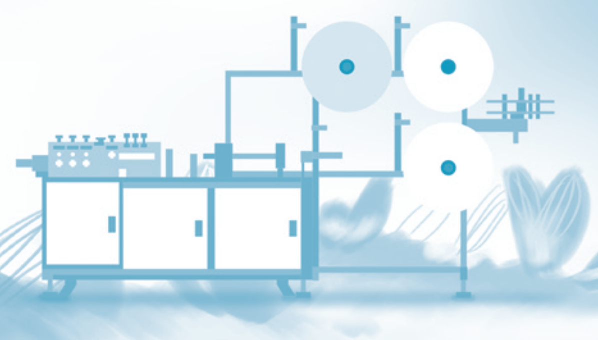
CONTENTS

The English text of this annual report shall prevail over the Chinese text for the purpose of interpretation.



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Madam CHEUNG Kwai Lan *(Chairperson)*
Mr. CHAN Ting *(Deputy Chairperson & Chief Executive Officer)*

Non-executive Directors

Mr. CHAN Tung Mei
Dr. CHENG Yanjie *(appointed on 29 July 2019)*

Independent Non-executive Directors

Mr. LAU Fai Lawrence *(appointed on 23 January 2020)*
Dr. LIU Ta-pei
Mr. CHAU Wai Wah Fred *(appointed on 20 November 2019)*

AUDIT COMMITTEE

Mr. LAU Fai Lawrence *(Chairperson) (appointed on 23 January 2020)*
Dr. LIU Ta-pei
Mr. CHAU Wai Wah Fred *(appointed on 20 November 2019)*

REMUNERATION COMMITTEE

Mr. LAU Fai Lawrence *(Chairperson) (appointed on 23 January 2020)*
Mr. CHAN Ting
Dr. LIU Ta-pei
Mr. CHAU Wai Wah Fred *(appointed on 20 November 2019)*

NOMINATION COMMITTEE

Madam CHEUNG Kwai Lan *(Chairperson)*
Dr. LIU Ta-pei
Mr. CHAU Wai Wah Fred *(appointed on 20 November 2019)*

AUTHORISED REPRESENTATIVES

Mr. CHAN Ting
Mr. HO Kam Kin

COMPLIANCE OFFICER

Mr. CHAN Ting

COMPANY SECRETARY

Mr. HO Kam Kin

AUDITORS

CCTH CPA Limited

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
Nanyang Commercial Bank, Limited
Chong Hing Bank Limited

REGISTERED OFFICE

Second Floor, Century Yard
Cricket Square, P.O. Box 902
Grand Cayman, KY1-1103
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 01–03, 25/F., Corporation Park
11 On Lai Street, Shatin
New Territories, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Tricor Services (Cayman Islands) Limited
Second Floor, Century Yard
Cricket Square, P.O. Box 902
Grand Cayman, KY1-1103
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

STOCK CODE

8156

COMPANY WEBSITE

www.sinopharmtech.com.hk

CHAIRPERSON'S STATEMENT

Dear Shareholders,

In 2020, unstable market conditions and the difficulty of people's livelihood brought uncertainties in Hong Kong, and local economy was compounded by the outbreak of Coronavirus Disease 2019 ("**COVID-19**"). Fortunately, amidst the adverse environment, the Group grabbed the business opportunity of personal protective equipment observantly, and promptly made the strategic decision and commenced the plans for developing new business segment. At the time, local mask manufacturing was still in initial stage of development without sufficient technical support and professionals. Nonetheless, the Group explored the industry progressively and was determined to tackle these issues in such path beset with difficulties while the Group's employees worked around the clock, thereby achieving breakthrough from scratch and eventually reaching high production capacity and mass production in our factories.

In the process of new business exploration, the Group is honored to advance with our business partners, who made helpful contribution to our personal protective equipment business. The Group and Zhuhai Huafa Group Co. Ltd. ("**Zhuhai Huafa**") commenced cooperation in respect of medical supplies procurement and health industry chain, etc., which has significantly broadened our business network in related sectors. While the Group was establishing our personal protective equipment manufacturing system, the Group and Zhuhai Huafa interacted and exchanged information on the utilization of Zhuhai Huafa's production equipment in the Group's actual production site. Both parties designed and modified production equipment to enhance production capability of our devices to the maximum extent for increasing our production capacity. Hence, contributive interactions and mutual benefits could be attained between both parties. Upon the continuous advancement of the Group's technical capability, the Group, the Federation of Hong Kong Industries ("**FHKI**") and the Vocational Training Council ("**VTC**") co-organized programmes related to personal protective equipment manufacturing industry after the period under review, through which the Group made contribution to the society with our respective experience. Meanwhile, Kenford Medical Group Co., Ltd ("**Kenford**"), an associate and competent partner of the Group possessing advantages as a medical chain, helped the Group to distribute our own mask products to Hong Kong community via its offline stores. Apart from that, the Group also served governmental organizations in Hong Kong through Local Mask Production Subsidy Scheme by supplying masks monthly and joined hands in combat of the virus.

The Group seized another significant breakthrough and opportunity by combining lottery and anti-counterfeiting technologies. Anti-counterfeit comprehensive solution with technology based on relevant patents of anti-counterfeiting devices and characterized by "anti-counterfeiting + marketing" have been launched to the market. The Group firstly aimed at consumer products with high added value and extensive number of counterfeits, and to enhance user loyalty via marketing function and capture market share in the anti-counterfeiting industry.

In the future, the Group will adopt the dual direction of "personal protective equipment manufacturing" and "Internet Plus lottery" as our business model. By proactive cooperation with renowned industry organizations and enterprises, the Group will extend our business reach to areas related to personal protective equipment industry and thus distinguish ourselves in personal protective equipment manufacturing. From the industry perspective, the overall quality level could be effectively advanced in both technology and talent means. In respect of "Internet Plus lottery" business, to speed up the development of the great potential of Chinese anti-counterfeiting market, the Group will launch the unique anti-counterfeit comprehensive solution to the market in order to emerge in the industry.

Overcoming the tides in the year, the Group has achieved significant results. The Group tagged along the trend in this exceptional period and tapped into the personal protective equipment industry at appropriate time, which is expected to bring in long-term cash flow with growth prospect for the Group. Besides, anti-counterfeit comprehensive solution with lottery element are expected to upgrade the traditional anti-counterfeiting concept, thereby making a breakthrough in the prevailing blind spots of technology and profitability in the anti-counterfeiting industry for booming growth. I strongly believe that these two emerging businesses will bring significant income and contribution to the Group and I would like to express my gratitude to our Shareholders for their continuous support.

CHEUNG Kwai Lan
Chairperson and Executive Director

Hong Kong, 29 September 2020

CEO'S STATEMENT

Dear Shareholders,

During the period under review, the Group has achieved significant development and breakthrough. After proactive deployment in the medical sector in the beginning of 2019, the Group noticed the mismatch of demand and supply in the mask market in the beginning of 2020. With the apparent of a structural transformation as well as regionalization of demand and supply in the mask industry, the Group responded to such special circumstances and was committed to mask manufacturing business, thereby satisfying market demand and exploring a new business segment in an adverse environment. With bold and determined mindset and highly efficient resources deployment, the Group achieved smooth operation of our own manufacturing system of medical products in solely a few months and realized mass production. The Group entered into the market with brand names "Sinopharm Tech SPT Mask", and we swiftly captured market demand and built up our brand recognition in a short period of time, hence capturing the market share of local medical products industry.

SIGNIFICANT ACHIEVEMENT IN MEDICAL SECTOR

On 10 May 2019, the structure of the Group's Shareholders has been changed and Sinopharm Traditional Chinese Medicine Overseas Holdings Limited ("**Sinopharm Overseas**") under Sinopharm Traditional Chinese Medicine Co. Ltd ("**Sino-TCM**") became the strategic Shareholder of the Company and the Company changed the name to Sinopharm Tech Holdings Limited. The introduction of new strategic Shareholder and assumed office of Dr. CHENG Yanjie, director and consultant of Sino-TCM helped expanding resources including medical resources and medical business network. He also gave assistance and instruction actively to the Group in the respect of national medical policies guidance, medical industry trend, medical business operational logics and strategies.

During the period under review, the unexpected outbreak of COVID-19 stimulated the progress of exploring business opportunities in the medical industry. When COVID-19 initially appeared, the Group had already established cooperation with Zhuhai Huafa in relation to emergency medical supplies, and the two parties have subsequently established long-term strategic cooperation relationships through strategic cooperation framework agreement. Leveraging on medical and commercial network and Internet Plus platform of the Group and the advantages of being a reputable state-owned enterprise and possessing ample capital of Zhuhai Huafa, both parties have commenced comprehensive, multi-dimensional and broad spectrum cooperation in respect of medical supplies procurement and health industry chain, etc. From January to February 2020, the Group supplied disposable medical masks, protective clothing and hazmat suits, and other medical supplies to Chinese local government, governmental organizations and state-owned enterprises via the procurement cooperation with Zhuhai Huafa. The Group subsequently acquired production equipment from Zhuhai Huafa for our own factories. During the process, the mask manufacturing operation team and equipment manufacturing staff maintained effective interaction. The Group and Zhuhai Huafa maintained close communication and shared operating experience on the operation of the machines it provided, and jointly optimized and upgraded the systems and components from time to time to ensure the smooth operation of our equipment. During the period under review, the Group provided "Internet Plus Supply Chain" service to Zhuhai Huafa and JD.Com International Limited, an internet giant, contributing greatly to the revenue of HK$128.8 million as well as the segment profit before other income and gain and before asset impairment of HK$19.5 million for the Group's "Internet Plus Supply Chain" business segment.

During the period under review, participation in the operation of medical products industry has broadened the Group's medical and commercial networks, hence the Group has established the target of building our own medical products manufacturing system. From February to March 2020, the Group has successively set up two joint ventures in Shandong Province and Jilin Province. Among them, Shandong Deji Medical Goods Company Limited has a management team with over 10-year abundant experiences in operating mask factories and masters the resources of core material suppliers that subsequently provides strong assistance and assurance of raw material for the Group's broadening production line deployment, while flexible deployment of manpower and technical supports and resources replenishment can be achieved among the factories in Mainland and Hong Kong. In February 2020, in synchronization with the development progress of the Mainland joint ventures, the Group commenced the construction of our first cleanroom for masks production in Hong Kong. In April 2020, two production lines were approved for the application of "Local Mask Production Subsidy Scheme" and entered into a one-year purchase contract with the government of Hong Kong Special Administrative Region (the "**Government**") in May. Within 12 months from July 2020 the Group will supply up to 48 million masks to the Government. During the process, the Group is honored to receive the guidance and support from the Government and relevant departments. Upon the construction of the first factory, the Group has accumulated local practical experience and established our technical team for the simultaneous construction of our second and third factories, and the establishment of various mask production cleanrooms were smoothly conducted.

As of the date of this report, the Group has already built a total of eight cleanrooms in Mainland and Hong Kong with over twenty mask production lines within just half of a year, thereby achieving economies of scale via mass production. The Group also supplied personal protective equipment to Hong Kong governmental organizations including the Government, Hospital Authority and Social Welfare Department for assisting the Hong Kong government in terms of disease prevention and control measures. The Group has been proactively exploring sales channels and owns a self-operated online store as well as Facebook platform. By authorizing Kenford and Lung Fung Group as our offline mask retail stores, the Group expanded the direct sales channel with corporate customers. The above operation generated revenue of HK$32.1 million as well as segment profit before other income and gain and before asset impairment of HK$19.0 million, respectively during the period under review. Meanwhile, the Group and Tencent Holdings Limited has defined strategic cooperation relationship in relation to purchase and service sector of medical supplies, which further expanded the Group's medical material sales channels. Cooperating with well-known ventures can enrich the high-level strategic business network of the Group and set the foundation for the development of branding.

Anchoring on the manufacturing of medical products, the Group has proactively deployed in the personal protective equipment sector. In stringent adherence to quality during our business development, apart from mask manufacturing business, the Group also established a mask testing laboratory. After the period under review, the Group has signed a management contract with Intertek Testing Services Hong Kong Limited ("**Intertek Hong Kong**") to establish a long term business relationship, with the aims of setting up and operating a face masks testing laboratory in the name of Intertek Hong Kong. This Hong Kong-based Testing Laboratory will provide the American Society for Testing and Materials ASTM F2100 standard and European Committee for Standardization EN 14683 standard testing services. As part of this Cooperation, this Testing Laboratory will be operated independently by Intertek Hong Kong, and it will be fully responsible for the design, setup, accreditation, operation management and maintenance of the Testing Laboratory. The Cooperation with an international professional testing team not only allows our Testing Laboratory to obtain world-class testing professional experience and technical know-how, this will also speed up the time for providing accredited testing services to the public. In addition to providing quality testing and technical support for the Group, this Testing Laboratory will also provide world-class testing services to other Hong Kong mask & personal protection equipment manufacturers, thus working with the industry to improve product quality and be the quality gatekeeper for Hong Kong citizens. The Group believes that mass production and stringent quality requirements are the keys for the Group's brand building, capturing of market share and realizing long-term development.

Through equity acquisition, the Group became a shareholder of Kenford, one of the largest modern Chinese medicine clinical chain groups in Hong Kong, which owns the uncovered physical medical platform in the Group's business structure. Hence, the acquisition has established a long-term, stable and close cooperation between the Group and Kenford with strategic meaning. With 21 modern Chinese medicine clinics in Hong Kong, Kenford possesses extensive offline operation experience and precisely targets at market demand in terms of store location selection, focus of consultation business and products development, thereby achieving smooth operation and profitability. Business under Kenford is rooted in Hong Kong community, including Chinese medicine consultation business, self-developed and sales of health products and the provision of health check service to citizens. Leveraging on strong customer loyalty, comprehensive service portfolio and physical network with coverage of basic level community in Hong Kong, Kenford opens up more possibilities in terms of the Group's business segment, and also secures stable revenue for offline business. In 2020, the Group utilized Kenford's physical stores as the offline distribution points of our self-produced masks, while Kenford also launched self-developed anti-epidemic products to the market to join hands in combat of the virus. Apart from that, the Group and Kenford also commenced cooperation with Beijing Guorun Jiuhe Health Technology Co., Ltd. ("**Guorun Jiuhe**") regarding jointly building a comprehensive body constitution health solution using the traditional Chinese medicine and an online A.I. based treatment assistant system for the purpose of enhancing consumers' health experience.

TECHNOLOGICAL PRESENTATION OF ANTI-COUNTERFEITING LOTTERY AND MULTI-APPLICATIONS OF "INTERNET PLUS"

During the period under review, the Group has entered into strategic cooperation framework agreement with Beijing Cai-Yan Technology Co., Ltd. ("**CY Technology**"), pursuant to which, both parties extensively applied anti-counterfeiting devices for product packaging and online anti-counterfeiting information verification platform into the market. Such act hopes to offer comprehensive solutions to the immature anti-counterfeiting industry in China, aiming to cover insufficiencies of the prevailing technology in the market with scientific, highly efficient and unique anti-counterfeiting traceability solutions. Subsequent to the period under review, anti-counterfeiting devices for product packaging (patent number: ZL 201921449828.X) ("**Anti-counterfeiting Traceability**") and its accessories and components as well as anti-counterfeiting devices for packaging (patent number: ZL 2019 2 1579150.7) ("**Anti-counterfeiting Device(s)**") have obtained the patent certification of the National Intellectual Property Administration. Upon obtaining the authorization to use the two aforesaid patents, the Group and CY Technology exerted efforts on creating an integrated anti-counterfeiting solution with "anti-counterfeiting" and "marketing" functions, which is characterized for encouraging consumers to take the initiatives in verification and formulating a habit of verification among consumers. Marketing and promotion functions of online anti-counterfeiting information platform drives product sales and also boosts the demand for Anti-counterfeiting Devices among merchants. The demand closed-loop effect helps to drive market demand for anti-counterfeit comprehensive solution. The Group will promote the solutions to different industries to achieve market penetration.

OUTLOOK

During the year under review, the Group captured special opportunity by prompt decision-making, and proactively explored local medical supplies sector in Hong Kong, in particular the manufacture of personal protective equipment, as a pioneer. The manufacture and sale of personal protective equipment has become a new profitable segment of the Company. Through the cooperation with governmental departments and large corporations, the Group secures a stable channel with sizable demand and the sales network was rapidly established. Subsequent to the period under review, the Group has entered into product sales agreements with a branch of PetroChina Company Limited (the "**PetroChina Branch**") and TEDA Filters Co., Ltd. ("**TEDA Filters**") to secure quality and stable source of meltdown fabric. Stable raw material supply formulates a strong support and guarantee the Group's high-end mask products of various models and quality grades. In the future, the Group will put our established commercial network into full play and together with our mass production to acquire larger market share, build up our brand image and establish our presence in the market in long run.

In view of the emergence of Hong Kong personal protective equipment industry, to alleviate industry difficulties of the shortage of respective professionals and lack of technological support, the Group, FHKI and VTC co-organized the "Smart Manufacturing Training Programme for PPE Industry". Attendees learn about the respective theories and practices to effectively secure the efficiency and quality of the production process. From a long-term development perspective, cooperation among the Group, the Government, official associations and industry peers will drive the market into a more mature stage. Well-developed industry norms and product quality assurance help Hong Kong personal protection industry to establish a good image, while enhance international confidence and attract foreign consumers.

After the period under review, two patents have been granted on the anti-counterfeiting devices for product packaging that has been applied in the anti-counterfeit comprehensive solution, and it is a suitable time for its market launch and application. The Group will set up a large-scale technology applications R&D and marketing team to provide strong support to the lottery/anti-counterfeiting business segment from the front line to the back end. Our target users are those large-scale enterprises in the high value-added tobacco, alcohol and medicine industries with relatively strong consumer demand, high spending amount, and high anti-counterfeiting requirements, and we will promote the full commercialization of anti-counterfeit comprehensive solution.

Looking back this year, the Group has explored the values for the existing businesses and created new opportunities through setting up a new business segment. We look forward that we could maintain our dominance and expand revenue stream in the medical supplies sector, while capture the tremendous room of development in the lottery/anti-counterfeiting sector in the future, thereby bringing fruitful return to our Shareholders.

CHAN Ting
Duty Chairperson, Executive Director and Chief Executive Officer

Hong Kong, 29 September 2020

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year ended 30 June 2020, the Group recorded revenue of HK$165.9 million, representing an increase of 281% over the revenue of HK$43.5 million for the same period in 2019, while gross profit for the period of HK$44.7 million represented an increase of 88% over gross profit of HK$23.7 million in the corresponding period in 2019. Revenue substantially increased as the result of the company drive the new business on manufacturing and distribution of personal protective equipment and high demand on the supply chain services for medical devices and supplies. Increase in gross profit was due to the contribution from new business growth momentum.

The Group recorded a loss attributable to equity holders of HK$161.1 million for the year under review, representing an increase of 244% over the loss attributable to the equity holders for the same period in 2019 (2019: HK$46.8 million). The major reasons for the increase of the loss attributable to equity holders are mainly due to the effects of additional operating costs and expenses incurred to strengthen the Group's operation for new business needs and impairment losses on goodwill were made for the Year 2020 as compared with the Year 2019.

SEGMENTAL INFORMATION

Lottery-related services business remains smooth during the reporting period. During the reporting period, the revenue of the Lottery-related services recorded HK$5.0 million, representing a decrease of 76% over the same period of the last financial year. The gross profit recorded HK$1.2 million with the margin of 24% for the reporting period comparing with 70% for the same period of the last financial year. Details of further development of lottery-related services business are stated in the outlook of the "CEO's Statement".

Internet plus services business recorded steady growth as the result of high demand on the supply chain services for medical devices and supplies during the second half of the reporting period. In the Internet Plus services business, the revenue of solutions services and supply chain services recorded HK$Nil million and HK$128.8 million respectively, representing an increase of over 8.6 times in total revenue over the same period of the last financial year. The gross profit recorded HK$27.6 million with the margin of 21% for the reporting period comparing with 40% for the same period of the last financial year. Details of the further development of internet plus services business are stated in the outlook of the "CEO's Statement".

In the second half of the reporting period, the Group developed new business segment on the manufacturing and distribution of personal protective equipment. During the reporting period, the revenue of the personal protective equipment recorded HK$32.1 million and the gross profit recorded HK$15.9 million with the margin of 49%. It is expected that the revenue generated from personal protective equipment would be one of the engine for business growth in the forthcoming years. Details of further development of personal protective equipment business are stated in the outlook of the "CEO's Statement".

GOODWILL AND INTANGIBLE ASSETS

During the reporting period, goodwill amounting to approximately HK$131.4 million (2019: HK$65.1 million) were determined to be impaired, in which approximately HK$4.5 million (2019: HK$45.9 million), HK$84.6 million (2019: Nil) and HK$42.3 million (2019: HK$19.2 million) were attributable to lottery related services cash generating unit, internet plus supply chain services cash generating unit and internet plus solution services cash generating unit respectively. In addition, intangible assets of approximately HK$1.6 million (2019: HK$2.8 million) were determined to be impaired, in which was attributable to the Group's internet plus services contract. The recoverable amount of the cash generating units is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period and a long-term average growth rate. The recoverable amount of the cash generating units was with reference to the calculations performed by an independent appraisal valuer, ROMA Appraisals Limited. Details of the relevant assumptions and impairment assessment on goodwill and intangible assets of the Group are set out in Note 21 and Note 22 to the Consolidated Financial Statements of this annual report respectively.

The Directors considered that the goodwill attributable to the lottery related services cash generating unit was impaired as the traditional lottery segment believed to reach certain market saturation. There will be business contraction on lottery business and the revenue of lottery related services will decline in the upcoming financial budgets. The Directors considered that the goodwill attributable to the internet plus supply chain services cash generating unit was impaired as the suspension part of the internet plus supply chain business. The Directors considered that the goodwill attributable to the internet plus solutions services cash generating unit was impaired as the budgeted revenue of the cash generating units for the acquisition of subsidiaries will decline as such services agreement will not be renewed.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 30 June 2020, the Group's bank balances and cash amounted to HK$6.7 million (2019: HK$6.6 million) which were mainly held in HK$ and RMB. Current assets amounted to HK$62.1 million (2019: HK$41.3 million), mainly comprising of inventories, trade and other receivables and prepayment, bank balance and cash. Current liabilities amounted to HK$253.8 million (2019: HK$189.4 million), mainly comprising of trade payables, accruals and other payables, amounts due to directors, convertible bonds, unlisted warrants, other borrowing and contingent consideration payable. As at 30 June 2020, the gearing ratio of the Group was 55% on the basis of the Group's total interest-bearing borrowings divided by total assets (2019: 39%).

COMMITMENTS

The Group had capital commitments of HK$1.5 million and operating lease commitments of HK$Nil from operations as at 30 June 2020 (30 June 2019: capital commitments of HK$Nil and operating lease commitments of HK$2.0 million respectively).

FOREIGN EXCHANGE EXPOSURE

The Group mainly generates revenue and incurs expenses in Hong Kong dollars, U.S. dollars and Renminbi ("**RMB**"). The management is aware of the possible exchange rate exposure resulted from the fluctuation of RMB against the Hong Kong dollars and will closely monitor its impact on the performance of the Group to determine if any hedging policy is necessary. With regard to the U.S. dollars, foreign exchange exposure would be minimal so long as the Hong Kong Government's policy to peg the Hong Kong dollars to the U.S. dollars remains in force.

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

The Group had no contingent liabilities as at 30 June 2020 (30 June 2019: Nil). No assets of the Group was pledged as securities to any third parties as at 30 June 2020 (30 June 2019: Nil).

CAPITAL STRUCTURE

During the reporting period, the capital structure of the Group consisted of cash and cash equivalents and equity attributable to holders of the Company, comprising issued share capital and reserves. As at 30 June 2020, the total number of issued share capital of the Company was 4,289,724,633 Shares.

On 11 June 2020, the Company allotted and issued a total of 180,869,565 consideration shares at the issue price of HK$0.23 per consideration share under general mandate.

CONVERTIBLE BONDS

On 17 January 2014, the Company issued unlisted convertible bonds due on 17 January 2017 with a principal amount of HK$89,625,000 at a rate of 2% per annum (the "**CBs**") as general working capital and for repayment of borrowings. A maximum number of 37,500,000 shares would be issued by the Company upon full conversion of the CBs at the conversion price of HK$2.39 per conversion share into full-paid ordinary shares of the Company. As a result of share subdivision, the number of Shares falling to be issued upon full conversion of the CBs was adjusted to 150,000,000 at the conversion price of HK$0.598 per Share.

On 18 January 2017, the Company entered into the first amendment agreement with the bondholder to amend some principal terms of the CBs, including to extend the maturity date of the CBs for six months from 17 January 2017 to 17 July 2017, and further extend to 17 January 2018 upon a written consent from the bondholder. Its conversion price was amended from HK$0.598 to HK$0.359 per conversion share (subject to adjustment), which can be converted into the maximum number of 249,651,810 Shares. The interest rates of the CBs shall be increased to 8% per annum and paid semi-annually (the "**Amendments**"). Save for the Amendments, all other terms and conditions of the CBs shall remain unchanged. The Amendments were approved by way of an ordinary resolution by the Shareholders at the extraordinary general meeting of the Company held on 29 March 2017. On 18 July 2017, the Company received a written consent from the bondholder, pursuant to which the maturity date of the CBs would be extended for further six months to 17 January 2018.

On 18 January 2018, the Company entered into the second amendment agreement with the bondholder to extend the maturity date of the CBs from 17 January 2018 to 17 July 2018, and further extend to 17 January 2019 upon a written consent from the bondholder (the "**Second Amendment**"). The Second Amendment was approved by way of an ordinary resolution by the Shareholders at the extraordinary general meeting of the Company held on 18 April 2018. The Company has received a written consent from the bondholder, pursuant to which the maturity date of the CBs would be extended for the further six months to 17 January 2019.

On 17 January 2019, the Company entered into the third amendment agreement with the bondholder to extend the maturity date of the CBs from 17 January 2019 to 17 July 2019, and further extend to 17 January 2020 upon a written consent from the bondholder (the "**Third Amendment**"). The Third Amendment was approved by way of an ordinary resolution by the Shareholders at the extraordinary general meeting of the Company held on 19 March 2019. The Company has received a written consent from the bondholder, pursuant to which the maturity date of the CBs would be extended for the further six months to 17 January 2020.

As a result of the adjustments of the CBs on 10 May 2019 upon the allotment and issue of the consideration shares to Sinopharm Traditional Chinese Medicine Overseas Holdings Limited, a maximum number of 263,602,941 Shares shall be allotted and issued to the bondholder upon conversion of the CBs in full. The adjusted conversion price is HK$0.34 per conversion share subject to further adjustment.

On 7 February 2020, the Company entered into the fourth amendment agreement with the bondholder to extend the maturity date of the CBs from 17 January 2020 to 17 July 2020, and further extend to 17 January 2021 upon a written consent from the bondholder (the "**Fourth Amendment**"). The Fourth Amendment was approved by way of an ordinary resolution by the Shareholders at the extraordinary general meeting of the Company held on 25 March 2020. The Company has received a written consent from the bondholder, pursuant to which the maturity date of the CBs would be extended for the further six months to 17 January 2021.

As at 30 June 2020, no CBs has been converted into Shares by the bondholder or redeemed by the Company.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the Year 2020, the Group carried out the acquisition of associate as follows:

Termination of the Previous Agreement in relation to the Acquisition of 25% of the Equity Interests in the Target Company and Discloseable Transaction in relation to the Acquisition of 40% of the Equity Interests in the Target Company involving Issue of the Consideration Shares under General Mandate

The Termination

On 12 December 2019 (after trading hours), Ms. Choi Man Yun, Marian ("**Ms. Choi**"), Ms. Kong Lai Ying ("**Ms. Kong**"), Mr. Lau Chi Wing James ("**Mr. Lau**") and Mr. Cheung Wan Yu ("**Mr. Cheung**") (collectively the "**Vendors**") and Sinopharm Tech Corporate Management Limited (formerly known as China Vanguard Corporate Management Limited) (the "**Purchaser**"), a wholly-owned subsidiary of the Company, entered into a deed of termination (the "**Deed of Termination**"), pursuant to which they have mutually agreed that with effect from the date of the Deed of Termination, the sale and purchase agreement dated 5 June 2019 entered into between the Vendors and the Purchaser (the "**Previous Agreement**") shall be terminated, and the parties shall be released and discharged from their respective duties, responsibilities and obligations under the Previous Agreement.

The Acquisition

On 12 December 2019 (after trading hours), the Purchaser and the Vendors entered into a sale and purchase agreement (the "**Sale and Purchase Agreement**"), pursuant to which the Vendors have conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the sale shares (the "**Sale Shares**") in Ever Development Holdings Limited (the "**Target Company**"), which represents 40% of the equity interests in the Target Company, for a consideration of HK$41.6 million (the "**Consideration**"). The Consideration will be settled by the allotment and issue of 180,869,565 ordinary shares of HK$0.0125 each in the share capital of the Company (the "**Consideration Share(s)**") by the Company to the Vendors under the general mandate at the issue price of HK$0.23 per Consideration Share (the "**Acquisition**") within 30 trading days following the completion of the Acquisition which shall take place within 15 business days following the fulfilment of all the conditions precedent. The Target Company provides one-stop comprehensive medical and health services.

The Vendors undertake to the Company that, within 3 months from the date of the allotment and issue of the Consideration Shares to the Vendors in accordance with the terms and conditions of the Sale and Purchase Agreement, the Vendors shall not sell, dispose of (including creating encumbrance thereon) or agree to sell or dispose of any Consideration Share. The Consideration Shares shall be kept in the custody of the Purchaser and shall be released to the Vendors upon expiry of the lock-up period.

Pursuant to the Sale and Purchase Agreement, the Vendors will guarantee and undertake to the Purchaser that the audited net profit after taxation of each year ending 31 December 2020 and 31 December 2021 shall not be less than HK$13,000,000 or the audited net profit after taxation shall in aggregate be not less than HK$26,000,000 for the two years ending 31 December 2021 (the "**Profit Guarantee**"). If the Vendors cannot achieve the Profit Guarantee, the Vendors agreed to make a compensation to the Purchaser by cash payment. The maximum compensation obligation of each Vendor shall be equivalent to HK$24,960,000, multiplied by the original shareholding of such Vendor in the Target Company as at 12 December 2019 and immediately before the completion of the Acquisition (the "**Original Shareholding**").

If the Target Company achieves an audited net profit after taxation of HK$15,000,000 or above for the year ending 31 December 2020, the Purchaser will grant a performance award, to be settled by the allotment and issue of additional consideration shares by the Company, to the Vendors. Such award is an one-off award, and each of the Vendors shall receive his or her award in proportion to their respective Original Shareholding. The maximum number of the additional consideration shares to be allotted and issued to the Vendors is 55,652,174 Shares (the "**Additional Consideration Shares**"), thus the maximum number of the Consideration Shares and the Additional Consideration Shares the Vendors can acquire under the Sale and Purchase Agreement is 236,521,739 in aggregate.

All the conditions precedent under the Sale and Purchase Agreement have been fulfilled, and the completion of the sale and purchase of the Sale Shares took place on 3 June 2020. On 11 June 2020, an aggregate of 180,869,565 Consideration Shares was allotted and issued to the Vendors at the issue price of HK$0.23 per Consideration Share under the general mandate in accordance with the Sale and Purchase Agreement. In proportion to the number of the Sale Shares transferred by each of the Vendors to the Purchaser, 120,278,261 Shares, 34,365,217 Shares, 17,182,609 Shares and 9,043,478 Shares were respectively allotted and issued to Ms. Choi, Ms. Kong, Mr. Lau and Mr. Cheung as full settlement of the Consideration.

Details for the above transaction were disclosed in the Company's announcements dated 12 December 2019, 3 June 2020 and 11 June 2020.

Save as disclosed above, the Group did not make any significant investment or material acquisition or disposal of subsidiaries, associates and joint ventures.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Directors currently do not have any future plans for material investments or capital assets. The management will continue to monitor the industry and review its business expansion plans at regular intervals, so as to take necessary measures in the best interests of the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the Group had 213 (2019: 59) employees in Hong Kong and the PRC, including the Directors. Total staff cost, excluding the Directors' remuneration, for the year under review amounted to approximately HK$23 million (2019: HK$17 million).

Employees' remunerations are determined with reference to their performance, qualifications, experience, positions and the current trend. Apart from the basic salary and participation in the mandatory provident fund scheme and staff benefits including medical and training programs, share options may be granted to individual employees based on performance evaluation in order to provide incentives and rewards.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

The profiles of the Directors and senior management as at the date of this annual report are as follows:

DIRECTORS

Executive Directors

Madam CHEUNG Kwai Lan, aged 82, one of the founders of the Group, is the chairperson and executive Director of the Company. She is also the chairperson of the nomination committee of the Company. She has served the Group for more than 20 years and is the director of various subsidiaries of the Group. Madam CHEUNG is responsible for corporate development and strategic planning of the Group. Madam CHEUNG graduated from Shanxi Taiyuan Medical School in 1960 and was a researcher at Shanxi Province Taiyuan (Atomic Energy) Research Institute (山西省太原(原子能)研究所), which was one of the institutions of the Chinese Academy of Science. She also participated in the research and development of the radioactive material Cobalt 60 for imaging and cancer treatment. Madam CHEUNG has been engaged in commercial development in Hong Kong for almost 40 years.

Madam CHEUNG has keen interest in social welfare and charity works. She is currently the chairperson of Zhang Xueliang Foundation, permanent honorary chairperson of the World of Chinese & Overseas Chinese Peace Promote Association, director of the China Legal Aid Foundation under the Ministry of Justice, vice chairperson of the "Chinese Charitable Work Development Association" (中國公益事業發展聯合會), and honorary director of "Chinese Si Hai Tong Xin Association in Taiwan" (台灣中華四海同心會). Madam CHEUNG attended the 2nd conference of the 11th National Committee of the Chinese People's Political Consultative Conference as an overseas compatriot by special invitation. She has also been awarded as "China Philanthropy Outstanding Contribution Individual", "Most Influential Entrepreneur in China", "International Philanthropic Celebrity", "International Philanthropic Stars" and "Progeny of the PRC for the 60 Years Development of New China".

Madam CHEUNG is the mother of Ms. CHAN Siu Sarah and Mr. CHAN Ting, and is the spouse of Mr. CHAN Tung Mei, being the Group General Counsel, executive Director and non-executive Director of the Company respectively.

Mr. CHAN Ting, aged 50, is the deputy chairperson, executive Director, chief executive officer, compliance officer and authorised representative of the Company. He is also a member of the remuneration committee of the Company. He has served the Group for more than 19 years and is the director of various subsidiaries of the Group. He is responsible for the marketing, business development, strategic planning and operations of the Group. He was awarded a bachelor's degree in Economics from Macquarie University in Australia in 1993. He is the Vice President of the Zhang Xueliang Foundation. Mr. CHAN has over 25 years of working experience in establishing and managing companies in the PRC.

Mr. CHAN is the son of Madam CHEUNG Kwai Lan and Mr. CHAN Tung Mei, the chairperson and executive Director, and non-executive Director of the Company respectively, and the brother of Ms. CHAN Siu Sarah, the Group General Counsel. He joined the Group in July 2001.

Non-executive Directors

Mr. CHAN Tung Mei, aged 84, is one of the founders of the Group and a non-executive Director of the Company. Mr. CHAN has served the Group for more than 20 years and is the director of various subsidiaries of the Group. He graduated from Shanxi Industrial University (now known as Shanxi Taiyuan University of Technology) in the PRC and has received a bachelor's degree in Civil Engineering in August 1960. Mr. CHAN has over 23 years of experience in establishing and managing companies.

Mr. CHAN is the father of Ms. CHAN Siu Sarah, being the Group General Counsel, and Mr. CHAN Ting and the spouse of Madam CHEUNG Kwai Lan, being the executive Directors of the Company.

Dr. CHENG Yanjie, aged 56, is a non-executive Director of the Company. Being a practicing Chinese medicine practitioner, he holds Bachelor degree of Traditional Chinese Medicine of Changchun University of Chinese Medicine (長春中醫學院中醫系學士學位), Master of Neurology of the Affiliated Hospital of Changchun University of Chinese Medicine (長春中醫學院附屬醫院神經內科碩士學位) and Doctor of Neurology of Beijing University of Chinese Medicine Dongzhimen Hospital (北京中醫藥大學東直門醫院神經內科博士學位). He previously served as Resident Neurologist of the Affiliated Hospital of Changchun University of Chinese Medicine (長春中醫學院附屬醫院神經內科住院醫師), Attending Physician of China Medical Center in Kuwait (科威特國中國醫療中心主治醫師), Neurology attending physician of Beijing University of Chinese Medicine Dongzhimen Hospital (北京中醫藥大學東直門醫院神經內科主治醫師) and worked in the R&D department of China National Pharmaceutical Group Co., Ltd. (中國藥材集團公司). He serves as committee member of China Pharmaceutical Culture Society (中國藥文化協會理事), executive director of Beijing Chaoyang District Chinese Medicine Association (北京市朝陽區中醫協會常務理事) and expert speaker of knowledge base popularization and bilingual health lecture of Beijing Chaoyang District (北京市朝陽區中醫科普及雙語養生講座專家). Dr. CHENG is currently the Chief Physician of Chinese medicine clinic of Beijing Luxiancaotang (北京鹿銜草堂中醫診所主任醫師). He currently serves as director and consultant of Sinopharm Traditional Chinese Medicine Co. Ltd (國藥藥材股份有限公司) and a director of Bencao Lihua Investment Management Co., Ltd. (本草利華投資管理有限公司). As at the date of this annual report, Sinopharm Traditional Chinese Medicine Co. Ltd wholly owned the equity interest in Sinopharm Traditional Chinese Medicine Overseas Holdings Limited which was a substantial shareholder of the Company. He held 5% of the equity interest in Bencao Lihua Investment Management Co., Ltd. (本草利華投資管理有限公司) which is one of the shareholders of Sinopharm Traditional Chinese Medicine Co. Ltd.

Independent Non-executive Directors

Mr. LAU Fai Lawrence, aged 49, is an independent non-executive Director of the Company and a chairperson of the audit committee and remuneration committee of the Company. Mr. LAU is currently a practising certified public accountant in Hong Kong and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom. Mr. LAU graduated from The University of Hong Kong with a bachelor's degree in business administration in 1994 and obtained a master's degree in corporate finance from Hong Kong Polytechnic University in 2007. Mr. LAU is currently the company secretary of BBMG Corporation (stock code: 2009.HK) since August 2008, an executive director of Future World Financial Holdings Limited (stock code: 572.HK) since January 2014, an independent non-executive director of Artini Holdings Limited (stock code: 789.HK) since April 2008, Titan Petrochemicals Group Limited (stock code: 1192.HK) since March 2014, HKBridge Holdings Limited (stock code: 2323.HK) since March 2016, Tenwow International Holdings Limited (stock code: 1219.HK) since November 2018 and China Energine International (Holdings) Limited since March 2020 (stock code: 1185.HK). Mr. LAU was a non-executive director of Alltronics Holdings Limited (stock code: 833.HK) between March 2017 and December 2018 and an independent non-executive director of Winto Group (Holdings) Limited (stock code: 8238.HK) between April 2019 and November 2019.

Dr. LIU Ta-pei, aged 69, is an independent non-executive Director of the Company. He is also a member of the audit committee, the remuneration committee and the nomination committee of the Company respectively. He graduated from National Chung-Hsing University in Taiwan. After graduation, he continued his studies in National Cheng-Chi University, Taiwan and the University of Southern California, U.S.A. and obtained Master of Science and MBA degrees respectively. He was then conferred his Doctoral degree in public administration from the University of La Verne, U.S.A, and the Doctoral degree in Finance from Shanghai University of Finance and Economics. Apart from his strong educational background, Dr. LIU has been active in the financial field for more than 23 years. Dr. LIU was previously the executive director of Huisheng International Holdings Limited, which is listed on the Main Board of the Stock Exchange (Stock code: 1340.HK) from June 2016 to February 2020. He was previously the director of Mega Financial Holdings Company Limited ("**Mega Financial Holdings**"), which is listed on the Taiwan Stock Exchange Corporation (Stock code: 2886.TW) and also served as the chairman of Mega Securities Co., Ltd, a subsidiary of Mega Financial Holdings. He had also been the director of Global Securities Finance Corporation, Chung Hsing Bills Finance Corporation, and Central Investment Holding Company, and the chairman of Jen Hwa Investment Holding Company. Dr. LIU had served China Development Industrial Bank, one of the top management of Taiwan's largest Investment Banks. He had also been the chief executive officer and an executive director of the Core Pacific-Yamaichi Group in Hong Kong. Dr. LIU was ranked as one of the 'Top Ten Intelligent Financial Personnel in Greater China' and he was conferred the 'Best Integrity Award' in 2008. He was also granted the honour of "Golden Peak Award of Outstanding Corporation Leaders in Taiwan" in 1998. Dr. LIU is currently a member of the Hong Kong-Taiwan Business Co-operation Committee. He joined the Group in February 2017.

Mr. CHAU Wai Wah Fred, aged 58, is an independent non-executive Director and a member of the audit committee, remuneration committee and nomination committee of the Company. He was formerly the Head of the Office of Dutiable Commodities Administration of Hong Kong Customs and Excise Department (C&ED) and retired with rank of Senior Superintendent. He has served the C&ED for 34 years with wide range of exposure including intellectual property rights (IPR) protection, anti-smuggling, anti-narcotics, intelligence and liaisons and dutiable commodities administration. Mr. Chau has served as the Divisional Commander and Group Head of the Intellectual Property Investigation Bureau to combat on organized transnational crimes, in particular in IPR infringement cases with the Mainland and overseas counterparts. Mr. Chau was awarded the honours of Customs and Excise Medal for Meritorious Service (C.M.S.M.) by the Chief Executive in the 2017 honours presentation ceremony.

SENIOR MANAGEMENT

Mr. HO Kam Kin, aged 43, is the Group Chief Financial Officer, company secretary and authorised representative of the Company. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He obtained a Bachelor of Arts Degree in Accountancy and Master Degree of Corporate Finance from The Hong Kong Polytechnic University. Mr. HO held senior accounting positions in a number of companies listed on the Stock Exchange and worked in an international accounting firm for three years. He has over 18 years of experience in accounting and financial management. Prior to joining the Company, he was the financial controller and company secretary of a company listed on the Main Board of the Stock Exchange. Mr. HO joined the Group in September 2016.

Ms. CHAN Siu Sarah, aged 55, is the General Counsel of the Group and the director of various subsidiaries of the Group. From 2010 to 30 June 2016, she has been in charge of the business activities of 深圳市博眾信息技術有限公司 (Shenzhen Bozone IT Co., Limited), the Group's main subsidiary for its traditional lottery business. She is in charge of upkeep of relationship with social welfare lottery centres. Ms. CHAN obtained her law degree from the London School of Economics and Political Science and is qualified to practice law as solicitor in Hong Kong and England and Wales. She did her solicitor's training with the international firm, Baker & McKenzie, in Hong Kong and, after qualification, worked at the international firm, Linklaters, in Hong Kong specializing in projects and project finance with a particular focus on China. She then became a corporate counsel with the Asia Pacific regional headquarter of Lucent Technologies in Hong Kong attending to legal matters in the region and later was appointed to be the regional general counsel for the Asia Pacific region of Avon Products Inc., leading its legal, government and regulatory affair teams in the region. Ms. CHAN was an executive director of Avon Products Co., Ltd. which was listed on the JASDAQ Securities Exchange, Inc. for the period from March 2006 to December 2007. She joined the Group in May 2008 as executive Director and General Counsel. Ms. CHAN resigned as an executive Director of the Company on 30 July 2013 and has remained as General Counsel of the Group and has continued to be in charge of social welfare lottery related business of the Group.

Ms. CHAN is the daughter of Madam CHEUNG Kwai Lan and Mr. CHAN Tung Mei, being the chairperson and executive Director and non-executive Director of the Company respectively, and also the sister of Mr. CHAN Ting, being the deputy chairperson, chief executive officer and executive Director of the Company.

Mr. FUNG King Him Daniel, aged 50, is the Director of Group Corporate Strategy, Investor Relations, and the director of various subsidiaries of the Group. He has been responsible for corporate strategy and investor relations of the Group. Mr. FUNG has obtained a bachelor's degree from the University of Wisconsin in the United States of America with double majors in Mathematics and Computer Science. He previously worked in Lehman Brothers Asia Limited, HSBC Asset Management Limited and Platinum Securities Company Limited. Mr. FUNG was an executive director of Celebrate International Holdings Limited, which was formerly known as Aptus Holdings Limited and a non-wholly owned subsidiary of the Group from 27 August 2004 to 30 December 2010. He joined the Group in February 2002.

Mr. TU Dominique, aged 53, is the Director of Group Business Development. He has been a seasoned executive in the software and smart manufacturing industries with over 30 years of leadership experience in Greater China and Asia Pacific. Before joining the Group, Mr. TU worked in Hong Kong Productivity Council as Head of Business Development. Prior to that, He was the Chief Innovation Officer of Kii Corporation in Japan. He has also served as Director, Business Development & Partner Alliance of Nokia Corporation; Vice President of Sales (Asia) / General Manager, Greater China of PalmSource, a NASDAQ listed company in the United States. Before moving to the software industries, Mr. TU was Senior Manager, Smart Card & E-Commerce of Standard Chartered Bank (Asia Pacific). He graduated from the Hong Kong Polytechnic University and holds a Master's degree in International Business from the Macquarie University, Australia. He is pursuing his PhD in Mobile Consumer Behavior at Chinese Academy of Science. He joined the Group in April 2020.

Mr. LIAO Zhe, aged 33, is the Director of Group E-commerce. He is responsible for the establishment, management and daily operation of the Group's e-commerce and cross-border supply chain business. Mr. LIAO obtained a bachelor's degree from Beijing Normal University, Zhuhai, and an advanced degree from DFI Design College in Hamburg, Germany, majoring in Marketing and Art Design. He previously worked as senior project management positions at China branch of Hakuhodo Advertising and Media Group Co., Ltd. (日本株式會社博報堂廣告與傳媒集團中華區公司) and Tencent Technology (Shenzhen) Company Limited (the parent company is Tencent Holdings Limited, stock code: 700.HK). From 2017 to 2018, Mr. LIAO served as an executive director of Shunten International (Holdings) Limited (stock code: 932.HK). He joined the Group in November 2019.

Ms. LI Ying, aged 39, is the General Manager of 深圳市博眾資訊技術有限公司 (Shenzhen Bozone IT Co. Limited) which is a main subsidiary of the Group in China. She is mainly responsible for the daily operation and management of the company and its affiliate companies. She also provides support on the operation of the Group's lottery business in different regions in China which include product planning, market development, overall operation and management, etc. Ms. LI has obtained a bachelor's degree from Hunan University in Computer Application and Wuhan University in Marketing Management. She has over 14 years of extensive experience in lottery technology system, system maintenance, market expansion, project management, relation with regulatory institutions and team management. She has previously served senior positions in 永恒樂彩科技公司, 思樂網絡技術公司, 穗彩技術公司 and 恒朋科技公司. She joined the Group in October 2015.

Ms. KWOK Shuk Yi, aged 44, is the Director of Group Human Resources and Administration and the director of a subsidiary of the Group. She holds a bachelor's degree in Human Resources Management from The Royal Melbourne Institute of Technology University in Australia and graduated with Distinction. She has over 19 years of experience in human resources and administration management. Prior to joining the Group, she worked in human resources and administrative managerial positions with a listed company and a sizeable investment company. She has been responsible for human resources and administration management of the Group. She has also extended the scope of management to the Information Technology Department in Hong Kong head office in recent years. She joined the Group in July 2008.

CORPORATE GOVERNANCE REPORT

The Board is committed to maintaining and achieving a high standard of corporate governance with an emphasis on a quality Board, an effective accountability system and a healthy corporate culture in order to safeguard the interests of the Shareholders and enhance the business growth of the Group.

CORPORATE GOVERNANCE PRACTICE

The Company has adopted and complied with the applicable code provisions as set out in Appendix 15 of the GEM Listing Rules (the "**CG Code**") during the year ended 30 June 2020, except for the following deviations which are summarized below:

Code Provision A.4.1

One of the non-executive Directors of the Company (the "**NED**") and the independent non-executive Directors of the Company (the "**INED(s)**") were not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meetings of the Company at least once every three years in accordance with the Articles of Association. The Company does not consider that fixed terms on the Directors' services are appropriate given that the Directors ought to be committed to representing the long-term interests of the Shareholders. The retirement and re-election requirements of the NED and INEDs have given the rights to the Shareholders to consider and approve the continuation of the NED's and INEDs' offices.

The corporate governance practices of the Company will be reviewed and updated from time to time in order to comply with the GEM Listing Rules requirements when the Board considers appropriate.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct (the "**Code of Conduct**") regarding the Directors' securities transaction in respect of the Shares. Having made specific enquiries, the Company has confirmed with all the Directors that they have complied with the required standards as set out in the Code of Conduct throughout the year ended 30 June 2020.

BOARD OF DIRECTORS

Board Composition

The composition of the Board during the year and up to the date of this annual report is as follows:

Executive Directors

Madam CHEUNG Kwai Lan *(Chairperson)*
Mr. CHAN Ting *(Deputy Chairperson and Chief Executive Officer)*

Non-executive Directors

Mr. CHAN Tung Mei
Dr. CHENG Yanjie *(appointed on 29 July 2019)*

Independent Non-executive Directors

Mr. LAU Fai Lawrence *(appointed on 23 January 2020)*
Dr. LIU Ta-pei
Mr. CHAU Wai Wah Fred *(appointed on 20 November 2019)*
Mr. TO Yan Ming Edmond *(passed away on 28 August 2019)*
Mr. YANG Qing Cai *(retired on 20 November 2019)*

The biographical details of the Directors are set out in the section headed "Profiles of Directors and Senior Management". The relationships (including financial, business, family or other material or relevant relationships) among members of the Board are also disclosed therein.

Responsibility of the Board

The Board is responsible for the leadership and control of, and promoting the success of the Group. Apart from its statutory and fiduciary responsibilities, the Board is responsible for reviewing the financial performance of the Group and approving and monitoring the Group's strategic plans, major investments, risk managements and internal control policies. The Board is also responsible for monitoring managerial performance and achieving return for the Shareholders.

Further, the Board is responsible for supervising the management of the Group (the "**Management**") and has delegated the responsibility for daily operations and management of the Group's businesses to the Management but material transactions such as acquisitions and disposals of assets of the Group are required to be approved by the Board. The Management, led by the chief executive officer of the Company and comprising a team of senior managers who have extensive experience and expertise in different areas, is responsible for managing the day-to-day operations, implementing the strategies set by the Board, and assisting the Board in formulating and implementing corporate strategies.

Independent Non-executive Directors

The Company has three INEDs and at least one of whom has appropriate professional qualifications or accounting or related financial management expertise under Rule 5.05 of the GEM Listing Rules. The Company has received from each INED an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the INEDs to be independent.

Each INED is required to inform the Company as soon as practicable if there is any change that may affect his/her independence.

Directors' Appointment and Re-election

All the executive Directors and one non-executive Director have entered into a service contract with the Company with effect from the date of appointment and will continue thereafter unless and until terminated by either party by giving not less than six months' notice in writing served by either party on the other. All INEDs and one non-executive Director have not entered into any service contracts with the Company but are subject to retirement by rotation and re-election in accordance with the Articles of Association.

Continuous Professional Development

The Company provides the Directors with regular updates on business development of the Group. The Directors are regularly briefed in the latest development on the GEM Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practices. The Company also recommends them to attend relevant seminars to develop and refresh their knowledge and skills. All Directors are requested to provide the Company with their respective training records pursuant to the CG Code. During the year, all the Directors have participated in appropriate continuous professional development activities either by attending external seminars or by reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

Director's and Officer's Liability Insurance

The Company has arranged appropriate insurance coverage in respect of any legal action which may be brought against the Directors and senior management of the Group in the course of execution of their duties in good faith. The insurance coverage is reviewed on an annual basis.

Board Meetings, Board Committees Meetings and General Meetings

The Company conducts scheduled Board meetings on a quarterly basis to discuss strategies and business issues, including financial performance of the Group. The Board would meet more frequently as and when required.

The attendance of individual members of the Board at Board meetings, meetings of the Board committees, annual general meeting and extraordinary general meetings during the year ended 30 June 2020, as well as the number of such meetings held, are set out as follows:

	Meetings Attended/Held					
	Board	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Annual General Meeting**	**Extraordinary General Meeting**
Number of Meeting	16	4	4	4	1	2
Executive Directors						
Madam CHEUNG Kwai Lan	14/16	N/A	N/A	4/4	1/1	2/2
Mr. CHAN Ting	16/16	N/A	4/4	N/A	1/1	2/2
Non-executive Directors						
Mr. CHAN Tung Mei	14/16	N/A	N/A	N/A	1/1	2/2
Dr. CHENG Yanjie *(appointed on 29 July 2019)*	15/15	N/A	N/A	N/A	1/1	2/2
Independents Non-executive Directors						
Mr. LAU Fai Lawrence *(appointed on 23 January 2020)*	6/6	2/2	N/A	N/A	N/A	2/2
Dr. LIU Ta-pei	16/16	4/4	4/4	4/4	1/1	2/2
Mr. CHAU Wai Wah Fred *(appointed on 20 November 2019)*	10/10	2/2	1/1	1/1	N/A	2/2
Mr. TO Yan Ming Edmond *(passed away on 28 August 2019)*	3/3	N/A	1/1	N/A	N/A	N/A
Mr. YANG Qing Cai *(retired on 20 November 2019)*	3/5	2/2	2/2	2/2	1/1	N/A

All Directors have access to relevant and timely information at all times as the Management will supply the Board and the Board committees with all relevant information in a timely manner. They may make further enquiries if in their opinion it is necessary or appropriate to request for further information. They also have unrestricted access to the advice and services of the company secretary of the Company (the "**Company Secretary**"), who is responsible for providing the Directors with Board papers and related materials, and ensuring that all Board procedures and all applicable rules and regulations are followed. If the Directors considered necessary and appropriate, they may upon reasonable request seek independent professional advice at the Company's expense.

Except for those circumstances permitted by the Articles of Association and the GEM Listing Rules, when a Director who has a material interest in any transaction, arrangement, contract or any other kind of proposal put forward to the Board for consideration, he or she shall not be counted in the quorum of the Board meeting and shall abstain from voting on the relevant resolution.

CHAIRPERSON AND CHIEF EXECUTIVE OFFICER

In compliance with code provision A.2.1 of the CG Code, the Company has arranged for the roles of chairperson and chief executive officer to be separate and not performed by the same individual. Madam CHEUNG Kwai Lan, as the chairperson of the Company is responsible for overseeing the functions of the Board and formulating the overall strategies and policies of the Company. Mr. CHAN Ting, as chief executive officer of the Company is responsible for the day-to-day management of the business of the Group, implementing major strategies, making day-to-day decisions and the overall coordination of business operations.

BOARD COMMITTEES

The Board has maintained three board committees (the "**Board Committees**"), namely the audit committee, the remuneration committee and the nomination committee, throughout the year to oversee particular aspects of the Group's affairs. Each committee has specific terms of reference clearly defining its powers, duties and responsibilities. The terms of reference of the Board Committees are published on the websites of the Company and the Stock Exchange. The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice under appropriate circumstances, at the Company's expenses. All Board Committees have adopted the applicable practices and procedures used in Board meetings in conducting their respective meetings.

Audit Committee

The audit committee of the Company (the "**Audit Committee**") comprises three INEDs, namely, Mr. LAU Fai Lawrence (appointed on 23 January 2020), Dr. LIU Ta-pei and Mr. CHAU Wai Wah Fred (appointed on 20 November 2019). Mr. TO Yan Ming Edmond passed away on 28 August 2019 while Mr. YANG Qing Cai retired on 20 November 2019. Mr. LAU was appointed as the chairperson of the Audit Committee. The major duties and functions of the Audit Committee are (i) to review the financial information of the Company; (ii) to review the accounting policies, financial position and results, financial reporting system, and risk management and internal control systems of the Group; (iii) to oversee the relationship between the Company and the external auditors and (iv) to provide recommendations and advices to the Board on the appointment, re-appointment and removal of external auditors as well as their term of appointment. During the year ended 30 June 2020, the Audit Committee held four meetings (i) to discuss the financial reporting and the compliance procedures with the external auditors; (ii) to consider the re-appointment of auditors of the Company; and (iii) to review the audited annual results and unaudited quarterly and interim results. Individual attendance of the Audit Committee members are set out on page 21 of this annual report.

The Group's audited consolidated results for the year ended 30 June 2020 have been reviewed by the Audit Committee.

Remuneration Committee

The remuneration committee of the Company (the "**Remuneration Committee**") comprises four members, a majority of them being the INEDs, namely Mr. LAU Fai Lawrence (appointed on 23 January 2020), Mr. CHAN Ting, Dr. LIU Ta-pei and Mr. CHAU Wai Wah Fred (appointed on 20 November 2019). Mr. TO Yan Ming Edmond passed away on 28 August 2019 while Mr. YANG Qing Cai retired on 20 November 2019. Mr. LAU was appointed as the chairperson of the Remuneration Committee. The major duties of the Remuneration Committee include assisting the Board to develop and administer fair and transparent procedures for setting policies on the remuneration of the Directors and senior management of the Company and making recommendations to the Board on the remuneration packages of the Directors and senior management of the Company. During the year ended 30 June 2020, four meetings were held by the Remuneration Committee. At the meetings, the Remuneration Committee has performed its duties to make recommendations to the Board on the remuneration packages of the Directors. Individual attendance of the Remuneration Committee members are set out on page 21 of this annual report.

Annual Emoluments Payable to Members of the Senior Management by Band

The annual emolument of the members of the senior management by band for the year ended 30 June 2020 is as follows:

Emoluments Band	No. of Individuals
HK$5,500,001 — HK$6,000,000	1
HK$3,000,001 — HK$3,500,000	1
HK$1,500,001 — HK$2,000,000	1
HK$1,000,001 — HK$1,500,000	2
HK$500,001 — HK$1,000,000	4
Nil — HK$500,000	1
Total:	10

Nomination Committee

The nomination committee of the Company (the "**Nomination Committee**") comprises three members, a majority of them being the INEDs, namely Madam CHEUNG Kwai Lan, Dr. LIU Ta-pei and Mr. CHAU Wai Wah Fred (appointed on 20 November 2019). Mr. YANG Qing Cai retired on 20 November 2019. Madam CHEUNG was appointed as the chairperson of the Nomination Committee. The major roles and functions of the Nomination Committee include reviewing the structure, size, composition and diversity of the Board at least once a year; making recommendations to the Board on the appointment and re-appointment of the Directors and succession planning of the Directors; and assessing the independence of the INEDs. During the year ended 30 June 2020, four meetings were held by the Nomination Committee. In the meetings, the Nomination Committee has performed its duties to review the structure, size, composition and diversity of the Board, make recommendations to the Board on the appointment and re-appointment of the Directors and review the independence of the INEDs. Individual attendance of the Nomination Committee members are set out on page 21 of this annual report.

Board Diversity Policy

The Nomination Committee has adopted the board diversity policy. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. In designing the Board's composition, the Board diversity has been considered from a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The Company also takes into account these factors based on its own business model and specific needs from time to time and the ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Nomination Policy

The Nomination Committee has adopted the nomination policy. The secretary of the Nomination Committee shall call a meeting of the Nomination Committee, and invite nominations of candidates from the Board members (if any), for consideration by the Nomination Committee prior to its meeting. The Nomination Committee may also put forward candidates who are not nominated by the Board members. The Nomination Committee shall make recommendations of the candidates for the Board's consideration and approval. For proposing candidates to stand for re-election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration.

The factors considered by the Nomination Committee in assessing the suitability of a proposed candidate include (i) reputation for integrity; (ii) qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy; (iii) willingness to devote adequate time to discharge duties as a Board member and other directorships and significant commitments; (iv) diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, professional experience, skills, knowledge and length of service; (v) independence requirements (for nomination of INEDs only) pursuant to Rule 5.09 of the GEM Listing Rules; and (vi) such other perspectives appropriate to the Company's business.

Corporate Governance Function

The Company has not established a corporate governance committee. With the leadership of the chairperson of the Company and assistance from the chief executive officer of the Company, the Board is committed to promoting corporate governance which serves as a vital element of risk management throughout the growth and expansion of the Company.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility to prepare the financial statements for each financial period which give a true and fair view of the financial affairs of the Group. The Directors also ensure that (i) the financial statements of the Group are prepared in accordance with the statutory requirements and applicable accounting standards on a going concern basis and (ii) the publication of the financial statements of the Group is in a timely manner. The Directors have also made judgments and estimates that are prudent and reasonable in the preparation of the consolidated financial statements.

A statement by the external auditors about their reporting responsibility is set out in the section headed "Independent Auditor's Report".

Risk Management and Internal Controls

The Board complied with the code provisions on risk management and internal control as set out in the CG code. The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and maintaining appropriate and effective risk management and internal control systems for the Group with the support of the Audit Committee. The systems are designed to manage the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Management has established comprehensive policies, standards and procedures in areas of operational, financial and risk controls for safeguarding the Company's assets against unauthorised use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against fraud and errors.

The Board has overseen the Company's risk management and internal control systems on an ongoing basis. A year-end review of the effectiveness of the Group's risk management and internal control systems has been conducted annually. Such review covered the financial, operational and compliance controls of the significant subsidiaries of the Group and included the adequacy of resources, qualifications and experience of staff of the Company's accounting, internal audit and financial reporting functions, and their training programmes and budget. The Company has an internal audit function to carry out analysis and independent appraisal of the adequacy and effectiveness of the systems. The systems were considered to be effective and adequate.

The internal audit function also has procedures in place to keep information confidential and manage actual or potential conflicts of interest. Employees of the Group are prohibited from using inside information for their own benefit. The Board also has the responsibility to disseminate to the Shareholders and the public any inside information by way of announcements in accordance with the GEM Listing Rules.

AUDITORS' REMUNERATION

The Company reviews the appointment of external auditors on an annual basis, including a review of the audit scope and approval of the audit fee. During the year, the fee paid/payable to the Company's external auditors for audit and non-audit services amounted to HK$820,000 and HK$Nil.

COMPANY SECRETARY

Mr. HO Kam Kin ("**Mr. HO**") was appointed as the Company Secretary with effect from 1 September 2016, and is currently the group chief financial officer and authorised representative of the Company. The biographical details of Mr. HO are set out in the section headed "Profiles of Directors and Senior Management".

During the year ended 30 June 2020, Mr. HO has complied with Rule 5.15 of the GEM Listing Rules for taking no less than 15 hours of relevant professional training.

SHAREHOLDERS' RIGHTS

Right to Convene an Extraordinary General Meeting (the "EGM")

In accordance with Article 72 of the Articles of Association, any two or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition.

Right to Direct Enquiries to the Board

The Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary by addressing them to the head office and principal place of business of the Company in Hong Kong at Units 01–03, 25/F., Corporation Park, 11 On Lai Street, Shatin, New Territories, Hong Kong. The Shareholders may also make enquiries with the Board at the general meetings of the Company.

Right to Put Forward Proposals at a General Meeting

The Shareholders are welcomed to suggest proposals relating to the operations, strategy and/or management of the Group. The Shareholders shall follow Article 72 of the Articles of Association for including a resolution at the EGM. The requirements and procedures are set out in paragraph headed "Right to Convene an Extraordinary General Meeting (the "**EGM**")" above.

INVESTORS RELATIONS

The Company has established a range of communication channels between itself and its Shareholders, investors and other stakeholders. These include the annual general meeting, the annual, interim and quarterly reports, notices, announcements, circulars and media release on the Company's website at www.sinopharmtech.com.hk.

CONSTITUTIONAL DOCUMENTS

There was no change in the constitutional documents during the year.

DIRECTORS' REPORT

The Directors are pleased to present the annual report together with the audited consolidated financial statements for the year ended 30 June 2020.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATION

The principal activity of the Company is investment holding and the activities of the subsidiaries are set out in Note 50 to the Consolidated Financial Statements.

An analysis of the Group's performance for the year ended 30 June 2020 by segments is set out in Note 9 to the Consolidated Financial Statements.

BUSINESS REVIEW

The business review of the Group for the year is set out in the sections headed "Chairperson's Statement", "CEO's Statement", "Management Discussion and Analysis", "Environmental, Social and Governance Report", "Five-Year Financial Summary" and the paragraphs below.

The Group complies with the requirements under the Companies Ordinance, the GEM Listing Rules and the Securities and Futures Ordinance for the disclosure of information and corporate governance. The Group also complies with the requirements of the Employment Ordinance and ordinances relating to occupational safety for the interest of employees of the Group. The Group also complies with the relevant PRC laws and regulations relating to its business and operations. No important event affecting the Group has occurred since the end of the financial year under review.

Principal Risks and Uncertainties of the Group

During the year under review, the Group was facing the following risks and uncertainties in our business: i) Lottery Industry Trends and regulations: The industry trends in lottery business in the PRC will directly affect the Group's operation. The decline in the sales of lottery market, uncertainties in the implantation lottery sales through online channels and implementation of any additional regulations and measures by the relevant authorities could have adversely impact on the Group's business, operation and financial results. ii) Service agreement renewal: The Group signed the service agreement with provincial lottery centers and other customers based on the fixed terms of period. The Group had maintained sound relationship with our customers and business partners to render the reliable lottery related services and internet plus services in order to secure and renew the relevant services agreement. But the renewal of the relevant services agreement is not guarantee, the lottery centers require to perform the tender process after the end of services period. In case of such services agreement will not be renewed, it will have adversely impact on the Group's business and operation. iii) New business development: the Group has opened up new business development on "Internet Plus" in order to explore more business opportunities for the Group. The Group observed that it is a growing market and the business is less susceptible to policy and regulatory changes. However, the operating results of that new business have been materially affected by the industry trends and future development. iv) Cost increase: Cost increases, whether resulting from rising costs of materials, transportation, minimum wage legislations in Hong Kong or Mainland China could impact the profit margins of the Group on the manufacturing and distribution of its products on personal protective equipment. In addition, the Group may be subject to product liability suits or product recalls, which could harm our personal protective equipment business.

Key Relationships with Employees, Customers and Suppliers

The Group recognizes the accomplishment of the employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group provides a healthy and safe workplace for all employees.

The Group encompasses working relationships with suppliers to meet our customers' needs in an effective and efficient manner. The Group's requirements and standards are well communicated to the suppliers before the commencement of a project.

The Group values the views and opinions of all the customers through various means and channels to understand the customer trends and needs. The Group also conducts comprehensive tests and checks to ensure that only quality products and services are offered to the customers.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 30 June 2020, sales to the five largest customers accounted for approximately 72% of its entire sales and sales to the largest customer accounted for approximately 43%. Purchases from the Group's five largest suppliers accounted for approximately 93% of the total purchases for the year and purchases from the largest supplier accounted for approximately 31%.

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2020 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on pages 53 and 54.

DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 30 June 2020 (2019: Nil).

DIVIDEND POLICY

The Board has adopted a dividend policy. Any distribution of dividends shall be in accordance with the applicable laws and the relevant provisions of the Articles of Association effective from time to time. The Company may declare and distribute final dividends, interim dividends or special dividends as may be determined by the Board from time to time. Declaration of final dividend is subject to the approval of the Shareholders. The Company may distribute dividends by way of cash or Shares. Profit distribution of the Company shall take into account: (i) the earnings per share of the Company; (ii) the reasonable return in investment of the investors and the Shareholders in order to provide incentive to them to continue to support the Company in its long-term development; (iii) the financial conditions and business plan of the Company; and (iv) the market sentiment and circumstances.

FIVE-YEAR FINANCIAL SUMMARY

A summary of results and of the assets and liabilities of the Group for the past five financial years is set out on page 165 of this annual report.

RESERVES

Details of movements in reserves of the Group during the year are set out in the section headed "Consolidated Statement of Changes in Equity" on pages 57 and 58.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 19 to the Consolidated Financial Statements.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to HK$Nil (2019: HK$Nil).

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions which also constituted exempted connected transactions under Chapter 20 of the GEM Listing Rules are set out in Note 49 to the Consolidated Financial Statements of this annual report.

CONNECTED TRANSACTION INVOLVING AMENDMENT TO THE TERMS OF THE CONVERTIBLE BONDS

On 7 February 2020, the Company entered into the fourth amendment agreement (the "**Fourth Amendment Agreement**") with Integrated Asset Management (Asia) Limited (the "**Bondholder**") to amend certain terms and conditions of the convertible bonds (the "**CBs**") issued to the Bondholder on 17 January 2014 with a principal amount of HK$89,625,000, amended interest rate of 8% per annum and adjusted conversion price of HK$0.34 per conversion share subject to further adjustment. An adjusted maximum number of 263,602,941 Shares would be allotted and issued to the Bondholder upon conversion of the CBs in full.

Pursuant to the Fourth Amendment Agreement, the Company and the Bondholder agreed to extend the maturity date of the CBs from 17 January 2020 to 17 July 2020, and further extend the maturity date to 17 January 2021 upon a written consent from the Bondholder (the "**Fourth Amendment**"). The Fourth Amendment was approved by way of an ordinary resolution by the Shareholders at the extraordinary general meeting of the Company held on 25 March 2020. The Company has received a written consent from the Bondholder, pursuant to which the maturity date of the CBs would be extended for further six months to 17 January 2021.

As the Bondholder was a substantial Shareholder of the Company, it constituted a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. Details of this connected transaction were disclosed in the Company's announcements dated 19 January 2020, 7 February 2020 and 25 March 2020 and the Company's circular dated 10 March 2020.

As at 30 June 2020, no CBs has been converted into Shares by the Bondholder or redeemed by the Company.

CONTINUING CONNECTED TRANSACTION PURSUANT TO RULE 20.58 OF THE GEM LISTING RULES

On 12 November 2018, Sinopharm Health Cross Border E-Commerce Company Limited ("**Sinopharm Health**"), a non-wholly-owned subsidiary of Hero Global Holdings Limited (英雄環球控股有限公司) ("**Hero Global**"), and Sinopharm Traditional Chinese Medicine Co. Ltd. (國藥藥材股份有限公司) ("**Sino-TCM**") entered into a management service agreement (the "**Management Service Agreement**"), pursuant to which Sinopharm Health shall provide business management and consulting services to Sino-TCM. The transactions contemplated under the Management Service Agreement shall continue upon completion of the acquisition of the 100% equity interest in Hero Global by the purchaser, Sinopharm Tech Corporate Management Limited (formerly known as China Vanguard Corporate Management Limited), a wholly-owned subsidiary of the Company, from Sinopharm Traditional Chinese Medicine Overseas Holdings Limited (國藥藥材海外控股有限公司) (the "**Vendor II**") pursuant to a sale and purchase agreement entered into in May 2019.

Upon completion of the above acquisition, Sinopharm Health became a wholly-owned subsidiary of the Company. The Vendor II was wholly-owned by Sino-TCM and the Vendor II, upon completion of the above acquisition and the allotment and issue of the consideration shares, became a substantial shareholder of the Company. As such, the Vendor II and Sino-TCM were each a connected person of the Company upon completion of the above acquisition. The transactions under the Management Service Agreement became continuing connected transactions of the Company (the "**CCT**") under Chapter 20 of the GEM Listing Rules.

Pursuant to the Management Service Agreement, Sinopharm Health will provide business management and Internet Plus solutions tailored for the business needs of Sino-TCM, in particular the development of the platform. The Company considered that the transactions with Sino-TCM under the Management Service Agreement would generate a stable source of income to the Group while at the same time enable Sinopharm Health to expand its business of Internet Plus Health and cross-border e-commerce.

The term of the Management Service Agreement is three years commencing from 12 November 2018, being the date of the Management Service Agreement, and ending on 11 November 2021, which is renewable for a further term of three years as mutually agreed by the parties subject to the terms and conditions of the Management Service Agreement.

Sino-TCM shall pay an annual service fee in the sum of RMB28 million to Sinopharm Health for the services provided by Sinopharm Health under the Management Service Agreement, which shall be settled within 60 business days following the end date of the preceding financial year. The service fee payable by Sino-TCM under the Management Service Agreement is subject to a 5% year-on-year increment during the term thereof.

Details of the CCT were disclosed in the announcement of the Company dated 4 January 2019.

For the year ended 30 June 2020, the independent non-executive Directors of the Company have reviewed the CCT and confirmed that the Management Service Agreement has been entered into in the ordinary and usual course of business of the Group, on normal commercial terms and on terms that are fair and reasonable and in the interests of the Shareholders as a whole. A letter from the auditors of the Company has been received by the Board confirming that none of the matters mentioned under Rule 20.54 of the GEM Listing Rules arose regarding the CCT for the year ended 30 June 2020.

ISSUE OF UNLISTED WARRANTS UNDER SPECIFIC MANDATE

On 3 January 2020 (after trading hours), the Company and Mr. Yim Hin Keung (the "**Subscriber**") entered into the warrant subscription agreement (the "**Warrant Subscription Agreement**"), pursuant to which the Company conditionally agreed to issue to the Subscriber or his nominee the warrants (the "**Warrant(s)**") (the "**Warrant Issuance**") conferring the rights to subscribe for a maximum number of 200,000,000 warrant Shares (the "**Warrant Share(s)**") at the subscription price of HK$0.04 per Warrant (the "**Warrant Price**"), at the aggregate amount of HK$8 million payable in cash by the Subscriber on the date of completion of the Warrant Issuance. The subscription rights attaching to the Warrants can be exercised at HK$0.35 per Warrant Share (the "**Warrant Exercise Price**") and further capital of HK$70 million will be raised upon the full exercise of the subscription rights at any time during the 12-month period commencing from the completion date of the Warrant Issuance.

The Board considered that the Warrant Issuance represented a good opportunity to raise funds for the Group as the Warrants were not interest-bearing and the Warrant Issuance would not increase the Company's financial pressure as the financing was achieved through equity financing but not debt financing. Further, it would not have any immediate dilution effect on the shareholding of the existing Shareholders. As the Warrants are transferrable to persons who are not connected persons of the Company, the Shareholder base may be broadened even there was only one Subscriber for the Warrant Issuance. Therefore, the Board considered that the Warrant Issuance provided opportunities for the Group to broaden and strengthen the Shareholder and capital base of the Company.

The aggregate nominal value of the 200,000,000 Warrant Shares was HK$2,500,000. The net Warrant Price, after deduction of relevant expenses, was approximately HK$0.039 per Warrant. The closing price per Share as quoted on the Stock Exchange on 3 January 2020, being the date of the Warrant Subscription Agreement was HK$0.246. The net proceeds of approximately HK$77.8 million from issue of the Warrants and exercise of the subscription rights attaching to the Warrants were expected to be used for general working capital, repayment of debts and future investment of the Group as and when opportunities arise but no specific investment targets have been identified yet.

The issue of the Warrants and the Warrant Shares under specific mandate were approved by the independent Shareholders at the extraordinary general meeting of the Company held on 17 February 2020. All the conditions precedent as set out in the Warrant Subscription Agreement have been fulfilled and completion of the Warrant Issuance took place on 2 March 2020 in accordance with the terms and conditions of the Warrant Subscription Agreement. The Subscriber may subscribe for the Warrant Shares at the Warrant Exercise Price of HK$0.35 for each Warrant Share on or before 1 March 2021.

For details, please refer to the Company's announcements dated 3 January 2020, 17 February 2020 and 2 March 2020 and the Company's circular dated 31 January 2020.

As at 30 June 2020, no subscription rights attaching to the Warrants has been exercised by the Subscriber or transferred to persons who were not connected persons of the Company. The net proceeds of approximately HK$7.8 million from Warrant Issuance was utilized as intended.

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

Save as disclosed in this annual report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Shares during the year ended 30 June 2020.

CONNECTED TRANSACTION INVOLVING ALLOTMENT AND ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE

On 2 April 2020, the Company and Mr. CHAN Ting (the "**Subscriber II**") entered into a subscription agreement (the "**Subscription Agreement**"), pursuant to which the Company has conditionally agreed to allot and issue, and the Subscriber II has conditionally agreed to subscribe for, 800,000,000 new Shares (the "**Subscription Share(s)**") at the subscription price of HK$0.20 per Subscription Share under specific mandate (the "**Subscription**").

The Directors were of the view that the Subscription represented an opportunity for the Company to raise capital for the development and expansion of the existing lottery-related, internet plus services and mask production business of the Group and to capture potential investment opportunities when such opportunities arise.

The aggregate nominal value of the 800,000,000 Subscription Shares was HK$10,000,000. The closing price per Share as quoted on the Stock Exchange on 2 April 2020, being the date of the Subscription Agreement, was HK$0.228.

The gross proceeds and the net proceeds (after deducting professional fees and other related expenses) from the Subscription will be HK$160.0 million and approximately HK$159.7 million respectively. On such basis, the net price of each Subscription Share is approximately HK$0.20. It was intended that the net proceeds from the Subscription will be utilised as follows: (i) 45% of the net proceeds, i.e. approximately HK$72.0 million, for the development and expansion of the existing lottery-related and internet plus services business; (ii) 30% of the net proceeds, i.e. approximately HK$48.0 million, for the development and expansion of the existing mask production business of the Group; (iii) 15% of the net proceeds, i.e. approximately HK$24.0 million, for repayment of debt; and (iv) 10% of the net proceeds, i.e. the remaining balance of approximately HK$15.7 million, for general working capital of the Group.

As at the date of the Subscription Agreement, as the Subscriber II was an executive Director and the chief executive officer of the Company and a director of Best Frontier Investments Limited, the Subscriber II was a connected person of the Company under the GEM Listing Rules. Therefore, the entering into of the Subscription Agreement and the transactions contemplated thereunder constituted a connected transaction for the Company and was subject to independent Shareholders' approval under Chapter 20 of the GEM Listing Rules. The 800,000,000 Subscription Shares represent approximately 15.72% of the issued share capital of the Company immediately upon completion of the Subscription (assuming there is no change to the issued share capital of the Company from the 16 June 2020 and prior to completion of the Subscription) as enlarged by the Subscription.

The Subscription Agreement and the transactions contemplated thereunder were approved by the independent Shareholders at the extraordinary general meeting of the Company held on 8 July 2020. Pursuant to the Subscription Agreement, completion of the Subscription is conditional upon and subject to all the conditions precedent being fulfilled or waived on or before 30 June 2020 (the "**Long Stop Date**"). On 16 June 2020, the parties to the Subscription Agreement entered into the supplemental agreement to extend the Long Stop Date to 31 July 2020 (or such later date as the parties may agree in writing). On 31 July 2020, the parties to the Subscription Agreement entered into the second supplemental agreement to further extend the Long Stop Date to 28 August 2020 (or such later date as the parties may agree in writing). On 28 August 2020, the parties to the Subscription Agreement entered into the third supplemental agreement to further extend the Long Stop Date to 30 September 2020 (or such later date as the parties may agree in writing). Save as aforesaid, all other terms and conditions of the Subscription Agreement shall remain unchanged.

Details of the above connected transaction were disclosed in the Company's announcements dated 2 April 2020, 16 June 2020, 31 July 2020 and 28 August 2020 and the Company's circular dated 19 June 2020. Up to the date of this annual report, the conditions precedent for completion of the Subscription have not been fully fulfilled. Therefore, the Subscription may or may not proceed.

UPDATE ON THE GUARANTEED PROFIT REGARDING THE FINANCIAL PERFORMANCE OF THE SUBSIDIARY ACQUIRED

On 4 January 2019, Sinopharm Tech Corporate Management Limited (formerly known as China Vanguard Corporate Management Limited) (the "**Purchaser**"), a wholly-owned subsidiary of the Company, as purchaser and Sinopharm Traditional Chinese Medicine Overseas Holdings Limited as vendor (the "**Vendor III**") entered into a sale and purchase agreement, pursuant to which the Vendor III has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the sale shares (the "**Sale Shares II**") in Hero Global Holdings Limited (the "**Target Company II**"), which represents 100% of the equity interest in the Target Company II, for a consideration of HK$139.10 million, which will be settled by the allotment and issue of 650,000,000 ordinary shares of HK$0.0125 each in the share capital of the Company by the Company to the Vendor III under the specific mandate at the issue price of HK$0.214 per Consideration Share. The completion of the sale and purchase of the Sale Shares II took place on 6 May 2019 and the Target Company II became a wholly-owned subsidiary of the Company.

Pursuant to the Sale and Purchase Agreement, the Vendor III guaranteed to the Purchaser that (i) the actual net profit after taxation of the Target Company II (the "**Net Profit**") for each of the three years ending 31 December 2019, 2020 and 2021 shall not be less than HK$23,000,000; or (ii) the aggregate Net Profit for the three years ending 31 December 2019, 2020 and 2021 shall not be less than HK$69,000,000 in total (the "**Guaranteed Profit**"). If the aggregate Net Profit for the three years ended/ending 31 December 2019, 2020 and 2021 is less than the Guaranteed Profit, the Vendor III shall compensate the Purchaser the shortfall multiplied by a compensation factor of 1.7 in cash. The Vendor III shall settle the compensation amount, if any, within 30 business days following the issue of written confirmation in respect of the shortfall by the Purchaser on or before 30 June 2022 with reference to the respective Net Profits for each of the three years as mentioned above. For the year ended 31 December 2019, the Net Profit did not meet the aforesaid guarantee.

DIRECTORS

The Directors during the year and up to the date of this annual report comprised:

Executive Directors

Madam CHEUNG Kwai Lan
Mr. CHAN Ting

Non-executive Directors

Mr. CHAN Tung Mei
Dr. CHENG Yanjie *(appointed on 29 July 2019)*

Independent Non-executive Directors

Mr. LAU Fai Lawrence *(appointed on 23 January 2020)*
Dr. LIU Ta-pei
Mr. CHAU Wai Wah Fred *(appointed on 20 November 2019)*
Mr. TO Yan Ming Edmond *(passed away on 28 August 2019)*
Mr. YANG Qing Cai *(retired on 20 November 2019)*

In accordance with Article 99 of the Articles of Association, Mr. LAU Fai Lawrence and Mr. CHAU Wai Wah Fred shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) and will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company (the "**AGM**").

In accordance with Article 116 of the Articles of Association, Mr. CHAN Tung Mei and Dr. LIU Ta-pei will retire from office by rotation and, being eligible, offer themselves for re-election at the AGM.

The Company has received from each of the INEDs, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all the INEDs to be independent.

UPDATE ON DIRECTORS' INFORMATION PURSUANT TO RULE 17.50A OF THE GEM LISTING RULES

In accordance with Rule 17.50A(1) of the GEM Listing Rules, there was no change in information of the Directors required to be disclosed for the year ended 30 June 2020.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, every Director, auditors or other officers of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur or about the execution and discharge of his duties or in relation thereto. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the year.

DIRECTORS' SERVICE CONTRACTS

All the executive Directors and one non-executive Director have entered into a renewable service agreement for a term of three years with the Company and are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles of Association.

All the INEDs and one non-executive Director have not entered into any service contracts with the Company but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles of Association.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the paragraphs headed "Connected Transaction involving Allotment and Issue of New Shares under Specific Mandate" on page 32, no contracts of significance to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

COMPETING INTERESTS

None of the Directors, the substantial shareholders or the controlling shareholder of the Company or any of their respective close associates (as defined under the GEM Listing Rules) has any interest in any business which competes or is likely to compete, directly or indirectly, with the business of the Group.

MANAGEMENT CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2020, the interests and short positions of the Directors and chief executive in the ordinary share(s) of HK$0.0125 each of the Company (the "**Share(s)**"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long Positions in the Shares of the Company or Any of its Associated Corporation

		Number of Shares Held					
Name of Directors	The Company/ Name of Associated Corporation	Interest in Controlled Corporation	Personal Interest (ordinary shares)	Personal Interest (underlying shares) *(Note 2)*	Family Interest	Total Interest	Approximate Percentage of Shareholding
Madam CHEUNG Kwai Lan ("**Madam CHEUNG**") *(Note 1)*	The Company	632,920,856	4,656,000	4,000,000	6,620,000	648,196,856	15.11%
Mr. CHAN Tung Mei ("**Mr. CHAN**") *(Note 1)*	The Company	—	3,020,000	3,600,000	641,576,856	648,196,856	15.11%
Madam CHEUNG	Best Frontier Investments Limited ("**Best Frontier**") *(Note 1)*	—	909	—	1	910	—
Mr. CHAN	Best Frontier *(Note 1)*	—	1	—	909	910	—
Mr. CHAN Ting	The Company	—	—	4,000,000	—	4,000,000	0.09%
Mr. CHAU Wai Wah Fred	The Company	—	3,800,000	3,600,000	—	7,400,000	0.17%
Dr. CHENG Yanji	The Company	—	1,965,000	3,600,000	—	5,565,000	0.13%
Dr. LIU Ta-pei	The Company	—	—	3,600,000	—	3,600,000	0.08%

Notes:

1. The 632,920,856 Shares were owned by Best Frontier which was owned as to 99.89% and 0.11% by Madam CHEUNG and Mr. CHAN respectively. In addition, Madam CHEUNG and Mr. CHAN directly held 4,656,000 Shares and 3,020,000 Shares respectively. Accordingly, Madam CHEUNG is the spouse of Mr. CHAN so both of them were deemed to be interested in the Shares.

2. These share options were granted by the Company on 7 January 2020 under the share option scheme adopted by the Company on 31 January 2013.

Save as disclosed above, as at 30 June 2020, none of the Directors and chief executive of the Company had or was deemed to have any interests or short positions in any Shares, underlying Shares or debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) that were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the paragraphs headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" above and "Connected Transaction involving Allotment and Issue of New Shares under Specific Mandate" on page 32, at no time during the year was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of acquisition of the Shares in, or debentures of, the Company or any body corporate, and none of the Directors and chief executive or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

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

As at 30 June 2020, according to the register kept by the Company pursuant to Section 336 of the SFO, and so far as was known to any Directors or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had, or were deemed or taken to have, interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, as follows:

Long Positions in the Shares

Name of Shareholders	Capacity	Number of issued Shares Held	Approximate Percentage of the Shareholding
Sinopharm Traditional Chinese Medicine Overseas Holdings Limited	Beneficial Owner	650,000,000	15.15%
Best Frontier & its concert parties *(Note 1)*	Beneficial Owner	640,596,856	14.93%
Integrated Asset Management (Asia) Limited ("**Integrated Asset**") & its concert parties *(Note 2)*	Beneficial Owner	461,733,000	10.76%
Mr. Tse Siu Hoi	Beneficial Owner	310,650,000	7.24%

Notes:

1. 632,920,856 Shares were owned by Best Frontier which was owned as to 99.89% and 0.11% by Madam CHEUNG and Mr. CHAN respectively. In addition, Madam CHEUNG and Mr. CHAN directly held 4,656,000 and 3,020,000 Shares respectively. Madam CHEUNG is the spouse of Mr. CHAN and therefore both of them were deemed to be interested in the Shares. Madam CHEUNG and Mr. CHAN were granted 4,000,000 share options and 3,600,000 share options respectively by the Company on 7 January 2020 under the share option scheme adopted by the Company on 31 January 2013.

2. The 461,733,000 Shares were owned by Integrated Asset which was wholly-owned by Mr. YAM Tak Cheung. 8% coupon convertible bonds in aggregate amount of HK$89,625,000 (the "**CBs**") for a term of six months maturing on 17 July 2017 were issued to Integrated Asset pursuant to the first amendment agreement dated 18 January 2017 approved by the Shareholders at the extraordinary general meeting of the Company held on 29 March 2017. The Company received a written consent from Integrated Asset, on which the maturity date of the CBs would be extended for further six months to 17 January 2018. A maximum number of 249,651,810 Shares would be allotted and issued to Integrated Asset upon conversion of the CBs in full. The amended conversion price was HK$0.359 per conversion share subject to adjustment.

   Pursuant to the second amendment agreement approved by the Shareholders at the extraordinary general meeting of the Company held on 18 April 2018, the amendments were that the maturity date of the CBs was extended for six months from 17 January 2018 to 17 July 2018, and further extended to 17 January 2019 upon a prior written consent from Integrated Asset. Such written consent from Integrated Asset has been received by the Company. A maximum number of 249,651,810 Shares would be allotted and issued to Integrated Asset upon conversion of the CBs in full.

   Pursuant to the third amendment agreement approved by the Shareholders at the extraordinary general meeting of the Company held on 19 March 2019, the amendments were that the maturity date of the CBs was extended for six months from 17 January 2019 to 17 July 2019, and further extended to 17 January 2020 upon a prior written consent from Integrated Asset. Such written consent from Integrated Asset has been received by the Company. A maximum number of 249,651,810 Shares would be allotted and issued to Integrated Asset upon conversion of the CBs in full.

   As a result of the adjustments of the CBs on 10 May 2019 upon the allotment and issue of the consideration shares to Sinopharm Traditional Chinese Medicine Overseas Holdings Limited, a maximum number of 263,602,941 Shares shall be allotted and issued to Integrated Asset upon conversion of the CBs in full. The adjusted conversion price is HK$0.34 per conversion share subject to further adjustment.

   An ordinary resolution was passed at the extraordinary general meeting of the Company held on 25 March 2020 in which pursuant to the fourth amendment agreement, the amendments are that the maturity date of the CBs shall be extended for six months from 17 January 2020 to 17 July 2020, and further extended to 17 January 2021 upon a prior written consent from Integrated Asset. A maximum number of 263,602,941 Shares shall be allotted and issued to Integrated Asset upon conversion of the CBs in full.

Save as disclosed above, as at 30 June 2020, the Directors or chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which was recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 31 January 2013 (the "**Share Option Scheme**") under which the Board may, at its discretion, invite eligible persons to take up share options to subscribe for the Shares. The purpose of the Share Option Scheme is to enable the Company to grant share options to selected eligible persons as incentives or rewards for their contribution to the Group. Eligible persons shall include any employee, any Director (including executive, non-executive and independent non-executive Directors) and any consultant of the Company or of any subsidiary of the Company or such other persons who, at the sole determination of the Board, have contributed to the Group at the time when an option is granted to such persons. The Share Option Scheme will remain valid for a period of 10 years commencing from the date of adoption of the Share Option Scheme. 6,507 Shares are available for issue under the Share Option Scheme, representing approximately 0.0002% of the issued Shares as at the date of this annual report. Details of the Share Option Scheme adopted by the Company are set out in Note 41 to the Consolidated Financial Statements.

DIRECTORS' REPORT

The details of the movements in share options under the Share Option Scheme during the year were as follows:

				Number of Share Options					
Name/Category of Participants	**Grant Date**	**Exercise Price per Share (HK$)**	**Exercise Period**	**As at 1 July 2019**	**Granted *(Note 2)***	**Exercised**	**Cancelled**	**Lapsed**	**As at 30 June 2020**
Directors									
Madam CHEUNG Kwai Lan	07–01–2020	0.33	01/06/2020–31/12/2022	—	1,200,000	—	—	—	1,200,000
	07–01–2020	0.33	01/03/2021–31/12/2022	—	1,200,000	—	—	—	1,200,000
	07–01–2020	0.33	01/12/2021–31/12/2022	—	1,600,000	—	—	—	1,600,000
Mr. CHAN Ting	07–01–2020	0.33	01/06/2020–31/12/2022	—	1,200,000	—	—	—	1,200,000
	07–01–2020	0.33	01/03/2021–31/12/2022	—	1,200,000	—	—	—	1,200,000
	07–01–2020	0.33	01/12/2021–31/12/2022	—	1,600,000	—	—	—	1,600,000
Mr. CHAN Tung Mei	07–01–2020	0.33	01/06/2020–31/12/2022	—	1,080,000	—	—	—	1,080,000
	07–01–2020	0.33	01/03/2021–31/12/2022	—	1,080,000	—	—	—	1,080,000
	07–01–2020	0.33	01/12/2021–31/12/2022	—	1,440,000	—	—	—	1,440,000
Dr. CHENG Yanjie	07–01–2020	0.33	01/06/2020–31/12/2022	—	1,080,000	—	—	—	1,080,000
	07–01–2020	0.33	01/03/2021–31/12/2022	—	1,080,000	—	—	—	1,080,000
	07–01–2020	0.33	01/12/2021–31/12/2022	—	1,440,000	—	—	—	1,440,000
Dr. LIU Ta-pei	07–01–2020	0.33	01/06/2020–31/12/2022	—	1,080,000	—	—	—	1,080,000
	07–01–2020	0.33	01/03/2021–31/12/2022	—	1,080,000	—	—	—	1,080,000
	07–01–2020	0.33	01/12/2021–31/12/2022	—	1,440,000	—	—	—	1,440,000
Mr. CHAU Wai Wah Fred	07–01–2020	0.33	01/06/2020–31/12/2022	—	1,080,000	—	—	—	1,080,000
	07–01–2020	0.33	01/03/2021–31/12/2022	—	1,080,000	—	—	—	1,080,000
	07–01–2020	0.33	01/12/2021–31/12/2022	—	1,440,000	—	—	—	1,440,000
Directors' Associates									
Ms. CHAN Siu Sarah	07–01–2020	0.33	01/06/2020–31/12/2022	—	1,080,000	—	—	—	1,080,000
	07–01–2020	0.33	01/03/2021–31/12/2022	—	1,080,000	—	—	—	1,080,000
	07–01–2020	0.33	01/12/2021–31/12/2022	—	1,440,000	—	—	—	1,440,000
			Sub-total	—	26,000,000	—	—	—	26,000,000
Employees	07–01–2020	0.33	01/06/2020–31/12/2022	—	20,040,000	—	—	—	20,040,000
	07–01–2020	0.33	01/03/2021–31/12/2022	—	20,040,000	—	—	—	20,040,000
	07–01–2020	0.33	01/12/2021–31/12/2022	—	26,720,000	—	—	—	26,720,000
			Sub-total	—	66,800,000	—	—	—	66,800,000
Other eligible participants *(Note 1)*	14–08–2019	0.33	01/01/2020–31/12/2022	—	11,600,000	—	—	—	11,600,000
	14–08–2019	0.33	01/06/2020–31/12/2022	—	18,540,000	—	—	—	18,540,000
	14–08–2019	0.33	01/09/2020–31/12/2022	—	8,700,000	—	—	—	8,700,000
	14–08–2019	0.33	01/03/2021–31/12/2022	—	18,540,000	—	—	—	18,540,000
	14–08–2019	0.33	01/05/2021–31/12/2022	—	8,700,000	—	—	—	8,700,000
	14–08–2019	0.33	01/12/2021–31/12/2022	—	24,720,000	—	—	—	24,720,000
			Sub-total	—	90,800,000	—	—	—	90,800,000
			Total	—	183,600,000	—	—	—	183,600,000

Notes:

1. Other eligible participants include certain business partners and consultants of the Group.

2. The closing prices of the Shares on the trading day immediately before 14 August 2019 and 7 January 2020 on which the share options were granted, were HK$0.320 per Share and HK$0.246 per Share respectively.

AUDITORS

The consolidated financial statements for the year ended 30 June 2020 have been audited by CCTH CPA Limited. There was no change in the auditors of the Company in the preceding 3 years. CCTH CPA Limited will retire at the forthcoming annual general meeting of the Company and, being eligible, offer itself for re-appointment. A resolution for the re-appointment of CCTH CPA Limited as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance which is set out in the section headed "Corporate Governance Report" on pages 19 to 26.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with the GEM Listing Rules. The Audit Committee comprises three INEDs, namely, Mr. LAU Fai Lawrence (appointed on 23 January 2020), Dr. LIU Ta-pei and Mr. CHAU Wai Wah Fred (appointed on 20 November 2019). Mr. TO Yan Ming Edmond passed away on 28 August 2019 while Mr. YANG Qing Cai retired on 20 November 2019. Mr. LAU was appointed as the chairperson of the Audit Committee. Details of the role and work performed by the Audit Committee for the year ended 30 June 2020 are set out in the section headed "Corporate Governance Report" in this annual report.

The audited consolidated results of the Group for the year ended 30 June 2020 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

EVENTS AFTER REPORTING PERIOD

There has been no important event affecting the Group since the end of the year ended 30 June 2020.

On behalf of the Board

CHEUNG Kwai Lan
Chairperson and Executive Director

Hong Kong, 29 September 2020

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This Environmental, Social and Governance Report (the "**ESG Report**") issued by the Company covers the policies and compliance issues relating to the environmental and social aspects of the head office and three new mask factories in Hong Kong and business in the PRC and key performance indicators in the environmental aspect during the year ended 30 June 2020. This ESG Report was prepared in accordance with the "Environmental, Social and Governance Reporting Guide" as set out in Appendix 20 of the GEM Listing Rules.

ENVIRONMENT

Emissions

Policies relating to Air and Greenhouse Gas Emissions, Discharges into Water and Land, and Generation of Hazardous and Non-hazardous Waste

The indirect greenhouse gas emission, which is generated from our daily electricity consumption, is the main source of the Group's carbon footprint. To reduce greenhouse gas emission, energy-saving measures, including employees turning off light and unnecessary energy device before leaving the offices to reduce energy consumption and avoid unnecessary wastage of energy, are implemented. In order to reduce waste, a responsible waste management policy, including waste avoidance, reducing waste from its source, reuse, recycling and responsible disposal of waste, is adopted. During the year, the Group was not aware of any material non-compliance with the environmental laws and regulations in Hong Kong and in the PRC relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

Key Performance Indicators

1. Air Pollutants

Fuel consumption by motor vehicles was the major source of nitrogen oxides ("**NO_x**"), sulphur oxides ("**SO_x**") and particulate matter ("**PM**") emissions. Relevant data for the year ended 30 June 2020 and 2019 were as follows:

	Year ended 30 June 2020 (g)	Year ended 30 June 2019 (g)
NO_x	**7,358.40**	7,219.68
SO_x	**161.97**	157.07
PM	**541.78**	531.57

2. *Greenhouse Gas Emissions*

Greenhouse gas came from all sorts of daily activities, such as the use of electricity, water and the combustion of fuels in motor vehicles. Total greenhouse gas emissions included carbon dioxide ("**CO_2**") and other greenhouse gases, such as methane ("**CH_4**") and nitrous oxide ("**N_2O**"). The Group strives to reduce burning and improve energy and resource use efficiency in its daily operations so as to manage its greenhouse gas emissions.

The combustion of fuels in motor vehicles caused the direct emission of greenhouse gasses. Relevant data for the year ended 30 June 2020 and 2019 were as follows:

	Year ended 30 June 2020 (kg)	Year ended 30 June 2019 (kg)
CO_2	**26,003.61**	25,217.05
CH_4	**58.54**	56.77
N_2O	**3,774.38**	3,660.21

The electricity consumption of the Group mainly for the daily operations of the offices and three new mask factories in Hong Kong caused the indirect emission of greenhouse gas of CO_2. Indirect CO_2 emission from electricity purchased from power companies was approximately 351,530.31kg for the year ended 30 June 2020 (2019: approximately 31,404.84kg).

3. *Hazardous Waste Production*

According to the National Catalogue of Hazardous Wastes (《國家危險廢物名錄》) which was formulated in accordance with Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》) by the Ministry of Environmental Protection of the People's Republic of China (中華人民共和國環境保護部), printing ink is classified as hazardous waste.

Despite that the hazardous waste data during the year was unavailable to the Group (2019: not available), the Group considered only limited hazardous waste was produced during printing process.

4. *Non-hazardous Waste Production*

Commercial waste constituted the production of non-hazardous waste of the Group. For the year ended 30 June 2020, 3 tonnes of non-hazardous waste were produced due to one-off disposal of substandard masks in Hong Kong and the intensity of the non-hazardous waste produced was 0.6 tonnes per production line (2019: not available).

For the year ended 30 June 2020, the Group was committed to the policies relating to air and greenhouse gas emissions, discharges into water and land, and generation and disposal of hazardous and non-hazardous waste as set out in this ESG Report in order to minimise such pollution. The Group also performed regular assessments on the same.

Use of Resources

Policies on the Efficient Use of Resources

To support environmental protection, the Group tries its best endeavours to minimize the energy and resources consumption during the daily operation of the Group in Hong Kong and PRC offices. The Group strives to build an environmentally friendly working environment through our guidance and policies and participation among the staff to minimize the adverse impact of electricity and office consumables consumption on the environment.

In order to reduce the consumption of electricity in office, the Group issues guidance to the staff for setting the optimal temperature on the air-conditioning. All the lights and electronic appliances in office will be turned off when not in use and all the lights in office will be turned off during the lunch time.

Further, in order to reduce the consumables consumption in office, the Group encourages all the staff to save and file the documents electronically, use the recycled papers for printing, print the documents on double-sided papers and arrange the telephone or video conferences instead of face-to-face meetings.

Key Performance Indicators

1. *Energy Consumption*

   Daily energy consumption of the Group mainly involved purchased electricity for the daily operations of the offices and three new mask factories in Hong Kong. For the year ended 30 June 2020, the total electricity consumption was approximately 74.13kWh and the intensity of the electricity consumption was approximately 14.83kWh per production line (2019: not available).

2. *Water Consumption*

   Despite that the water consumption data for the year ended 30 June 2020 was unavailable to the Group (2019: not available), the Group considered that there was only limited water consumption for the daily operations of the Group.

3. *Packaging Materials used for Finished Products*

   Total packaging materials used for finished products in the new mask production business for the year ended 30 June 2020 was approximately 55.48 tonnes and the intensity of the packaging materials used was approximately 11.10 tonnes per production line (2019: not available).

For the year ended 30 June 2020, the Group was committed to the policies on the efficient use of resources as set out in this ESG Report in order to reduce the consumption of energy and water.

Environment and Natural Resources

Policies on Minimising the Group's Significant Impact on the Environment and Natural Resources

The Group manages and minimizes the impact it may cause on the environment and natural resources, directly or indirectly, through the policies, including (i) ensuring that its business operations comply with the environmental laws and regulations in Hong Kong and in the PRC; (ii) monitoring and minimising air and greenhouse gas emissions and hazardous and non-hazardous waste; and (iii) ensuring that in its daily business operations, with best endeavours, energy, water and other raw materials will be conserved.

Key Performance Indicator

For the year ended 30 June 2020, due to the new mask production business, the increase in the electricity consumption causing the indirect emission of greenhouse gas of CO_2, the non-hazardous waste production resulting from one-off disposal of substandard masks and the packaging material used for finished products of masks may have impact on the environment and natural resources. (2019: no material impact). The Group was committed to the policies on minimising its significant impact on the environment and natural resources as set out in this ESG Report in order to protect the environment and natural resources.

EMPLOYMENT AND LABOUR PRACTICES

Employment

The Group believes that human resources are the most valuable asset and core competitive strength of the Group. The Group adopts a fair and open recruitment policy to avoid any discrimination on age, gender, race, nationality, religion or marital status. All the candidates will be assessed under the fair recruitment process.

The resting time of the Group's employees is well respected and the employees are also entitled to paid holidays pursuant to statutory requirements or otherwise under their respective employment contracts. There is a computerized human resources management system in place to continuously monitor the working hours and leave application of the employees. The Group also adopts zero tolerance policy towards sexual harassment at the workplace to protect its employees from unsolicited sexual advances.

The Group rewards all the employees by providing a competitive remuneration package and performs the performance appraisal on annual basis with appropriate bonus, promotion opportunities for career advancement. Staff handbook will be delivered to all employees for stating all the information regarding employment, business conduct, social security funds, compensation, leave benefits, working hours, etc. A brief orientation is provided to new employees to ensure that they are aware of all relevant policies. During the reporting period, the Group was not aware of any material non-compliance with all relevant labour and employment laws.

Health and Safety

The Group has been committed to provide a safe, pleasant and healthy working environment to the employees in order to protect their health and safety. In order to maintain a safe and comfortable working environment, the Group designs and plan office layouts based on relevant safety provisions, ensures that fire escapes are available and the hygiene of the office is regularly maintained. During the reporting period, the Group reviewed the office environment and safety policies regularly and was not aware of any material non-compliance with the health and safety laws and regulations.

Development and Training

Staff's continuous development is one of crucial success of the Group. The Group provides on-board trainings and orientation for the new coming staff. The Group also encourages the employees to attend the external applicable training courses or seminars during the office hours which are relevant to the job duties. The employees are entitled to the examination leaves when they attend the external examination which applicable to their job duties on the examination day. The Group strives to ensure that all employees can fulfill the relevant job requirements in terms of education, training, technical and work experience.

Labour Standards

During the recruitment process, the Group strictly complies with all applicable laws and regulations in those places where it operates. The Group ascertains that its employees are all above the minimum legal working age requirement and have been fully protected in terms of labour standards. The Group complied with all laws and regulations prohibiting child labour and forced labour. Applicants are required to provide documentary proofs of academic qualifications and working experience for verifications. Applicants who are suspected to have false academic qualifications and working experience will not be employed. All the staff were employed in accordance with the relevant laws and regulations in Hong Kong and the PRC and the management regularly reviews the recruitment process to ensure that no discrimination is present.

OPERATING PRACTICES

Supply Chain Management

The Group believes that sourcing and selection of suppliers play a crucial part in establishing our product and brand. The Group conducts assessment on supplier with the relevant industrial and environmental standards in supply of materials, and to consider that it is one of the supplier selection criteria. During the procurement process, the Group performs regular assessments on the environmental and social risks of the supply chain management.

Product Responsibilities

The Group has responsibilities on its product or services provided. The Group encourages employees to maintain high standards of product or services provided and are obliged to retain confidence and all information obtained in connection with their employment.

Anti-corruption

All of the Group's operations comply with the legislation on standards of conduct, such as criminal law of the PRC, the Anti-Unfair Competition Law of the PRC, and the Prevention of Bribery Ordinance in Hong Kong. The Group has established a corporate culture of integrity and justice, and adopted the clear guidelines for employees which strictly prohibit bribery, extortion, fraud, money laundering and other acts. The Group has also implemented the whistleblowing policy for encouraging the staff to report to the Board if there is any money laundering, bribery and irregularities.

COMMUNITY

Community Investment

The Group believes in contributing to the society as part of our mission to create a more peaceful community. Therefore, the Group encourages our staff to participate in any activities which are benefit to our communities. The Group targets through donations, sponsorships and charity work by supporting any activities which can help charitable, cultural, medical, educational and other needs in our community. The Group will consider to support or donate any charitable organizations from time to time where appropriate.

INDEPENDENT AUDITOR'S REPORT

CCTH CPA LIMITED
中正天恆會計師有限公司

TO THE SHAREHOLDERS OF SINOPHARM TECH HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Sinopharm Tech Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as "**the Group**") set out on pages 53 to 164, which comprise the consolidated statement of financial position as at 30 June 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("**the Code**"), 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.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2 to the consolidated financial statements regarding the adoption of going concern basis on which the consolidated financial statements have been prepared. The Group sustained net current liabilities and net liabilities amounted to approximately HK$191,696,000 and HK$73,385,000 respectively as at 30 June 2020 and the Group incurred a loss of approximately HK$163,990,000 for the year then ended. These conditions, along with other matters as set out in Note 2, indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Group and the Company to continue as a going concern. The consolidated financial statements do not include any adjustments that would result from a failure to obtain the funding as referred to in Note 2 for financing the working capital and financial commitments of the Group and the Company for the foreseeable future. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

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

Impairment assessment on trade receivables and other receivables

Key audit matter

As detailed in Notes 27 and 28 to the consolidated financial statements, as at 30 June 2020, the Group had trade receivables and other receivables, net of provision for doubtful receivables, amounted to HK$22,376,000 and HK$11,776,000 respectively. Assessment of impairment provision for these receivables involves management's judgment of the ability of the debtors to make settlement which depends on customers' specific and market conditions that are inherently uncertain.

We have identified impairment assessment on trade receivables and other receivables as a key audit matter due to the magnitude of these receivables and the management's estimates and judgments involved in the determination of the expected credit losses of these receivables.

How the matter was addressed in our audit

Our procedures in relation to management's impairment assessment on trade receivables and other receivables included:

(a) We obtained an understanding of the design, implementation and operating effectiveness of management's internal controls relating to credit control, debt collection and making provisions for doubtful debts.

(b) We assessed the classification and accuracy of individual balances in ageing reports of trade receivables and other receivables by testing the underlying invoices and/or agreement on a sample basis.

(c) We assessed subsequent settlement of the receivable balances. Where settlement had not been received subsequent to the year end date, we obtained an understanding of the basis of management's judgments about the recoverability of the outstanding receivables and estimates about the allowances for credit losses made by management for these individual balances.

(d) We assessed the historical accuracy of the estimates made by the management for the credit loss allowances.

(e) We assessed the appropriateness of the expected credit loss positioning 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.

Impairment assessment of goodwill and intangible assets

Key audit matter	How the matter was addressed in our audit
As detailed in Notes 21 and 22 to the consolidated financial statements, the Group had recorded goodwill and intangible assets, net of impairment losses recognised, of approximately HK$46,139,000 and HK$41,000 respectively at 30 June 2020 and impairment losses on goodwill and intangible assets amounted to HK$131,415,000 and HK$1,643,000 respectively were recognised in profit or loss in respect of the current year under review. We have identified the impairment assessment of goodwill and intangible assets as a key audit matter due to their significance to the Group's total assets and significant judgement exercised by the management when performing the impairment assessment. Determining the amount of impairment for goodwill and intangible assets requires an estimation of recoverable amount, which is based on the value in use of the relevant cash-generating units ("CGUs") to which goodwill and intangible assets have been allocated. The calculation of value in use requires management to make assumption and exercise judgement about the future results of the related business, including revenue growth rate and gross profit margin, long-term growth rate and appropriate discount rates applied to future cash flow forecast.	Our audit procedures in relation to impairment assessment of the goodwill and intangible assets included: (a) We evaluated and challenged the composition of the Group's future cash flow forecast in each CGU, and the process by which they were drawn up, including testing the underlying value in use calculation. (b) We assessed the reasonableness of key assumptions such as revenue growth, future profitability and discount rates with reference to the business and industry circumstances. (c) We reconciled input data to supporting evidence, such as approved forecasts of future profits. (d) We considered the reasonableness of these forecasts of future profits by comparing them against past results achieved. (e) We performed sensitivity analysis of the key assumptions and considered the resulting impact of possible downside changes. (f) We considered the adequacy of the disclosure of impairment assessments of the goodwill and intangible assets set out in the consolidated financial statements.

Recognition of acquisition in an associate

Key audit matter	How the matter was addressed in our audit
As detailed in Note 25 to the consolidated financial statements, the Group acquired 40% equity interest in an associate, Ever Development Holdings Limited ("**Ever Development**"), during the year. We have identified the recognition of the acquisition of the interest in Ever Development as a key audit matter as the magnitude of the cost of acquisition is significant and the basis on which the fair values of the new shares issued for the acquisition and the contingent consideration, if any, for the acquisition were estimated involved management judgments and assumptions.	Our audit procedures in relation to recognition of acquisition of associate included: (a) We obtained the basis and calculation of the cost of acquisition of associate prepared by management. (b) We checked the terms of the related agreement for the acquisition of the associate and the documents relating to the completion of the acquisition to confirm the Group's ownership in the associate. (c) We assessed the fair value of the new shares of the Company issued for the acquisition by reference to the closing price of the Company's share at the date of issue. (d) We evaluated the independence, competence, capabilities and objectivity of the external valuer regarding the valuation of the contingent consideration, if any, for the acquisition of the associate. (e) We assessed the valuation methodology used by the management and the external valuer to estimate the fair value of the contingent consideration. (f) We considered whether or not the accounting treatment of the acquisition of the associates is appropriate.

Impairment of interest in associate

Key audit matter	How the matter was addressed in our audit
As detailed in Note 25 to the consolidation financial statements, the carrying amount of the Group's interest in associate, Ever Development, amounted to HK$42,075,000 as at 30 June 2020 and no impairment loss was recognised by the Group in respect of the investment in associate for the current year under review. We have identified the impairment assessment of interest in associate as a key audit matter as the magnitude of the investment is significant and management assessment of the recoverable amount of the investment involves judgements and estimates about the future results of the associate, key assumptions including revenue growth rate and gross profit margin and the discount rates applied to future cash flow forecast.	Our audit procedures in relation to the impairment assessment of interest in associate included: (a) We understood the basis of impairment assessment of interest in Ever Development performed by management of the Group, including the valuation model adopted and key assumptions used. (b) We evaluated the independence, competence, capabilities and objectivity of the external valuer regarding the valuation of the Group's investment in associate. (c) We evaluated the valuation methodology adopted by the management and the external valuer. (d) We evaluated the key assumptions and inputs used by the management for the valuation, including the future cash flows expected to be generated by Ever Development from its operations and the discount rate used, with reference to historical performance and publicly available information. (e) We checked the arithmetical calculation of the financial data to arrive at the valuation. (f) We compared the estimated recoverable amount of interest in Ever Development with its carrying amount and assessed whether impairment loss on interest in Ever Development is required to be recognised.

OTHER INFORMATION

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

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

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

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

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

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

Those charged with governance is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

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

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

CCTH CPA Limited
Certified Public Accountants
Hong Kong, 29 September 2020

Ng Kam Fai
Practising certificate number P06573

Unit 1510–1517, 15/F., Tower 2,
Kowloon Commerce Centre,
No.51 Kwai Cheong Road, Kwai Chung,
New Territories, Hong Kong

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2020

	Notes	Year ended 30-6-2020 HK$'000	Year ended 30-6-2019 HK$'000
Revenue	10	**165,934**	43,503
Cost of sales and services		**(121,281)**	(19,802)
Gross profit		**44,653**	23,701
Other income and gains	11	**11,223**	66,269
Provision for doubtful receivables		**(2,628)**	(213)
Impairment loss on assets	12	**(133,058)**	(67,930)
Selling and distribution expenses		**(4,791)**	—
Administrative and operating expenses		**(63,183)**	(57,815)
Finance costs	13	**(18,154)**	(11,950)
Share of profits of associates	25	**558**	—
Loss before tax	14	**(165,380)**	(47,938)
Income tax credit	16	**1,390**	2,312
Loss for the year		**(163,990)**	(45,626)
(Loss)/profit for the year attributable to:			
Equity holders of the Company		**(161,075)**	(46,796)
Non-controlling interests		**(2,915)**	1,170
		(163,990)	(45,626)
Loss for the year		**(163,990)**	(45,626)
Other comprehensive (expenses)/income for the year, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements of overseas operations		**(547)**	2,130
Total comprehensive expenses for the year		**(164,537)**	(43,496)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2020

	Notes	**Year ended 30-6-2020 HK$'000**	Year ended 30-6-2019 HK$'000
Total comprehensive (expenses)/income for the year attributable to:			
Equity holders of the Company		**(161,205)**	(43,606)
Non-controlling interests		**(3,332)**	110
		(164,537)	(43,496)

		Year ended 30-6-2020 HK Cents	Year ended 30-6-2019 HK Cents
Loss per share attributable to equity holders of the Company	*18*		
Basic		**(3.91)**	(1.35)
Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Notes	**30-6-2020 HK$'000**	30-6-2019 HK$'000
Non-current assets			
Property, plant and equipment	*19*	**16,388**	1,571
Right-of-use assets	*20*	**14,742**	—
Goodwill	*21*	**46,139**	177,554
Intangible assets	*22*	**41**	8,253
Financial assets at fair value through other comprehensive income	*23*	**—**	—
Interests in joint ventures	*24*	**—**	—
Interests in associates	*25*	**42,075**	—
Deposits for acquisition of property, plant and equipment		**6,686**	—
		126,071	187,378
Current assets			
Inventories	*26*	**7,459**	160
Trade receivables	*27*	**22,376**	19,975
Other receivables, deposits and prepayments	*28*	**25,521**	14,509
Bank balances and cash	*29*	**6,746**	6,646
		62,102	41,290
Current liabilities			
Trade payables	*30*	**33,607**	2,966
Accruals and other payables	*31*	**69,308**	49,237
Amounts due to directors	*32*	**33,318**	47,649
Lease liabilities	*33*	**4,890**	—
Obligations under finance leases	*34*	**—**	150
Convertible bonds	*35*	**89,170**	89,345
Derivative financial liabilities	*35*	**—**	10
Unlisted warrants	*36*	**1,880**	—
Other borrowing	*37*	**15,600**	—
Contingent consideration payable	*38*	**5,343**	—
Tax liabilities		**682**	19
		253,798	189,376
Net current liabilities		**(191,696)**	(148,086)
Total assets less current liabilities		**(65,625)**	39,292

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Notes	**30-6-2020 HK$'000**	30-6-2019 HK$'000
Non-current liabilities			
Obligations under finance leases	*34*	**—**	—
Lease liabilities	*33*	**7,760**	—
Deferred tax liabilities	*39*	**—**	2,053
		7,760	2,053
Net (liabilities)/assets		**(73,385)**	37,239
Capital and reserves			
Share capital	*40*	**53,621**	51,360
Reserves		**(126,701)**	(13,624)
(Capital deficiency)/equity attributable to equity holders of the Company		**(73,080)**	37,736
Non-controlling interests		**(305)**	(497)
Total (capital deficiency)/equity		**(73,385)**	37,239

The consolidated financial statements on pages 53 to 164 were approved and authorised for issue by the Board of Directors on 29 September 2020 and are signed on its behalf by:

CHEUNG Kwai Lan
Director

CHAN Ting
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

	Attributable to equity holders of the Company												
	Share capital	**Share premium**	**Capital redemption reserve**	**Employee share-based compensation reserve**	**Share option reserve**	**Convertible bonds reserve**	**Translation reserve**	**Special reserve**	**Capital reserve**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				(Note a)	*(Note 41)*	*(Note 35)*	*(Note b)*		*(Note c)*				
At 1 July 2018	41,135	2,480,372	1,484	35,572	—	—	5,134	(1)	10,184	(2,633,272)	(59,392)	(607)	(59,999)
(Loss)/profit for the year	—	—	—	—	—	—	—	—	—	(46,796)	(46,796)	1,170	(45,626)
Exchange differences arising from translation of financial statements of overseas operations	—	—	—	—	—	—	3,190	—	—	—	3,190	(1,060)	2,130
Total comprehensive (expenses)/income for the year	—	—	—	—	—	—	3,190	—	—	(46,796)	(43,606)	110	(43,496)
Shares issued upon placement of shares	2,100	37,884	—	—	—	—	—	—	—	—	39,984	—	39,984
Shares issued on acquisition of subsidiaries *(Note 42)*	8,125	92,625	—	—	—	—	—	—	—	—	100,750	—	100,750
Transferred to accumulated losses	—	—	—	(35,572)	—	—	—	—	—	35,572	—	—	—
At 30 June 2019 and 1 July 2019	51,360	2,610,881	1,484	—	—	—	8,324	(1)	10,184	(2,644,496)	37,736	(497)	37,239
Loss for the year	—	—	—	—	—	—	—	—	—	**(161,075)**	**(161,075)**	**(2,915)**	**(163,990)**
Exchange differences arising from translation of financial statements of overseas operations	—	—	—	—	—	—	**(130)**	—	—	—	**(130)**	**(417)**	**(547)**
Total comprehensive expenses for the year	—	—	—	—	—	—	**(130)**	—	—	**(161,075)**	**(161,205)**	**(3,332)**	**(164,537)**
Recognition of equity-settled share-based payments	—	—	—	—	**8,265**	—	—	—	—	—	**8,265**	—	**8,265**
Equity component recognised for convertible bonds	—	—	—	—	—	**5,950**	—	—	—	—	**5,950**	—	**5,950**
Shares issued on acquisition of associate *(Note 25)*	**2,261**	**33,913**	—	—	—	—	—	—	—	—	**36,174**	—	**36,174**
Capital injection from non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	**3,524**	**3,524**
At 30 June 2020	**53,621**	**2,644,794**	**1,484**	—	**8,265**	**5,950**	**8,194**	**(1)**	**10,184**	**(2,805,571)**	**(73,080)**	**(305)**	**(73,385)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

Notes:

(a) The employee share-based compensation reserve comprises the cumulative value of employee services received for the issue of shares under share award scheme. The share award scheme was expired, the reserve is transferred to accumulated losses during the prior year ended 30 June 2019.

(b) The translation reserve includes the exchange differences on monetary items which form part of the Group's net investment in the foreign operation.

(c) Capital reserve represents gain on acquisition and disposal of partial interest in subsidiaries in prior years.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

	Notes	Year ended 30-6-2020 HK$'000	Year ended 30-6-2019 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(165,380)**	(47,938)
Adjustments for:			
Interest income	11	**(4)**	(15)
Gain on amendment of terms of convertible bonds	11	**(2,722)**	—
Gain on change in fair value of derivative financial liabilities	11	**(10)**	(5,082)
Gain on change in fair value of unlisted warrants	11	**(6,120)**	—
Fair value gain on investment in associates	11	**—**	(17,375)
Share of profits of associates		**(558)**	—
Write back of consideration payable for acquisition of subsidiaries	11	**—**	(43,000)
Gain on liquidation of subsidiaries	11	**—**	(495)
Finance costs	13	**18,154**	11,950
Amortisation of intangible assets	14, 22	**6,594**	9,395
Depreciation of property, plant and equipment	14, 19	**1,124**	1,707
Depreciation of right-of-use assets	14, 20	**1,551**	—
Loss on disposal of property, plant and equipment	14	**357**	474
Impairment loss on goodwill	12, 21	**131,415**	65,130
Impairment loss on intangible assets	12, 22	**1,643**	2,800
Provision for doubtful trade receivables	27	**2,628**	213
Write off of:			
— amount due from a related company	14	**—**	24
— inventories	14	**—**	66
Share option expenses		**8,265**	—
Operating cash flows before movements in working capital		**(3,063)**	(22,146)
(Increase)/decrease in inventories		**(7,325)**	243
Increase in trade receivables, and other receivables, deposits and prepayments		**(16,689)**	(8,820)
Increase/(decrease) in trade payables, accruals and other payables		**50,997**	(2,440)
Cash generated from/(used in) operations		**23,920**	(33,163)
Tax paid		**—**	(691)
Net cash generated from/(used in) operating activities		**23,920**	(33,854)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

	Notes	Year ended 30-6-2020 HK$'000	Year ended 30-6-2019 HK$'000
INVESTING ACTIVITIES			
Interest received		**4**	15
Purchases of property, plant and equipment		**(16,686)**	—
Deposits paid for acquisition of property, plant and equipment		**(6,686)**	—
Purchases of intangible assets		**(25)**	—
Cash inflow on acquisition of subsidiaries	*42*	**—**	10
Net cash (used in)/generated from investing activities		**(23,393)**	25
FINANCING ACTIVITIES			
Interest paid		**(9,657)**	(10,763)
(Decrease)/increase in amounts due to directors		**(14,331)**	7,868
Payment of lease liabilities		**(1,351)**	—
Proceeds from issue of unlisted warrants		**8,000**	—
Proceeds from other borrowing		**15,600**	—
Capital injection from non-controlling interests		**1,440**	—
Issue of shares upon placement		**—**	39,984
Repayment of obligations under finance leases		**—**	(194)
Net cash (used in)/generated from financing activities		**(299)**	36,895
NET INCREASE IN CASH AND CASH EQUIVALENTS		**228**	3,066
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**6,646**	4,719
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES		**(128)**	(1,139)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**6,746**	6,646
ANALYSIS OF CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Bank balances and cash	*29*	**6,746**	6,646

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Sinopharm Tech Holdings Limited ("**the Company**") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The Company's registered office is located at Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands and its principal place of business is located at Units 01–03, 25/F., Corporation Park, 11 On Lai Street, Shatin, New Territories, Hong Kong.

The principal activity of the Company is investment holding. The activities of its principal subsidiaries, joint ventures and associates are set out in Notes 50, 24 and 25 respectively.

In prior years, the Company's functional currency was Renminbi ("**RMB**"). In view of the Group's business operations in the People's Republic of China ("**PRC**") due to keen competition and significant expansion of the business operations in Hong Kong, of which most of the transactions are denominated in Hong Kong dollar ("**HK$**"), the directors have determined that the functional currency of the Company to be changed from RMB to HK$ during the current year. The directors have made an assessment of the impact of the change of the functional currency of the Company and concluded that there was no material effect on the results and financial position of the Group.

The consolidated financial statements are presented in HK$, which is also the functional currency of the Company.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the consolidated financial statements of the Group, comprising the Company and its subsidiaries, the directors of the Company have given consideration to the future liquidity of the Group in light of the Group's net current liabilities and net liabilities of HK$191,696,000 and HK$73,385,000 at 30 June 2020. As at 30 June 2020, the Group had convertible bonds payable with principal amounts of HK$89,625,000 (carrying amounts of HK$89,170,000) to be matured within one year after that date, consideration payable and convertible bond's interest payables amounted to HK$22,000,000 and HK$3,246,000 respectively (included in accruals and other payables) and amounts due to directors amounted to HK$33,318,000 which are included in current liabilities. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS – continued

Notwithstanding the aforesaid conditions, the consolidated financial statements have been prepared on a going concern basis on the assumption that the Group is able to operate as a going concern for the foreseeable future. In the opinion of the directors of the Company, the Group can meet its financial obligations as and when they fall due within the next year from the date of approval of these consolidated financial statements, after taking into consideration of the measures and arrangements made by the Group, as detailed below:

(a) The shareholders and directors of the Company, Madam Cheung Kwai Lan and Mr. Chan Tung Mei, and the director of the Company, Mr. Chan Ting, have agreed to provide adequate funds to the Company to enable the Group to meet its financial obligations as and when they fall due for the foreseeable future, if required. These shareholders or directors have also agreed not to demand for repayment of amounts owed to them by the Group until the Group has adequate working capital for repayment.

(b) On 4 June 2020, the Group obtained a written consent from the previous owner of the subsidiaries, under which the due date for payment of the consideration payable for acquisition of subsidiaries amounted to HK$22,000,000, which are included in accruals and other payables (Note 31), was extended to 31 December 2021.

(c) The holder of the convertible bonds (Note 35) intends to extend the maturity date of the bonds of 17 January 2021 and not to request repayment of the bonds before 17 January 2022.

(d) The directors will continuously and closely monitor the Group's liquidity position and financial performance and implement measures to improve the Group's cash flows.

In light of the measures and arrangements implemented to date, the directors of the Company are of the view that the Group has sufficient cash resources to satisfy its working capital and other financial obligations for at least the next twelve months from the date of approval of these consolidated financial statements after having taken into account of the Group's projected cash flows, current financial resources and capital expenditure requirements with respect to the operations and development of the Group's business. Accordingly, the directors of the Company are of the view that it is appropriate to prepare these consolidated financial statements on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to restate the carrying amounts of the Group's assets to their estimated recoverable amounts, to provide further liabilities that might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these potential adjustments have not been reflected in the consolidated financial statements.

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

New and revised HKFRSs applied in the current year

The Group has applied the following new HKFRSs 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 2015–2017 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and financial positions 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 *Leases* ("**HKFRS 16**") for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* ("**HKAS 17**"), and the related interpretations.

HKFRS16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low value assets.

The Group has elected the practical expedient on transition to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

The Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as lease 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 identified 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 July 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.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 July 2019.

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

HKFRS 16 Leases – continued

As a lessee – continued

As at 1 July 2019, the Group recognised a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expenses on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. The lease liabilities were measured at their present value discounted using the incremental borrowing rates of the relevant group entities at the date of initial application. And the right-of-use assets were measured, by applying HKFRS 16.C8(b)(i) transition, at their carrying amounts as if the standard applied since the commencement date but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application. Any difference at the date of initial application is recognised in the opening accumulated losses 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 if 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;

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

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

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 by the Group is 8%.

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

HKFRS 16 Leases – continued

As a lessee – continued

	HK$'000
Operating lease commitments disclosed as at 30 June 2019	1,983
Less: Adjustment on recognition of lease liabilities	(83)
Less: Recognition exemption — short-term lease	(1,441)
	459
Add: Obligations under finance leases recognised at 30 June 2019 (Note below)	150
Lease liabilities as at 1 July 2019	609
Analysed as	
Current	442
Non-current	167
	609

The carrying amount of right-of-use assets as at 1 July 2019 comprises the following:

	Right-of-use assets HK$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	459
Amounts included in property, plant and equipment under HKAS 17	
— Assets previously under finance leases (Note below)	355
Right-of-use assets as at 1 July 2019	814

Note: In relation to assets previously held under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 July 2019 amounted to HK$355,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance leases amounted to HK$150,000 at 1 July 2019 to lease liabilities.

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

HKFRS 16 Leases – continued

As a lessor

Lessor accounting under HKFRS 16 is substantially, unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 does not have an impact for leases where the Group is the lessor.

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

	Carrying amounts previously reported at 30 June 2019 HK$'000	Adjustments HK$'000	**Carrying amounts under HKFRS 16 at 1 July 2019 HK$'000**
Non-current assets			
Property, plant and equipment	1,571	(355)	**1,216**
Right-of-use assets	—	814	**814**
Current liabilities			
Lease liabilities	—	442	**442**
Obligations under finance leases	150	(150)	**—**
Non-current liabilities			
Lease liabilities	—	167	**167**

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

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

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 16	Covid-19-Related Rent Concessions[5]
Amendments to HKAS 1 and HKAS 8	Amendments to Definition of Material[1]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[1]

1 Effective for annual periods beginning on or after 1 January 2020

2 Effective for annual periods on or after 1 January 2021

3 Effective for annual periods beginning on or after a date to be determined

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

5 Effective for annual periods beginning on or after 1 June 2020

The directors of the Company anticipate that the application of the new and amendments to HKFRSs will have no material impact of the amounts reported and disclosures made in the Group's consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and all the applicable disclosures as required by the Hong Kong Companies Ordinance. In addition, the consolidated financial statements have been prepared in accordance with applicable disclosure provisions of the GEM Listing Rules.

The consolidated financial statements have been prepared on the historical cost convention, except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

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/HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use for the purposes of impairment assessment 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 significant accounting policies are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured 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.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of consolidation – continued

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

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

— deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

— liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and

— assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations – continued

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash generating units ("**CGUs**"), or groups of CGUs, that is expected to benefit from the synergies of the acquisition, which represents the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of profit or loss and other comprehensive income. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in subsidiaries

Investment in a subsidiary is accounted for in the Company's financial statements at cost less any identified impairment loss. Cost includes directly attributable costs of investment. The results of the subsidiary are accounted for by the Company on the basis of dividend received and receivable.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Investments in associates and joint ventures – continued

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue recognition

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

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates 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 the distinct goods 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 a contract are accounted for and presented on a net basis.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts and variable consideration.

The stand-alone selling price of the distinct goods or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell promised goods or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue recognition – continued

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment losses.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method. The principal annual rates are as follows:

Leasehold land and buildings	3%–5% or over the lease term but limited to 15 years
Furniture, fixtures and equipment	7%–31%
Plant and machinery	3%–12%
Leasehold improvement	Over the lease term
Motor vehicles	6%–20%
Computer equipment	20%–25%

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 net disposal proceeds and the carrying amount of the asset and is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted-average method. Net realisable value represents the estimated selling price in the ordinary course of business less estimated costs to completion and the estimated costs necessary to make the sales.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in Note 3)

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 assesses 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 contact are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in Note 3)

Allocation of consideration to components of a contract

For a contact that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the 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.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of properties 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 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.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Leases – continued

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in Note 3) – 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 incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group 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 are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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.

Refundable rental deposit

Refundable rental deposit paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of use assets.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Leases – continued

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in Note 3) – continued

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 payments (including in-substance fixed payments) less any lease incentives receivable;
- 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 values guarantees;
- the exercise price of a purchase 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.

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

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Leases – continued

The Group as a lessee (prior to 1 January 2019)

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

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expenses 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.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Impairment loss on tangible and intangible assets (other than goodwill)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets 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 asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs to sell 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 for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Intangible assets

Intangible assets acquired separately are capitalised at cost and those acquired from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against the profit or loss in the year in which the expenditure is incurred.

Useful lives of acquired intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are stated at cost less accumulated amortization and any accumulated impairment losses. Intangible assets with indefinite useful lives are stated at cost less any subsequent accumulated impairment losses.

Amortization for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Intangible assets are tested for impairment annually either individually or at the CGU level. Useful lives are also examined on an annual basis and, where applicable, adjustments are made on a prospective basis.

As intangible asset is derecognised on disposal or no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of the intangible asset, calculated as the difference between the net disposal proceeds and the carrying amount of the intangible asset, is recognised in the consolidated statement of profit or loss and other comprehensive income in the year the intangible asset is derecognised.

Computer software

Costs incurred on the acquisition of computer software are capitalised in the consolidated statement of financial position at cost less amortisation and any identified impairment losses.

Research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly defined project will be recovered through future commercial activity.

Where no internally generated intangible asset can be recognised, development cost is charged to profit or loss in the year in which it is incurred.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Intangible assets – continued

Service contracts

Acquired service contracts are stated at cost less amortisation and any identified impairment losses.

Intellectual property right

Acquired intellectual property right are stated at cost less amortisation and any identified impairment losses.

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 as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 the tax expected to be payable or recoverable 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, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or 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.

The carrying amount of deferred tax assets is reviewed at the end of the 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.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, and interests in associates and joint ventures, 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 and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 rate (and tax laws) that have been enacted or substantively enacted by the end 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 is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly to equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

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 recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the exchange rates 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 the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on 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. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation on or after 1 July 2005 are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the translation reserve.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Provisions and contingent liabilities

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

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

Employee benefits

(a) Retirement benefits schemes

The Group operates a defined contribution MPF Scheme under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries that operated in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute pension, based on a certain percentage of their payroll costs, to the pension schemes. The contributions are charged to consolidated statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the pension schemes.

(b) Share option schemes

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who, in the sole discretion of the Board, have contributed or may contribute to the Group. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Employee benefits – continued

(b) Share option schemes – continued

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

(c) Share award scheme

The Group also grants employees and consultants (but not directors) shares of the Company at nil consideration under its share award scheme. Under the share award scheme, the awarded shares are newly issued at par value. The fair value of the employees' and consultants' services received in exchange for the grant of shares newly issued is recognised as staff costs in the consolidated statement of profit or loss and other comprehensive income with a corresponding increase in an employee share-based compensation reserve under equity.

Dividends

Dividends proposed or declared after the date of the reporting period is not recognized as a liability at the date of the reporting period.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors that make strategic decisions.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Borrowing costs

Borrowing costs are directly attributable to the acquisition, construction or production of qualifying asset that necessarily take a substantial period of time to get ready for its intended use or sale are capitalised as part of the costs of that asset. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are charged to the consolidated statement of profit or loss and other comprehensive income in the year in which they are incurred.

Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

4. 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 or financial liabilities at fair value through profit or loss) 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 fair value through profit or loss 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.

Interest income which is derived from the Group's ordinary course of business are presented as other income.

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; 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.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Classification and subsequent measurement of financial assets – continued

All other financial assets are subsequently measured at fair value through profit or loss ("**FVTPL**"), except that at the date of initial application/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.

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

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 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 Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

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

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

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

(i) Significant increase in credit risk

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

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

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.

4. 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, such as a default or past due event;
- 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.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one 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.

4. 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 cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

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

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

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 receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

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 the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Convertible bonds issued by the Company

Convertible bonds issued by the Company contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity instruments – continued

Convertible bonds issued by the Company – continued

(i) Conversion option to be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments

At the date of issue, the fair value of the liability component (including any embedded non-equity derivatives features) is estimated by measuring the fair value of similar liability that does not have an associated equity component.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

(ii) Conversion option to be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative.

At the date of issue, both the debt component and derivative components are recognised at fair value. In subsequent periods the debt component of the convertible bonds is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative component are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible bonds using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity instruments – continued

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

— such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

— the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

— it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 Financial Instruments permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL (including unlisted warrants and contingent consideration payable) were stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Convertible bonds issued by the Company – continued

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to directors, lease liabilities/ obligations under finance leases and other borrowings 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 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 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 have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end 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, are also discussed below:

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, or changes in facts and circumstances which result in downward revision of future cash flows, additional impairment loss may arise. As at 30 June 2020, the carrying amount of goodwill is HK$46,139,000 (30-6-2019: HK$177,554,000). Impairment loss on goodwill amounted to HK$131,415,000 was recognised in respect of the current year (year ended 30-6-2019: HK$65,130,000). Details of impairment test for goodwill are set out in Note 21.

Amortisation of intangible assets

Intangible assets with finite useful lives are amortised on a straight-line basis over their estimated useful lives. The determination of useful lives and residual values involve management's estimation. The Group assesses annually the useful life of the intangible assets and if the expectation differs from the original estimate, such a difference may impact the amortisation change for the year of change and the subsequent years.

For the current year, amortisation charge of intangible assets of HK$6,594,000 (Year ended 30-6-2019: HK$9,395,000) was charged to profit or loss in respect of the year (Note 22).

5. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Impairment of intangible assets

The Group assesses the future cash flows expected to arise from the intangible assets. Where the actual cash flows are less than expected, or changes in facts and circumstances which result in downward revision of future cash flows, impairment loss may arise.

As at 30 June 2020, the carrying amount of intangible assets is HK$41,000 (30-6-2019: HK$8,253,000). Impairment loss amounted to HK$1,643,000 on intangible assets was recognised in respect of the current year (Year ended 30-6-2019: HK$2,800,000) (Note 22).

Provision for doubtful receivables

The Group makes provision for doubtful recovery of trade receivables and other receivables based on an assessment of the recoverability of receivables. Provision for doubtful receivables is made when events or changes in circumstances indicate that the balances may not be collectible. The identification of non-recoverability of receivables requires the use of judgement and estimates. Where the expectation on the recoverability of trade receivables and other receivables is different from the original estimate, such difference will impact the carrying amounts of trade receivables and other receivables and doubtful debts expenses in the period which such estimate has been changed.

The Group uses provision matrix to calculate expected credit loss ("**ECL**") for the trade receivables based on the grouping of various trade receivables that have similar loss patterns. The provision matrix is based on the Group's historical default rates and taking into consideration forward-looking information that is reasonable and supportable available without undue costs and effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Note 8.

For the current year, provision for doubtful receivables totalled HK$2,628,000 (Year ended 30-6-2019: HK$213,000) was recognised in profit and loss in respect of the current year.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Impairment assessment of interest in associate

Determining whether interest in an associate, Ever Development Holding Limited ("**Ever Development**"), is impaired requires an estimation of the recoverable amount of the interest in Ever Development which is the higher of value in use and fair value less costs of disposal. The value in use calculation requires the management to estimate the present value of the Group's attributable share of future cash flows expected to be generated by Ever Development based on its business operations and a suitable discount rate with reference to comparable entities. The fair value less costs of disposal of Ever Development was determined based on its estimated sale price by reference to recent transactions or other appropriate estimation basis. Where the expected value in use or fair value less costs of disposal are less than the carrying amount of the Group's investment, an additional impairment loss may arise. As at 30 June 2020, the carrying amount of the Group's interest in Ever Development was approximately HK$42,075,000 (30-6-2019: Nil). No impairment loss on investment in Ever Development was recognised in profit or loss in respect of the current year.

Fair value measurements of financial liabilities

Some of the Group's financial liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of the financial liabilities. Note 8(a) provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes convertible bonds disclosed in Note 35, and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated losses as disclosed in consolidated statement of changes in equity. Management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issuance of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged throughout the year.

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	30-6-2020 HK$'000	30-6-2019 HK$'000
Financial assets		
At fair value		
Financial assets at fair value through other comprehensive income	—	—
At amortised cost		
Trade receivables	22,376	19,975
Financial assets included in other receivables, deposits and prepayments	22,558	13,938
Bank balances and cash	6,746	6,646
	51,680	40,559
	51,680	40,559
Financial liabilities		
At fair value		
Derivative financial liabilities	—	10
Unlisted warrants	1,880	—
Contingent consideration payable	5,343	—
	7,223	10
At amortised cost		
Trade payables	33,607	2,966
Financial liabilities included in accruals and other payables	56,631	43,743
Amounts due to directors	33,318	47,649
Lease liabilities	12,650	—
Obligations under finance leases	—	150
Convertible bonds	89,170	89,345
Other borrowing	15,600	—
	240,976	183,853
	248,199	183,863

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, financial assets included in other receivables, deposits and prepayments, bank balances and cash, trade payables, financial liabilities included in accruals and other payables, amounts due to directors, lease liabilities/obligations under finance leases, convertible bonds, derivative financial liabilities, other borrowing, unlisted warrants and contingent consideration payable. 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. Management of the Group manages and monitors these exposures to ensure that appropriate measures are implemented on a timely and effective manner. The Group's overall strategy remains unchanged from that of the prior year.

Credit risk

The Group is exposed to credit risk and the Group's maximum exposure to credit risk in relation to financial assets is the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition, having considered available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtor/customer;
- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customer in the Group and changes in the operating results of the customer.

In order to minimize the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

The credit quality of the debtors is assessed based on their financial positions, past experience and other factors. The Group has policies in place to ensure credit terms are granted to reliable debtors.

The Group performed ongoing credit evaluations of its debtors' financial condition and did not require collateral from the debtors on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, the Group maintained a provision for doubtful accounts and actual losses incurred had been within management's expectations.

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Credit risk – continued

(i) Trade receivables

The Group applies the simplified approach to provide for expected credit losses for trade receivables, which permits the use of the lifetime expected loss provision for all trade receivables.

As at 30 June 2020, the loss allowance for trade receivables was determined as follows:

	Receivables aged (based on invoice date)					
	0–60 days	**61–365 days**	**365–540 days**	**541–730 days**	**Over 2 years**	**Total**
Expected loss rate	0%	5%	50%	75%	100%	
Gross carrying amount (HK$'000)	2,221	15,565	3,988	—	67,879	89,653
Loss allowance (HK$'000)	—	778	1,994	—	67,879	70,651

The total gross receivable of HK$89,653,000 shown above is arrived at after deducting the receivables of HK$3,374,000, which are past due and for which no impairment loss is required to be made (Note 27).

As at 30 June 2019, the loss allowance for trade receivables was determined as follows:

	Receivables aged (based on invoice date)					
	0–60 days	**61–365 days**	**365–540 days**	**541–730 days**	**Over 2 years**	**Total**
Expected loss rate	0%	5%	30%	50%	100%	
Gross carrying amount (HK$'000)	17,343	2,752	25	—	68,063	88,183
Loss allowance (HK$'000)	—	138	7	—	68,063	68,208

The above expected credit losses also incorporated forward looking information.

Receivables that aged less than 60 days substantially related to customers that have good trade records with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there had not been a significant change in credit quality and the balances are still considered fully recoverable.

As at 30 June 2020, the Group had a concentration of credit risk given that the top 5 customers account for 93.05% (2019: 95.74%) of the Group's total year end trade receivables balance. However, the Group concludes that the credit risk in relation to these customers is not significant because they have no history of default in recent years. The Group's historical experience in collection of receivables falls within recorded allowance and the directors do not expect any additional significant impairment on trade receivables.

(ii) Other receivables

The Group uses four categories for those receivables which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit ratings.

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Credit risk – continued

(ii) Other receivables – continued

A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

Category	Group's definition of categories	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected losses Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming	Receivables for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due	Lifetime expected losses
Non-performing	Interest and/or principal repayments are 60 days past due	Lifetime expected losses
Write-off	Interest and/or principal repayments are 120 days past due and there is no reasonable expectation of recovery	Asset is written off

Management made periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. In calculating the expected credit loss rates, the Group considers historical loss rates for the other receivables and adjusts for forward looking macroeconomic data.

As at 30 June 2020, the internal credit rating of other receivables is performing. The Group has assessed that the expected credit loss rate for these receivables is immaterial under 12 months expected losses method. Thus no loss allowance for other receivables was recognized.

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Credit risk – continued

(iii) Cash at bank

The table below shows the details of bank deposit balances maintained at the end of the reporting period:

	Rating	**2020 HK$'000**	2019 HK$'000
Cash at banks and bank deposits	Baa3-Aa2	**6,377**	6,610

The rating represents long-term credit rating provided by Moody's, an internationally recognised credit rating agency. A rating within the "A" category is judged to be upper-medium grade and are subject to low credit risk under the rating regime of Moody's. Given that significant portion of the bank deposits are placed with banks that are independently rated with high credit rating with no default history in past years, management of the Group considers that the credit risk on the bank balances is limited.

The credit risk on liquid funds is limited because the counterparties are authorised banks in Hong Kong and the PRC.

Foreign currency risk

At the end of the reporting period, the Group has trade receivables, other receivables, deposits, prepayment, bank balances and cash, trade payables, accruals, other payables, amounts due to directors, lease liabilities/obligations under finance leases and other borrowing denominated in RMB and US$, which are the currencies other than the functional currency of respective group entities. The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities are as follows:

	Assets		**Liabilities**	
	30-6-2020 HK$'000	30-6-2019 HK$'000	**30-6-2020 HK$'000**	30-6-2019 HK$'000
HK$	**N/A**	15,905	**N/A**	176,148
US$	**104**	5	**21,080**	—
RMB	**15,539**	N/A	**403**	N/A

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. The directors consider that the Group's exposure to foreign currency exchange risk is insignificant as the majority of the Group's transactions are denominated in the functional currency of the respective group entities.

The Group uses a 5% sensitivity rate to report foreign currency risk internally to key management personnel and represents management's assessment of the reasonable possible change in foreign exchange rates. If RMB had strengthened/weakened by 5%, loss for the year ended 30 June 2020 would have been decreased/increased by approximately HK$756,800 as a result of foreign exchange gains/losses on translation of transactions denominated in RMB (Year ended 30-6-2019: increased/decreased loss by approximately HK$8,012,000).

Certain financial assets and liabilities of the Group are denominated in US$. However, the exchange rate of US$ against HK$ is relatively stable, accordingly, no sensitivity analysis has been presented on the currency risk.

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Interest rate risk

The Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

Interests on convertible bonds and other borrowing are charged at fixed interest rates which expose the Group to fair value interest rate risk. Details of the Group's convertible bonds and other borrowing are set out in Notes 35 and 37 respectively.

Sensitivity analysis

At 30 June 2020, it is estimated that a general increase or decrease of 100 basis points in interest rates, with all other variable held constant, would decrease/increase the Group's loss by approximately HK$67,000 (Year ended 30-6-2019: increase/decrease loss by approximately HK$66,000). The above sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the next financial year. The analysis was performed on the same basis in respect of the prior year ended 30 June 2019.

Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including short-term investment of cash surpluses and raising of loans to cover expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following tables analyse the Group's remaining contractual maturity for its financial liabilities. The tables have 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:

30-6-2020

	Total contractual undiscounted cash flows HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Over 5 years HK$'000	Carrying amounts HK$'000
Non-derivative financial liabilities						
Trade payables	33,607	33,607	—	—	—	33,607
Accruals and other payables	56,631	56,631	—	—	—	56,631
Amounts due to directors	33,318	33,318	—	—	—	33,318
Lease liabilities	14,849	6,241	8,608	—	—	12,650
Obligations under finance leases	—	—	—	—	—	—
Convertible bonds *(Note)*	90,027	90,027	—	—	—	89,170
Other borrowing	16,272	16,272	—	—	—	15,600
	244,704	236,096	8,608	—	—	240,976

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Liquidity risk – continued

30-6-2019

	Total contractual undiscounted cash flows HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Over 5 years HK$'000	Carrying amounts HK$'000
Non-derivative financial liabilities						
Trade payables	2,966	2,966	—	—	—	2,966
Accruals and other payables	43,743	43,743	—	—	—	43,743
Amounts due to directors	47,649	47,649	—	—	—	47,649
Lease liabilities	—	—	—	—	—	—
Obligations under finance leases	151	151	—	—	—	150
Convertible bonds *(Note)*	89,964	89,964	—	—	—	89,345
Other borrowing	—	—	—	—	—	—
	184,473	184,473	—	—	—	183,853

Note: This is categorised based on contractual terms of redemption at maturity on the assumption that there were no redemption or conversion of the convertible bonds outstanding at the end of the reporting period before the maturity dates.

Fair value

The carrying amounts of financial instruments measured at fair value at the end of the reporting period are categorised among the three levels of the fair value hierarchy, defined as follows:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

(ii) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).

(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Fair value – continued

(a) Financial assets and liabilities measured at fair value

The fair value of the Group's financial assets measured at fair value at the end of the reporting period is minimal.

Certain of the Group's financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair value of these financial liabilities is determined (in particular, the valuation technique(s) and inputs used).

Financial liabilities	Fair value as at 30 June 2020 HK$'000	Fair value as at 30 June 2019 HK$'000	Fair value hierarchy	Valuation technique(s) and key input(s)
Derivative financial liabilities	—	10	Level 3	Binomial option pricing model with significant unobservable inputs detailed in Note 35.
Unlisted warrants	**1,880**	—	Level 3	Binomial option pricing model with significant unobservable inputs detailed in Note 36.
Contingent consideration payable	**5,343**	—	Level 3	Probabilistic approach with significant unobservable inputs detailed in Note 38.

There were no transfers between Levels 1, 2 and 3 during both of the years presented.

(b) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis but fair value disclosures are required

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values. The fair values, which are included in Level 3 categories, have been determined in accordance with generally accepted pricing models based on a discounted cash flows analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

9. SEGMENT INFORMATION

The factors used to identify the Group's operating segments, including the basis of organization, are mainly based on the services provided by the Group's operating divisions as follows:

(a) Provision of lottery-related services

(b) Provision of internet plus services

— Solution services: Provision of internet related solution services

— Supply chain services: Provision of supply chain management, data analysis and related services and trading of goods through internet platform

(c) Manufacturing and distribution of personal protective equipment: Manufacture and sale of personal protective equipment and consumables

(d) Other services

During the year, the Group commenced the business of manufacture and distribution of personal protective equipment, which is considered a new operating segment of the Group.

For the purposes of monitoring segment performances and allocating resources between segments, all assets and liabilities are allocated to operating segments other than the corporate assets and liabilities.

Information regarding the above segments is reported below.

9. SEGMENT INFORMATION – continued

(a) Segment revenue and results

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

Year ended 30-6-2020

		Internet plus				
	Lottery-related services HK$'000	Solution services HK$'000	Supply chain services HK$'000	Manufacturing and distribution of personal protective equipment HK$'000	Other services HK$'000	Total HK$'000
Segment revenue:						
Reportable segment revenue	10,563	—	128,780	85,332	—	224,675
Elimination of inter-segment revenue	(5,536)	—	—	(53,205)	—	(58,741)
Sales to external customers	5,027	—	128,780	32,127	—	165,934
Segment gross profit	1,226	—	27,550	15,877	—	44,653
Segment (loss)/profit before other income and gains and impairment of assets	(6,654)	(6,359)	19,531	13,882	(8)	20,392
Impairment of goodwill	(4,495)	(42,354)	(84,566)	—	—	(131,415)
Impairment of intangible assets	—	(1,643)	—	—	—	(1,643)
Segment (loss)/profit	(11,149)	(50,356)	(65,035)	13,882	(8)	(112,666)
Other unallocated income						392
Gain on amendment of terms of convertible bonds						2,722
Gain on change in fair value of derivative financial liabilities						10
Gain on change in fair value of unlisted warrants						6,120
Other unallocated expenses						(46,826)
Share of profits of associates						558
Finance costs						(15,690)
Loss before tax						(165,380)
Income tax credit						1,390
Loss for the year						(163,990)

9. SEGMENT INFORMATION – continued

(a) Segment revenue and results – continued

Year ended 30-6-2019

	Lottery-related services HK$'000	Internet plus Solution services HK$'000	Internet plus Supply chain services HK$'000	Manufacturing and distribution of personal protective equipment HK$'000	Other services HK$'000	Total HK$'000
Segment revenue:						
Reportable segment revenue	20,980	8,995	13,424	—	361	43,760
Elimination of inter-segment revenue	(257)	—	—	—	—	(257)
Sales to external customers	20,723	8,995	13,424	—	361	43,503
Segment gross profit	14,468	7,969	1,041	—	223	23,701
Segment profit/(loss) before other income and gains and impairment of assets	2,121	(399)	487	—	(805)	1,404
Write back of consideration payable for acquisition of subsidiaries	—	43,000	—	—	—	43,000
Fair value gain on investment in associates	—	17,375	—	—	—	17,375
Impairment of goodwill	(45,946)	(19,184)	—	—	—	(65,130)
Impairment of intangible assets	(2,800)	—	—	—	—	(2,800)
Segment (loss)/profit	(46,625)	40,792	487	—	(805)	(6,151)
Other unallocated income						39
Gain on change in fair value of derivative financial liabilities						5,082
Other unallocated expenses						(34,958)
Finance costs						(11,950)
Loss before tax						(47,938)
Income tax credit						2,312
Loss for the year						(45,626)

9. SEGMENT INFORMATION – continued

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segments:

30-6-2020

	Lottery-related services HK$'000	Internet plus: Solution services HK$'000	Internet plus: Supply chain services HK$'000	Manufacturing and distribution of personal protective equipment HK$'000	Other services HK$'000	Total HK$'000
Assets						
Segment assets	**13,858**	**4,117**	**52,737**	**62,637**	**89**	**133,438**
Unallocated assets						**54,735**
Total assets						**188,173**
Liabilities						
Segment liabilities	**5,376**	**34,969**	**48,424**	**29,038**	**29**	**117,836**
Unallocated liabilities						**143,722**
Total liabilities						**261,558**

30-6-2019

	Lottery-related services HK$'000	Internet plus: Solution services HK$'000	Internet plus: Supply chain services HK$'000	Manufacturing and distribution of personal protective equipment HK$'000	Other services HK$'000	Total HK$'000
Assets						
Segment assets	27,132	58,916	128,584	—	112	214,744
Unallocated assets						13,924
Total assets						228,668
Liabilities						
Segment liabilities	2,133	40,363	2,176	—	46	44,718
Unallocated liabilities						146,711
Total liabilities						191,429

9. SEGMENT INFORMATION – continued

(c) Other segment information

Year ended 30-6-2020

	Lottery-related services HK$'000	Internet plus Solution services HK$'000	Internet plus Supply chain services HK$'000	Manufacturing and distribution of personal protective equipment HK$'000	Other services HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit/loss or segment assets/liabilities							
Additions to property, plant and equipment	—	—	—	16,563	123	—	16,686
Depreciation of property, plant and equipment	310	36	—	413	8	357	1,124
Depreciation of right-of-use assets	253	—	—	1,177	—	121	1,551
Impairment loss on goodwill	4,495	42,354	84,566	—	—	—	131,415
Impairment loss on intangible assets	—	1,643	—	—	—	—	1,643
Loss on disposal of property, plant and equipment	29	157	—	—	9	162	357
Provision for doubtful trade receivables	—	2,628	—	—	—	—	2,628
Write off of:							
— inventories	—	—	—	—	—	—	—
— amount due from a related company	—	—	—	—	—	—	—
Amortisation of intangible assets	—	6,572	—	—	—	22	6,594

9. SEGMENT INFORMATION – continued

(c) Other segment information – continued

Year ended 30-6-2019

	Lottery-related services HK$'000	Internet plus: Solution services HK$'000	Internet plus: Supply chain services HK$'000	Manufacturing and distribution of personal protective equipment HK$'000	Other services HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit/loss or segment assets/liabilities							
Additions to property, plant and equipment	—	—	—	—	—	—	—
Depreciation of property, plant and equipment	1,387	94	—	—	67	159	1,707
Impairment loss on goodwill	45,946	19,184	—	—	—	—	65,130
Impairment loss on intangible assets	2,800	—	—	—	—	—	2,800
Loss on disposal of property, plant and equipment	—	—	—	—	474	—	474
Provision for doubtful trade receivables	213	—	—	—	—	—	213
Write off of:							
— inventories	—	—	—	—	66	—	66
— amount due from a related company	—	—	—	—	24	—	24
Amortisation of intangible assets	2,801	6,572	—	—	22	—	9,395

9. SEGMENT INFORMATION – continued

(d) Geographical information

The Group's operations are mainly located in the PRC and Hong Kong. The following table provides an analysis of the Group's sales by geographical markets:

	Revenue from external customers	
	Year ended 30-6-2020 HK$'000	Year ended 30-6-2019 HK$'000
PRC	**10,792**	30,080
Hong Kong	**155,142**	13,423
	165,934	43,503

The following is an analysis of non-current assets excluding financial instruments, and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Non-current assets		Additions to property, plant and equipment	
	30-6-2020 HK$'000	30-6-2019 HK$'000	**30-6-2020 HK$'000**	30-6-2019 HK$'000
PRC	**18,095**	68,390	**5,391**	—
Hong Kong	**107,976**	118,988	**11,295**	—
	126,071	187,378	**16,686**	—

Revenue from major products and services

The Group's revenue from its products and services is as follows:

	Year ended 30-6-2020 HK$'000	Year ended 30-6-2019 HK$'000
Lottery-related services	**5,027**	20,723
Internet plus services (solution)	**—**	8,995
Internet plus services (supply chain)	**128,780**	13,424
Manufacturing and distribution of personal protective equipment	**32,127**	—
Other services	**—**	361
	165,934	43,503

9. SEGMENT INFORMATION – continued

(e) Information about major customers

Revenue from customers for the year ended 30 June 2020 contributing over 10% of the total revenue of the Group is as follows:

	Year ended 30-6-2020 HK$'000	Year ended 30-6-2019 HK$'000
Customer A — Provision of internet plus services (supply chain)	**70,819**	13,423
Customer B — Provision of lottery-related services	**N/A**	10,086
Customer C — Provision of internet plus services (solution)	**N/A**	7,355
Customer D — Provision of lottery-related services	**N/A**	4,289

Revenue from customer B, customer C and customer D for the year ended 30 June 2020 did not contribute 10% or more to the Group's revenue for that year.

10. REVENUE

The principal activities of the Group are provision of (i) lottery-related services, (ii) internet plus services (solution and supply chain), (iii) manufacturing and distribution of personal protective equipment and (iv) other services.

Revenue represents income from the following services rendered by the Group, net of returns, discounts allowed or sales taxes:

	Year ended 30-6-2020 HK$'000	Year ended 30-6-2019 HK$'000
Point in time		
Internet plus services (supply chain)		
— Trading of goods	**113,405**	13,424
Manufacturing and distribution of personal protective equipment	**32,127**	—
	145,532	13,424
Over time		
Lottery-related service	**5,027**	20,723
Internet plus services (supply chain)		
— Provision of services	**15,375**	—
Internet plus services (solution)	**—**	8,995
Other services	**—**	361
	20,402	30,079
Total	**165,934**	43,503

Based on the historical pattern, the directors of the Company are of the opinion that the income from lotter-related services, internet plus services (solution) and other services are derived from services rendered for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to the unsatisfied contracts is not disclosed.

11. OTHER INCOME AND GAINS

	Year ended 30-6-2020 HK$'000	Year ended 30-6-2019 HK$'000
Interest income	**4**	15
Gain on amendment of terms of convertible bonds	**2,722**	—
Gain on change in fair value of derivative financial liabilities *(Note 35)*	**10**	5,082
Gain on change in fair value of unlisted warrants *(Note 36)*	**6,120**	—
Write back of consideration payable for acquisition of subsidiaries *(Note 31a)*	**—**	43,000
Exchange gains	**468**	—
Gain on change in fair value of investment in associates *(Note 42)*	**—**	17,375
Gain on liquidation of subsidiaries	**—**	495
Government subsidies*	**1,872**	—
Others	**27**	302
	11,223	66,269

* There were no unfulfilled conditions or contingencies relating to substantial amount of the government subsidies.

12. IMPAIRMENT LOSS ON ASSETS

	Year ended 30-6-2020 HK$'000	Year ended 30-6-2019 HK$'000
Impairment loss on:		
— goodwill *(Note 21)*	**131,415**	65,130
— intangible assets *(Note 22)*	**1,643**	2,800
	133,058	67,930

13. FINANCE COSTS

	Year ended 30-6-2020 HK$'000	Year ended 30-6-2019 HK$'000
Interest on:		
— finance leases	**—**	8
— convertible bonds	**15,667**	11,942
— other borrowing	**2,090**	—
— lease liabilities	**397**	—
	18,154	11,950

14. LOSS BEFORE TAX

	Year ended 30-6-2020 HK$'000	Year ended 30-6-2019 HK$'000
Loss before tax has been arrived at after charging:		
Staff costs (including directors' emoluments *(Note 15)*):		
— Directors' fees, wages and salaries	**30,508**	26,283
— Retirement benefits scheme contributions	**993**	1,304
— Equity-settled share-based payment	**2,166**	—
Total staff costs	**33,667**	27,587
Cost of services	**4,292**	7,282
Cost of inventories sold	**116,989**	12,520
Auditors' remuneration	**895**	771
Depreciation of property, plant and equipment:		
— Owned assets	**1,124**	1,543
— Assets held under finance leases	**—**	164
Depreciation of right-of-use assets	**1,551**	—
Amortisation of intangible assets	**6,594**	9,395
Loss on disposal of property, plant and equipment	**357**	474
Minimum lease payments under operating leases:		
— Land and buildings	**—**	3,779
— Office equipment	**—**	86
Provision for doubtful trade receivables *(Note 27)*	**2,628**	213
Write-off of assets included in administrative and operating expenses:		
— amount due from a related company	**—**	24
— inventories	**—**	66
Exchange losses, net	**—**	3,817
Equity-settled share-based payment not included in staff costs	**6,099**	—

15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Emoluments paid or payable to 9 directors (Year ended 30-6-2019: 6 directors) of the Company, were analysed as follows:

For the year ended 30 June 2020

	Fees HK$'000	Salaries and other emoluments HK$'000	Contribution to retirement benefits scheme HK$'000	Total HK$'000
Executive Directors				
CHEUNG Kwai Lan	240	5,640	—	5,880
CHAN Ting	240	3,000	18	3,258
Non-executive Directors				
CHAN Tung Mei	120	540	—	660
CHENG Yanjie *(note (i))*	222	—	—	222
Independent Non-executive Directors				
YANG Qing Cai *(note (ii))*	47	—	—	47
TO Yan Ming Edmond *(note (iii))*	40	—	—	40
LIU Ta-pei	240	—	—	240
CHAU Wai Wah Fred *(note (iv))*	147	—	—	147
LAU Fai Lawrence *(note (v))*	106	—	—	106
	1,402	9,180	18	10,600

15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS – continued

(a) Directors' emoluments – continued

For the year ended 30 June 2019

	Fees HK$'000	Salaries and other emoluments HK$'000	Contribution to retirement benefits scheme HK$'000	Total HK$'000
Executive Directors				
CHEUNG Kwai Lan	240	5,880	—	6,120
CHAN Ting	240	3,000	18	3,258
Non-executive Director				
CHAN Tung Mei	120	540	—	660
Independent Non-executive Directors				
YANG Qing Cai *(note (ii))*	120	—	—	120
TO Yan Ming Edmond *(note (iii))*	240	—	—	240
LIU Ta-pei	240	—	—	240
	1,200	9,420	18	10,638

Notes:

(i) Cheung Yanjie was appointed as non-executive director on 29 July 2019.

(ii) Yang Qing Cai resigned as independent non-executive director on 20 November 2019.

(iii) To Yan Ming Edmond passed away on 28 August 2019.

(iv) Chau Wai Wah Fred was appointed as independent non-executive director on 20 November 2019.

(v) Lau Fai Lawrence was appointed as independent non-executive director on 23 January 2020.

15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS – continued

(b) Senior management's emoluments

The five highest paid employees of the Group during the year include two directors (Year ended 30-6-2019: two directors) whose emoluments are set out above. The emoluments paid or payable to the remaining three (Year ended 30-6-2019: three) highest paid employees, who are not a director of the Company, are as follows:

	Year ended 30-6-2020 HK$'000	Year ended 30-6-2019 HK$'000
Salaries, allowances and other benefits	**4,799**	3,594
Contributions to retirement benefits scheme	**54**	47
	4,853	3,641

The emoluments of the three individuals (year ended 30-6-2019: three individuals) fell within the following bands:

	Year ended 30-6-2020 No. of individuals	Year ended 30-6-2019 No. of individuals
HK$1,000,001 – HK$1,500,000	**2**	3
HK$1,500,001 – HK$2,000,000	**1**	—

No emoluments were paid by the Group to the directors as an inducement to join the Group or as compensation for loss of office for both of the years presented.

16. INCOME TAX CREDIT

The amount of income tax credit to the consolidated statement of profit or loss and other comprehensive income represents:

	Year ended 30-6-2020 HK$'000	Year ended 30-6-2019 HK$'000
Current year		
— Hong Kong Profits Tax	**(663)**	(19)
— PRC income tax	**—**	—
	(663)	(19)
(Under)/over provision in prior years		
— Hong Kong Profits Tax	**—**	(691)
— PRC income tax	**—**	1,378
Current tax (expense)/credit	**(663)**	668
Deferred tax credit *(Note 39)*	**2,053**	1,644
Income tax credit for the year	**1,390**	2,312

Pursuant to the two-tiered Hong Kong profit 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 profit of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at effective rate of 16.5%.

The Group's PRC subsidiaries are subjected to PRC Enterprise Income Tax at the statutory rate of 25% (year ended 30-6-2019: 25%).

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

	Year ended 30-6-2020 HK$'000	Year ended 30-6-2019 HK$'000
Loss before tax	**(165,380)**	(47,938)
Tax at the applicable tax rate	**(27,844)**	(11,323)
Tax effect of expenses that are not deductible for tax purposes	**26,497**	16,873
Tax effect of income that is not taxable for tax purposes	**(2,692)**	(10,868)
Tax effect of tax losses not recognised	**4,778**	3,754
Utilisation of tax losses not previously recognised	**(1,299)**	—
Tax concession	**(165)**	—
Tax effect of temporary differences not recognised	**(727)**	—
Over provision in previous years	**—**	(687)
Others	**62**	(61)
Income tax credit	**(1,390)**	(2,312)

17. DIVIDENDS

No dividend was paid or proposed during the year ended 30 June 2020, nor has any dividend been proposed since the end of the reporting date (Year ended 30-6-2019: Nil).

18. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

	Year ended 30-6-2020 HK$'000	Year ended 30-6-2019 HK$'000
Loss for the year for the purpose of basic loss per share		
Loss for the year attributable to the equity holders of the Company	**(161,075)**	(46,796)

	Year ended 30-6-2020 '000	Year ended 30-6-2019 '000
Weighted average number of ordinary shares for the purpose of basic loss per share	**4,118,739**	3,457,101

No diluted loss per share for both of the years presented is shown as the exercise of the outstanding convertible bonds, share options and unlisted warrants issued by the Company would result in anti-dilutive of the loss per share of the Company.

19. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment HK$'000	Plant and machinery HK$'000	Leasehold improvement HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Total HK$'000
COST						
At 1 July 2018	5,766	6,419	4,410	4,606	12,924	34,125
Disposals/write offs	(3,261)	(5,432)	(931)	(280)	(116)	(10,020)
Exchange realignment	(220)	(256)	(96)	(85)	(476)	(1,133)
At 30 June 2019	2,285	731	3,383	4,241	12,332	22,972
Transferred to right-of-use assets upon the adoption of HKFRS 16	—	—	—	(820)	—	(820)
At 1 July 2019	2,285	731	3,383	3,421	12,332	22,152
Additions, at cost	53	11,605	4,831	—	197	16,686
Disposals/write offs	(1,202)	(705)	(29)	(255)	(527)	(2,718)
Exchange realignment	(74)	(26)	(50)	(64)	(409)	(623)
At 30 June 2020	**1,062**	**11,605**	**8,135**	**3,102**	**11,593**	**35,497**
ACCUMULATED DEPRECIATION						
At 1 July 2018	5,387	6,328	3,828	3,494	11,192	30,229
Depreciation charged for the year	155	33	72	471	976	1,707
Eliminated on disposals/write offs	(3,261)	(5,461)	(461)	(216)	(107)	(9,506)
Exchange realignment	(207)	(252)	(74)	(74)	(422)	(1,029)
At 30 June 2019	2,074	648	3,365	3,675	11,639	21,401
Transferred to right-of-use assets upon the adoption of HKFRS 16	—	—	—	(465)	—	(465)
At 1 July 2019	2,074	648	3,365	3,210	11,639	20,936
Depreciation charged for the year	65	258	324	172	305	1,124
Eliminated on disposals/write offs	(1,076)	(630)	(18)	(248)	(389)	(2,361)
Exchange realignment	(67)	(24)	(50)	(60)	(389)	(590)
At 30 June 2020	**996**	**252**	**3,621**	**3,074**	**11,166**	**19,109**
CARRYING AMOUNTS						
At 30 June 2020	**66**	**11,353**	**4,514**	**28**	**427**	**16,388**
At 30 June 2019	211	83	18	566	693	1,571

Included in the Group's property, plant and equipment at 30 June 2019 is a motor vehicle with the carrying amount of HK$355,000 held under finance lease as at that date. Such motor vehicle was transferred out to right-of-use assets on 1 July 2019 following the adoption of HKFRS 16 "Leases".

20. RIGHT-OF-USE ASSETS

	Leased land HK$'000 *Note (a)*	Leased properties HK$'000 *Note (b)*	Motor vehicles HK$'000 *Note (c)*	Total HK$'000
COST				
At 1 July 2018 and 30 June 2019	—	—	—	—
Transfer from property, plant and equipment upon the adoption of HKFRS 16	—	—	820	820
Impact on initial application of HKFRS 16	—	459	—	459
At 1 July 2019	—	459	820	1,279
Additions, at cost	2,084	12,832	560	15,476
At 30 June 2020	**2,084**	**13,291**	**1,380**	**16,755**
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
At 1 July 2018 and 30 June 2019	—	—	—	—
Transfer from property, plant and equipment upon the adoption of HKFRS 16	—	—	465	465
At 1 July 2019	—	—	465	465
Depreciation charged for the year	26	1,460	65	1,551
Exchange realignment	—	(3)	—	(3)
At 30 June 2020	**26**	**1,457**	**530**	**2,013**
CARRYING AMOUNTS				
At 30 June 2020	**2,058**	**11,834**	**850**	**14,742**
At 30 June 2019	—	—	—	—

Notes:

(a) The leased land represents land use rights in respect of certain land parcels located in the PRC that was transferred from a non-controlling interest as its capital contribution to a subsidiary of the Company. Such leased land is depreciated over the relevant land lease period of approximately 20 years.

(b) Lease property represent lease of properties by the Group for certain of the Group's offices and factories. Leases are negotiated and rentals are fixed for average terms of 2 to 3 years.

(c) Motor vehicles represents the Group's lease of motor vehicles under finance leases. The average lease term is four years. Interest rates on the leases is fixed at 3.13% per annum. The Group has option to purchase the motor vehicles for a nominal amount at the end of the lease terms. No arrangements have been entered into for contingent rental payments.

21. GOODWILL

	HK$'000
COST	
At 1 July 2018	194,889
Arose from acquisition of subsidiaries *(Note 42)*	118,400
At 30 June 2019, 1 July 2019 and 30 June 2020	**313,289**
IMPAIRMENT	
At 1 July 2018	70,605
Impairment loss recognised for the year *(Note 12)*	65,130
At 30 June 2019 and 1 July 2019	135,735
Impairment loss recognised for the year *(Note 12)*	131,415
At 30 June 2020	**267,150**
CARRYING AMOUNTS	
At 30 June 2020	**46,139**
At 30 June 2019	177,554

For the purpose of impairment testing, goodwill has been allocated to the following cash-generating units ("**CGUs**"):

	30-6-2020 **HK$'000**	30-6-2019 HK$'000
Lottery-related services	**12,305**	16,800
Internet plus solution services	**—**	42,354
Internet plus supply chain services	**33,834**	118,400
	46,139	177,554

21. GOODWILL – continued

Lottery-related services

The recoverable amount of the CGU has been determined based on value in use calculation using the future cash flow projection of the CGU, by reference to the valuation performed by an independent valuer. Revenue of the CGU adopted for the preparation of the cash flow projection is forecasted to be increased by 5% to 6% per annum for the first four years (30-6-2019: 13% to 14%) and 5% per annum for the fifth year (30-6-2019: 7% per annum), and cash flow projection of the CGU beyond the five-year period has been extrapolated using a steady of 3% (30-6-2019: 3%) per annum growth rate which is expected to be the long-term growth rate of lottery business in the PRC. The key assumptions for the value in use calculation are discount rates, growth rates and expected changes to selling prices and direct costs. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

Discount rate adopted for the cash flow projection is 18.7% (30-6-2019: 18.8%). The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU. The operating margin and growth rate within the five-year period have been based on management expectation by reference to past performance and industry trend.

Management of the Group believe that any reasonably possible change in the key assumptions would not cause the carrying amount of the CGU of lottery-related services to significantly exceed its recoverable amount.

Based on the value in use of the CGUs of lottery-related services which is estimated to be carrying amount HK$12,305,000 (30-6-2019: HK$16,800,000), impairment loss amounting to HK$4,495,000 (year ended 30-6-2019: HK$45,946,000) is recognised on the relevant goodwill in respect of the current year, which arose from the expected decline of the Group's lottery-related business due to keen competition.

Internet plus solution services

As a result of the pandemic of Coronavirus Disease 2019 occurred in the PRC (including Hong Kong) and other countries during the current year, no revenue was derived from the Group's business of internet plus solution services for the year. Under these circumstances, the management is of the view that it is highly uncertain whether the Group's operations of internet plus solution services will be profitable in the foreseeable future, accordingly, consider it appropriate to recognise impairment loss amounted to HK$42,354,000 (2019: HK$19,184,000) and HK$1,643,000 (2019: HK$Nil) on the goodwill allocated to this cash-generating unit and the related intangible assets (Note 22) respectively.

21. GOODWILL – continued

Internet-plus supply chain services

The recoverable amount of this group of CGU has been determined based on a value in use calculation using the future cash flow projection of the CGU, by reference to the valuation performed by an independent valuer. The revenue of the CGU for future years adopted for the preparation of the cash flow projection is forecasted based on the terms of the service agreement entered into by the Group and the customer.

The key assumptions for the value in use calculation are discount rates, growth rates and expected changes to selling prices and direct cost. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. Changes in selling prices and direct costs are based on past practices and expectations of future changes in market.

Discount rates adopted for the cash flow projection are 12.01%. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGU. The operating margin and growth rate within the forecasted period have been based on management expectation.

Management of the Group believe that any reasonably possible change in the key assumptions would not cause the carrying amount of the CGU of internet plus supply chain services to exceeds its recoverable amount.

Based on the value in use of the CGU of internet-plus supply chain services which is estimated to be HK$48,558,000, impairment loss amounted to HK$84,566,000 in respect of the current year (year ended 30–6–2019: HK$Nil) was recognised on the relevant goodwill attributable to this group of CGUs. Management of the Group is of the view that the impairment of goodwill was recognised in line with the expected decline in revenue and operating profit from supplying of goods through internet as a result of the expiry of the provision of well-known internet platform to the Group during the current year.

22. INTANGIBLE ASSETS

	Computer software HK$'000	Service contracts HK$'000	Intellectual property right HK$'000	Total HK$'000
COST				
At 1 July 2018	3,260	28,248	5,926	37,434
Exchange realignment	(126)	(339)	(236)	(701)
At 30 June 2019 and at 1 July 2019	3,134	27,909	5,690	36,733
Additions	25	—	—	25
Exchange realignment	(109)	(295)	(205)	(609)
At 30 June 2020	**3,050**	**27,614**	**5,485**	**36,149**
AMORTISATION				
At 1 July 2018	3,199	10,049	3,555	16,803
Charged for the year	22	8,224	1,149	9,395
Exchange realignment	(125)	(218)	(152)	(495)
At 30 June 2019 and at 1 July 2019	3,096	18,055	4,552	25,703
Charged for the year	22	6,572	—	6,594
Exchange realignment	(109)	(236)	(164)	(509)
At 30 June 2020	**3,009**	**24,391**	**4,388**	**31,788**
IMPAIRMENT				
At 1 July 2018	—	—	—	—
Impairment loss recognised for the year *(Note 12)*	—	1,653	1,147	2,800
Exchange realignment	—	(14)	(9)	(23)
At 30 June 2019 and 1 July 2019	—	1,639	1,138	2,777
Impairment loss recognised for the year *(Note 12)*	—	1,643	—	1,643
Exchange realignment	—	(59)	(41)	(100)
At 30 June 2020	**—**	**3,223**	**1,097**	**4,320**
CARRYING AMOUNTS				
At 30 June 2020	**41**	**—**	**—**	**41**
At 30 June 2019	38	8,215	—	8,253

22. INTANGIBLE ASSETS – continued

Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives. The estimated useful lives are as follows:

Research and development	5 years
Computer software	5 years
Service contracts	3–5 years
Intellectual property right	5 years
LED development contract	5 years

The carrying amount of computer software will be amortised over their remaining useful lives of 2 years (2019: 3 years).

As detailed in Note 21, impairment loss on intangible assets amounted to HK$1,643,000 was recognised in profit or loss in respect of the current year (2019: HK$Nil). For the prior year ended 30 June 2019, in view of the change of the government policy in lottery market, management was of the view that the underlying value of certain service contracts and intellectual property right has significantly declined and impairment loss was recognised on these intangible assets in respect of the prior year amounted to HK$2,800,000.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30-6-2020 **HK$'000**	30-6-2019 HK$'000
At fair value		
Securities listed in Hong Kong	—	—
Unlisted investment in the PRC	—	—
	—	—

24. INTERESTS IN JOINT VENTURES

	30-6-2020 HK$'000	30-6-2019 HK$'000
Cost of investments in unlisted joint ventures	**47,860**	47,860
Share of post acquisition profits less losses of joint ventures	**(39,457)**	(39,457)
Exchange realignment	**(317)**	(15)
	8,086	8,388
Amounts due from joint ventures	**6,275**	6,509
Impairment loss recognised	**(14,927)**	(14,927)
Exchange realignment	**566**	30
	—	—

The amounts due from joint ventures are unsecured, interest free and have no fixed repayment term. Details of the joint ventures as at 30 June 2020 are as follows:

Name	Form of business structure	Place of establishment and operation	Class of capital	Percentage of ownership interest held by the Group		Principal activities
				2020	2019	
北京中文發數字科技有限公司 (China Culture Development Digital Technology Co., Ltd.) ("**China Culture**")	Sino-foreign equity joint venture	PRC	Registered	**49%**	49%	Research and development of software and information technology products; system integrations; technology consultancy and other services
重慶禮光博軟科技發展有限公司 (Chongqing Lightsoft Technology Development Co., Ltd.) ("**Chongqing Lightsoft**")	Limited liability company	PRC	Registered	**27%**	27%	Development of software, and trading of computer hardware

Chongqing Lightsoft is a 55% owned subsidiary of China Culture.

24. INTERESTS IN JOINT VENTURES – continued

Summarised consolidated statement of financial position of China Culture and its subsidiary, Chongqing Lightsoft, and reconciliation of the carrying amount of interests in joint ventures recognised in the consolidated financial statements are as follows:

	30-6-2020 HK$'000	30-6-2019 HK$'000
Current assets	**48,777**	50,598
Non-current assets	**3,471**	3,600
Current liabilities	**(13,361)**	(13,860)
Translation reserve	**(15,330)**	(15,902)
Other reserve	**(7,054)**	(7,317)
	16,503	17,119
Reconciled to the Group's interests in the joint venture:		
Gross amounts of the joint venture's net assets	**16,503**	17,119
Group's effective interest	**49%**	49%
Carrying amounts of interests in joint venture	**8,086**	8,388

	Year ended 30-6-2020 HK$'000	Year ended 30-6-2019 HK$'000
Revenue	—	—
Other income	—	—
Profit for the year	—	—
Profit for the year attributable to:		
Equity holders of China Culture	—	—
Non-controlling interests	—	—
	—	—
Group's share of profit of the joint venture		
— recognised	—	—
— unrecognised	—	—
	—	—

Note: The share of results of the joint ventures for the year has not been recognised in the consolidated financial statements as the directors consider that the joint ventures are inactive during the year and it is appropriate to recognise impairment loss in full against the cost at the Group's investments in and amounts due from joint ventures.

25. INTERESTS IN ASSOCIATES

	30-6-2020 HK$'000	30-6-2019 HK$'000
Unlisted shares, at cost	**41,517**	—
Share of post-acquisition profits	**558**	—
	42,075	—

Particulars regarding the associates of the Group are as follows:

Name	**Particulars of issued shares held**	**Place of incorporation/ operation**	**Percentage of ownership interest held by the Group** 2020	2019	**Principal activity**
Ever Development Holdings Limited ("**Ever Development**")	Ordinary shares	BVI	**40%**	—	Investment holding
Kenford Medical Group Co. Ltd. ("**Kenford**")	Ordinary shares	Hong Kong	**40%**	—	Provision of Chinese medical consultation and sale of Chinese medical products
Hong Kong Expert Medical Group Co. Ltd. ("**Hong Kong Expert**")	Ordinary shares	Hong Kong	**40%**	—	Provision of Chinese medical consultation and sale of Chinese medical products
Wong Cheung Wah Medical Group Co. Ltd. ("**Wong Cheung Wah**")	Ordinary shares	Hong Kong	**28%**	—	Provision of Chinese medical consultation and sale of Chinese medical products

Kenford, Hong Kong Expert and Wong Cheung Wah are subsidiaries of Ever Development.

25. INTERESTS IN ASSOCIATES – continued

On 3 June 2020, Sinopharm Tech Corporate Management Limited (the "**Purchaser**"), a wholly-owned subsidiary of the Company, acquired 40% equity interest in Ever Development from certain third parties, Mr. Cheung Wan Yu, Mr. Lau Chi Wing James, Ms. Choi Man Yun, Marian and Ms. Kong Lai Ying (the "**Vendors**") for a consideration of HK$41,600,000 which was satisfied by 180,869,565 new ordinary shares issued by the Company.

Pursuant to the related sale and purchase agreement,

(i) the Vendors has guaranteed to the Purchaser that the audited net profit after taxation of Ever Development for each year ending 31 December 2020 and 31 December 2021 shall not be less than HK$13,000,000 or the audited net profit after taxation of Ever Development for the two years ending 31 December 2021 shall not be less than HK$26,000,000 in aggregate (the "**Profit Guarantee**"). In the event that the actual profit of Ever Development is less than the Profit Guarantee, the Vendors are required to make compensation to the Purchaser in the maximum amount of HK$24,960,000, which is calculated based on the formula as set out in the sale and purchase agreement.

(ii) in the event that the actual net profit after taxation of Ever Development for the year ending 31 December 2020 is HK$15,000,000 or above, the Vendors are entitled to a performance award (the "**Performance Award**"), which is determined based on the formula as set out in the agreement and is to be settled by additional new shares issued by the Company.

(iii) the Vendors has granted a call option to the Purchaser under which the Purchaser is entitled to acquire additional equity interest in Ever Development to a maximum of 11% from the Vendors for the consideration which is calculated based on the formula set out in the agreement during the period from 1 January 2021 to 31 December 2021 and the acquisition consideration is to be satisfied by payment in cash or issue of new shares by the Company.

Details regarding the acquisition of Ever Development are set out in the announcements dated 12 December 2019 and 3 June 2020 made by the Company.

25. INTERESTS IN ASSOCIATES – continued

The cost of investment in Ever Development is analysed as follows:

	HK$'000
Fair value of 180,869,565 new shares issued by the Company, estimated by reference to the closing price of the Company's shares at the date of issue	36,174
Fair value of the Performance Award at the date of acquisition	5,343
Cost of investment in Ever Development	41,517

Management of the Group is of the view that Ever Development is able to achieve the Profit Guarantee, accordingly, the fair value of the Profit Guarantee is estimated to be minimal and is not recognized.

The fair value of the Performance Award, which is regarded as contingent consideration payable, is estimated to be approximately HK$5,343,000 at 3 June 2020 (the date of acquisition) and 30 June 2020. Details regarding the estimation of the fair value are set out in Note 38.

The following illustrates the summarised financial information of the Group's associates, Ever Development and its subsidiaries:

	As at 30 June 2020 HK$'000
Non-current assets	**9,600**
Current assets	**33,442**
Current liabilities	**(25,149)**
Non-current liabilities	**(5,338)**
Net assets	**12,555**

	Period from 3 June 2020 to 30 June 2020 HK$'000
Revenue	**5,482**
Profit and total comprehensive income for the year	**1,396**

25. INTERESTS IN ASSOCIATES – continued

Reconciliation of the above recognised financial information to the carrying amount of the interests in the associate recognised in the consolidated financial statements:

	30-6-2020 HK$'000
Net assets of Ever Development	**12,555**
Proportion of the Group's ownership interest in Ever Development	**40%**
Group's share of net assets of Ever Development	**5,022**
Goodwill	**37,053**
Carrying amount of the Group's interest in Ever Development	**42,075**

26. INVENTORIES

	30-6-2020 HK$'000	30-6-2019 HK$'000
Raw materials and consumables	**3,427**	47
Finished goods	**4,032**	113
	7,459	160

27. TRADE RECEIVABLES

	30-6-2020 HK$'000	30-6-2019 HK$'000
Trade receivables	**93,027**	88,183
Less: Impairment	**(70,651)**	(68,208)
Trade receivables, net of impairment	**22,376**	19,975

27. TRADE RECEIVABLES – continued

Payment terms of trade debts are mainly on credit. Invoices are normally payable within 30 to 180 days from invoice date. The following is an aged analysis of trade receivables at the end of the reporting period:

	30-6-2020	30-6-2019
	HK$'000	HK$'000
0 to 30 days	**2,456**	16,270
31 to 60 days	**330**	1,073
61 to 180 days	**190**	2,752
181 to 365 days	**16,507**	—
Over one year	**73,544**	68,088
	93,027	88,183

The trade receivables with the carrying amount of HK$2,456,000 (30-6-2019: HK$16,270,000) are neither past due nor impaired at the end of the reporting period.

The Group has policies for allowances of doubtful receivables which are based on the evaluation of collectability and aged analysis of accounts and on the management's judgement including the credit worthiness, collaterals and the past collection history of each customer.

For the year ended 30 June 2020, the Group made an allowance of HK$2,628,000 (Year ended 30-6-2019: HK$213,000) in respect of trade receivables, which were past due at the reporting date with long age and slow repayments from the respective customers since the due date.

27. TRADE RECEIVABLES – continued

Movements in the impairment of trade receivables are as follows:

	30-6-2020 HK$'000	30-6-2019 HK$'000
Balance at the beginning of the year	**68,208**	69,020
Charge for the year	**2,628**	213
Exchange realignment	**(185)**	(1,025)
Balance at the end of the year	**70,651**	68,208

In determining the expected credit loss of the trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted. The trade receivables past due but not provided for were either settled after the end of the reporting period or no historical default of payments by the respective customers. The concentration of credit risk is limited due to the customer base being large and unrelated.

Included in the Group's trade receivables are receivables with the aggregate carrying amount of HK$3,374,000 (30-6-2019: HK$3,642,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amount are still considered recoverable. The Group does not hold any collateral over these balances. The aging of these overdue trade receivables but not impaired is as follows:

	30-6-2020 HK$'000	30-6-2019 HK$'000
0 to 30 days	**284**	807
31 to 60 days	**284**	2,743
61 to 180 days	**284**	—
181 to 365 days	**850**	—
Over one year	**1,672**	92
	3,374	3,642

28. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30-6-2020 HK$'000	30-6-2019 HK$'000
Other receivables	28,012	26,602
Less: Impairment	(16,236)	(16,420)
Other receivables, net of impairment	11,776	10,182
Deposits for purchase of goods for resale	5,790	—
Other deposits paid	16,844	15,608
Less: Impairment	(11,852)	(11,852)
Deposits paid, net of impairment	10,782	3,756
Prepayments	2,963	571
	25,521	14,509

Movements in impairment of other receivables are as follows:

	30-6-2020 HK$'000	30-6-2019 HK$'000
Balance at the beginning of the year	16,420	17,265
Exchange realignment	(184)	(845)
Balance at the end of the year	16,236	16,420

Included in other receivables, less impairment, are the consideration receivable for the disposal of subsidiaries and the amount due from a related company amounting to HK$2,500,000 (30-6-2019: HK$2,500,000) and HK$2,808,000 (30-6-2019: HK$2,866,000) respectively, which is unsecured, interest free and repayable on demand.

28. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS – continued

Movements in impairment of deposits paid are as follows:

	30-6-2020 HK$'000	30-6-2019 HK$'000
Balance at beginning of the year	**11,852**	12,668
Exchange realignment	**—**	(816)
Balance at end of the year	**11,852**	11,852

29. BANK BALANCES AND CASH

	30-6-2020 HK$'000	30-6-2019 HK$'000
Cash and bank deposits denominated in:		
Hong Kong dollar	**4,861**	2,274
Renminbi ("**RMB**")	**1,875**	4,366
United States dollar	**10**	6
	6,746	6,646

Included in the bank balances are bank deposits amounted to HK$1,875,000 (30-6-2019: HK$4,366,000) which was denominated in RMB and placed with banks in the PRC. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

30. TRADE PAYABLES

An aged analysis of the Group's trade payables at the end of the reporting period, based on the date of goods and services received, is as follows:

	30-6-2020 HK$'000	30-6-2019 HK$'000
0 to 30 days	**9,617**	2,898
31 to 120 days	**23,568**	—
121 to 180 days	**403**	—
181 to 365 days	**—**	—
Over one year	**19**	68
	33,607	2,966

31. ACCRUALS AND OTHER PAYABLES

	30-6-2020 HK$'000	30-6-2019 HK$'000
Consideration for acquisition of subsidiaries payable *(Note a)*	**22,000**	22,000
Amount due to non-controlling interest *(Note b)*	**13,397**	15,334
Interest on convertible bonds payable	**3,246**	3,246
Accrued salaries	**7,860**	3,411
Contract liabilities *(Note c)*	**12,677**	—
Sundry payables and accrued charges	**10,128**	5,246
	69,308	49,237

Notes:

(a) The consideration for acquisition of subsidiaries payable is unsecured and interest free.

During the prior year ended 30 June 2019, the Group reached an agreement with the vendor under the acquisition which took place in September 2017, under which the consideration payable was revised from HK$65,000,000 to HK$22,000,000 with no change in other terms regarding the acquisition. Accordingly, the reduction in consideration for acquisition amounted to HK$43,000,000 was written back in profit or loss in respect of the prior year and included in other income and gains (Note 11). During the current year, the due date for the settlement of the consideration payable was further extended to 31 December 2021.

(b) The amount due to non-controlling interest is unsecured, interest free and repayable on demand.

(c) Contract liabilities represent advance payments received from customers for sale of goods. When the customer initially purchases the goods, the transaction price received at that point by the Group is recognised as contract liability until the goods have been delivered to the customer. The contract liabilities at 30 June 2020 is expected to be recognised as revenue of the Group for the next financial year.

32. AMOUNTS DUE TO DIRECTORS

	30-6-2020 HK$'000	30-6-2019 HK$'000
Amounts due to:		
— Madam Cheung Kwai Lan	**30,247**	39,754
— Mr. Chan Ting	**3,051**	7,895
— Mr. Chan Tung Mei	**20**	—
	33,318	47,649

The amounts due to directors are unsecured, interest free and have no fixed repayment terms.

33. LEASE LIABILITIES

	30-6-2020 HK$'000
Lease liabilities payable:	
Within one year	**4,890**
Within a period of more than one year but not more than two years	**4,878**
Within a period of more than two years but not more than five years	**2,882**
	12,650
Less: Amounts due for settlement within 12 months shown under current liabilities	**(4,890)**
Amounts due for settlement after 12 months shown under non-current liabilities	**7,760**

34. OBLIGATIONS UNDER FINANCE LEASES

At 30 June 2019, the Group leased a motor vehicle under finance lease. The average lease term is four years. Interest rates on the lease for the year ended 30 June 2019 was fixed at 3.13% per annum. The Group has option to purchase the motor vehicle for a nominal amount at the end of the lease terms. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments 30-6-2019 HK$'000	Present value of minimum lease payments 30-6-2019 HK$'000
Within one year	151	150
In the second to fifth year inclusive	—	—
	151	
Less: future finance charges	(1)	
Present value of lease obligations	150	150
Less: amount due within one year shown under current liabilities		(150)
Amount due after one year		—

The obligations under finance leases were reclassified and included in lease liabilities following the adoption of HKFRS 16 on 1 July 2019.

35. CONVERTIBLE BONDS

	30-6-2020 HK$'000	30-6-2019 HK$'000
Convertible bonds:		
— Liability component	**89,170**	89,345
— Derivative conversion option component	**—**	10
Classified under current liabilities:		
— Convertible bonds	**89,170**	89,345
— Derivative financial liabilities	**—**	10

(a) 2% Coupon Bonds Due 2017 ("**2% Bonds**")

On 17 January 2014, the Company issued the 2% Bonds, due on 17 January 2017 with a principal amount of HK$89,625,000, at 2% coupon interest rate to a shareholder of the Company. The 2% Bonds are convertible into ordinary shares of the Company with the initial conversion price of HK$2.39 per share. As a result of the share subdivision scheme of the Company implemented on 17 December 2014, the number of the shares to be issued upon full conversion of the 2% Bonds was adjusted to 150,000,000 shares at the adjusted conversion price of HK$0.598 per share.

The 2% Bonds contain liability and equity components. The effective interest rate of the liability component is 13.89% per annum. The equity component is presented under the equity heading of "convertible bonds reserve".

The fair value of the liability component of the 2% Bonds at the issue date was valued by an independent valuer determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan.

Details of the principal valuation parameters applied in determining the liability component and equity component are summarised as follows:

(a)	Principal amount:	HK$89,625,000
(b)	Coupon rate:	2% per annum
(c)	Maturity date:	17 January 2017
(d)	Conversion price:	HK$2.39
(e)	Risk-free rate:	0.687%
(f)	Expected volatility:	70.45%
(g)	Expected dividend yield:	0%

35. CONVERTIBLE BONDS – continued

(b) 8% Bonds July 2017

On 18 January 2017, the Company entered into an amendment agreement with the bondholder to amend certain terms and conditions of the 2% Bonds. The conversion price shall be the same of HK$0.359 per share and it can be converted into for the maximum of 249,651,810 shares. The maturity date shall be extended to 17 July 2017 and a further six months extension to 17 January 2018 upon a written consent from the bondholder. The interest rate shall be 8% per annum and paid semi-annually from the date of the amendment agreement.

The revised 2% Bonds (the "**8% Bonds July 2017**") contain liability and equity components. The effective interest rate of the liability component is 16.32% per annum. The equity component is presented under the equity heading of "convertible bonds reserve".

The fair value of the liability component of the 8% Bonds July 2017 at the date of its amendments was valued by an independent valuer determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan.

Details of the principal valuation parameters applied in determining the liability component and equity component are summarised as follows:

(a)	Principal amount:	HK$89,625,000
(b)	Coupon rate:	8% per annum
(c)	Maturity date:	17 July 2017
(d)	Conversion price:	HK$0.359
(e)	Risk-free rate:	0.771%
(f)	Expected volatility:	89.30%
(g)	Expected dividend yield:	0%

(c) 8% Bonds January 2018

On 17 July 2017, the Company obtained written consent from the bondholder, under which the maturity date of the 8% Bonds July 2017 was extended to 17 January 2018 with other terms and conditions remained unchanged.

The revised 8% Bonds July 2017 (the "**8% Bonds January 2018**") contain liability and equity components. The effective interest rate of the liability component is 16.32% per annum. The equity component is presented under the equity heading of "convertible bonds reserve".

The fair value of the liability component of the 8% Bond January 2018 at the date of its amendments was valued by management based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan.

35. CONVERTIBLE BONDS – continued

(c) 8% Bonds January 2018 – continued

Details of the principal valuation parameters applied in determining the liability component and equity component are summarised as follows:

(a)	Principal amount:	HK$89,625,000
(b)	Coupon rate:	8% per annum
(c)	Maturity date:	17 January 2018
(d)	Conversion price:	HK$0.359
(e)	Risk-free rate:	0.771%
(f)	Expected volatility:	89.30%
(g)	Expected dividend yield:	0%

(d) 8% Bonds July 2018

On 18 January 2018, the Company entered into a second amendment agreement with the bondholder, under which the maturity date of the bonds was extended to 17 July 2018 and interest is payable at the interest rate 8% per annum up to the maturity date, with other terms and conditions remained unchanged.

Following the change of the functional currency of the Company for the year ended 30 June 2018, the revised 8% Bonds January 2018 (the "**8% Bonds July 2018**") contain liability and conversion option derivative components. The effective interest rate of the liability component is 13.37% per annum.

The fair value of the liability component and conversion option derivative component of the 8% Bonds July 2018 at the date of its amendments and at the end of the reporting period was valued by an independent valuer based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan. Details of the principal valuation parameters applied in determining the liability component and conversion option derivative component are summarised as follows:

(a)	Principal amount:	HK$89,625,000
(b)	Coupon rate:	8% per annum
(c)	Maturity date:	17 July 2018
(d)	Conversion price:	HK$0.359
(e)	Risk-free rate:	0.812%
(f)	Expected volatility:	94.04%
(g)	Expected dividend yield:	0%

(e) 8% Bonds January 2019

On 17 July 2018, the Company obtained written consent from the bondholder, under which the maturity date of the 8% Bonds July 2018 was extended to 17 January 2019 with other terms and conditions remained unchanged.

The revised 8% Bonds July 2018 (the "**8% Bonds January 2019**") contain liability and conversion option derivative components. The effective interest rate of the liability component is 13.36% per annum.

The fair value of the liability component of the 8% Bond January 2019 at the date of its amendments was valued by management based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan.

35. CONVERTIBLE BONDS – continued

(e) 8% Bonds January 2019 – continued

Details of the principal valuation parameters applied in determining the liability component and equity component are summarised as follows:

(a)	Principal amount:	HK$89,625,000
(b)	Coupon rate:	8% per annum
(c)	Maturity date:	17 January 2019
(d)	Conversion price:	HK$0.359
(e)	Risk-free rate:	0.771%
(f)	Expected volatility:	89.30%
(g)	Expected dividend yield:	0%

(f) 8% Bonds July 2019

On 18 January 2019, the Company entered into a third amendment agreement with the bondholder, under which the maturity date of the bonds was extended to 17 July 2019 and interest is payable at the interest rate 8% per annum up to the maturity date, with other terms and conditions remained unchanged.

The revised 8% Bonds January 2019 (the "**8% Bonds July 2019**") contain liability and conversion option derivative components. The effective interest rate of the liability component is 15.12% per annum.

The fair value of the liability component and conversion option derivative component of the 8% Bonds July 2019 at the date of its amendments and at the end of the reporting period were valued by an independent valuer based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan. Details of the principal valuation parameters applied in determining the liability component and conversion option derivative component are summarised as follows:

		At date of amendment	At 30-6-2019
(a)	Principal amount:	HK$89,625,000	HK$89,625,000
(b)	Coupon rate:	8% per annum	8% per annum
(c)	Maturity date:	17 July 2019	17 July 2019
(d)	Conversion price:	HK$0.359	HK$0.359
(e)	Risk-free rate:	1.404%	0.931%
(f)	Expected volatility:	93.37%	98.49%
(g)	Expected dividend yield:	0%	0%

35. CONVERTIBLE BONDS – continued

(g) 8% Bonds January 2020

On 17 July 2019, the Company obtained written consent from the bondholder, under which the maturity date of the 8% Bonds July 2019 was extended to 17 January 2020 with other terms and conditions remained unchanged.

The revised 8% Bonds July 2019 (the "**8% Bonds January 2020**") contain liability and conversion option derivative components. The effective interest rate of the liability component is 23.93% per annum.

The fair value of the liability component of the 8% Bond January 2020 at the date of its amendments was valued by management based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan.

Details of the principal valuation parameters applied in determining the liability component and equity component are summarised as follows:

(a)	Principal amount:	HK$89,625,000
(b)	Coupon rate:	8% per annum
(c)	Maturity date:	17 January 2020
(d)	Conversion price:	HK$0.359
(e)	Risk-free rate:	1.814%
(f)	Expected volatility:	70.13%
(g)	Expected dividend yield:	0%

(h) 8% Bonds July 2020

On 18 January 2020, the Company entered into a fourth amendment agreement with the bondholder, under which the maturity date of the bonds was extended to 17 July 2020 and interest is payable at the interest rate 8% per annum up to the maturity date, with other terms and conditions remained unchanged.

Following the change of the functional currency of the Company to HK$ during the current year under review, the revised 8% Bonds January 2020 (the "**8% Bonds July 2020**") contain liability and equity components. The effective interest rate of the liability component is 20.63% per annum. The equity component is presented under the equity and included in "convertible bonds reserve".

The fair value of the liability component of the 8% Bonds July 2020 at the date of its amendments, which was valued by an independent valuer based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan, was estimated to be HK$83,082,000. The effective interest rate adopted for the liability component is 23.93% per annum. Details of the principal valuation parameters applied in determining the liability component is summarised as follows:

		At date of amendment
(a)	Principal amount:	HK$89,625,000
(b)	Coupon rate:	8% per annum
(c)	Maturity date:	17 July 2020
(d)	Conversion price:	HK$0.359
(e)	Risk-free rate:	1.814%
(f)	Expected volatility:	70.13%
(g)	Expected dividend yield:	0%

35. CONVERTIBLE BONDS – continued

Movements of the convertible bonds for the years are set out below:

	Liability component							
	8% Bonds July 2018 HK$'000	8% Bonds January 2019 HK$'000	8% Bonds July 2019 HK$'000	8% Bonds January 2020 HK$'000	8% Bonds July 2020 HK$'000	Total HK$'000	Derivative component HK$'000	Equity component HK$'000
At 1 July 2018	89,413	—	—	—	—	89,413	260	—
Movements during the period from 1 July 2018 to 17 July 2018:								
Imputed interest charge	551	—	—	—	—	551	—	—
Interest paid	(339)	—	—	—	—	(339)	—	—
Arose from amendment of terms of convertible bonds, net of tax effects	(89,625)	87,544	—	—	—	(2,081)	2,081	—
Movements during the period from 18 July 2018 to 17 January 2019								
Imputed interest charge	—	5,670	—	—	—	5,670	—	—
Interest paid	—	(3,589)	—	—	—	(3,589)	—	—
Arose from amendment of terms of convertible bonds, net of tax effects	—	(89,625)	86,874	—	—	(2,751)	2,751	—
Movements during the period from 18 January 2019 to 30 June 2019								
Imputed interest charge	—	—	5,721	—	—	5,721	—	—
Interest paid	—	—	(3,250)	—	—	(3,250)	—	—
Fair value gain on derivative financial liabilities	—	—	—	—	—	—	(5,082)	—
As at 30 June 2019	—	—	89,345	—	—	89,345	10	—
Movements during the period from 1 July 2019 to 17 July 2019:								
Imputed interest charge	—	—	515	—	—	515	—	—
Interest paid	—	—	(328)	—	—	(328)	—	—
Arose from amendment of terms of convertible bonds, net of tax effects	—	—	(89,532)	89,532	—	—	—	—
Movements during the period from 18 July 2019 to 17 January 2020								
Imputed interest charge	—	—	—	5,807	—	5,807	—	—
Interest paid	—	—	—	(3,585)	—	(3,585)	—	—
Arose from amendment of terms of convertible bonds, net of tax effects				(91,754)	83,082	(8,672)	(10)	5,950
Movements during the period from 18 January 2020 to 30 June 2020								
Imputed interest charge	—	—	—	—	9,345	9,345	—	—
Interest paid	—	—	—	—	(3,257)	(3,257)	—	—
As at 30 June 2020	—	—	—	—	89,170	89,170	—	5,950

36. UNLISTED WARRANTS

	30-6-2020	30-6-2019
	HK$'000	HK$'000
Unlisted warrants		
Proceeds from issue of warrants during the year	**8,000**	—
Gain on change in fair value *(Note 11)*	**(6,120)**	—
At end of the year	**1,880**	—

On 2 March 2020, the Company issued warrants to a third party, Mr. Yim Hin Keung, for an aggregate proceeds of HK$8,000,000. The warrants entitle the holder to subscribe for 200,000,000 new ordinary shares of the Company at the subscription price of HK$0.35 per share on or before 3 January 2021.

The unlisted warrants are carried at 30 June 2020 at fair value, with any gains or losses from change in fair value recognised in profit or loss. The fair value of the unlisted warrants at 30 June 2020 was valued by Roma Appraisals Limited, an independent valuer, using the Binomial Tree Model. The inputs into the model are as follows:

	30-6-2020
Risk-free rate	0.189%
Expected volatility	75%
Expected life	0.512 years
Dividend yield	0%

The risk-free rate was determined with reference to the yield rate of Hong Kong Exchange Fund Notes with duration similar to the contractual tenor of the unlisted warrants.

The expected volatility was determined based on the historical volatility of the share prices of the Company.

37. OTHER BORROWING

	30-6-2020	30-6-2019
	HK$'000	HK$'000
Promissory note payable within one year	**15,600**	—

Note:

On 10 October 2019, a promissory note with the principal amount of US$2,000,000 was issued by Sinopharm (Hong Kong) Industrial Co., Limited, a wholly-owned subsidiary of the Company, to a third party, Integrated Alternative Credit Fund, for a gross proceed of US$2,000,000. Interest on the promissory note is charged at 12% per annum. The note is secured by personal guarantee given by Mr. Chan Ting, a director of the Company, and is payable on or before 11 October 2020.

The promissory rate is carried at amortised cost and the effective interest rate adopted for the note is 12% per annum.

38. CONTINGENT CONSIDERATION PAYABLE

	2020 HK$'000	2019 HK$'000
Contingent consideration payable in relation to the acquisition of an associate, at fair value	**5,343**	—
Movements during the year are as follows:		
At beginning of the year	**—**	—
Arising from the acquisition of associate on 3 June 2020 *(Note 25)*	**5,343**	—
At end of the year	**5,343**	—

Details regarding the acquisition of the associate are set out in Note 25.

The contingent consideration payable is carried at fair value which was estimated by independent valuers, based on the probabilistic approach of management's expectations of the net profit after tax of Ever Development for the year ending 31 December 2020 and using the discounted cash flow method to arrive at the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration. The inputs to the model are as follows:

	At 3-6-2020 and 30-6-2020
Risk-free rate	**1.04%**
Discount rate	**16.43%**
Share price	**HK$0.19**

The risk-free rate was determined with reference to the yield of Hong Kong Dollar Swaps Curve 10 years tenor.

The discount rate was determined by Capital Asset Pricing Model by reference to comparable entities.

39. DEFERRED TAX LIABILITIES

	30-6-2020 HK$'000	30-6-2019 HK$'000
Deferred tax liabilities classified under non-current liabilities	—	2,053

Movements of the deferred tax liabilities are as follows:

	Attributable to business combination HK$'000
At 1 July 2018	3,697
Deferred tax credited to profit or loss *(Note 16)*	(1,644)
At 30 June 2019 and 1 July 2019	2,053
Deferred tax credited to profit or loss *(Note 16)*	(2,053)
At 30 June 2020	—

At the end of the reporting period, the Group has unused tax losses of approximately HK$106,731,000 (30-6-2019: HK$120,373,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profits streams. Included in unused tax losses are losses of approximately HK$32,230,000 (30-6-2019: HK$50,016,000) that will expire within one to five years from the end of the reporting period. Other losses may be carried forward indefinitely.

40. SHARE CAPITAL

	Number of shares '000	Nominal amounts HK$'000
Ordinary shares of HK$0.0125 each		
Authorized:		
At 1 July 2018, 30 June 2019, 1 July 2019 and 30 June 2020	16,000,000	200,000
Issued and fully paid:		
At 1 July 2018	3,290,855	41,135
Shares issued upon placement of shares *(Note a)*	168,000	2,100
Shares issued upon acquisition of subsidiaries *(Note b)*	650,000	8,125
At 30 June 2019	4,108,855	51,360
Shares issued upon acquisition of associate *(Note c)*	180,870	2,261
At 30 June 2020	4,289,725	53,621

Notes:

(a) Pursuant to the placing agreement dated 1 January 2019, the Company allotted and issued an aggregate of 168,000,000 new ordinary shares of the Company on 22 January 2019 at a price of HK$0.238 each.

(b) On 10 May 2019, 650,000,000 new ordinary shares were issued for the acquisition of subsidiaries (Note 42). The closing share price of the Company's share at the date of issue is HK$0.155 per share.

(c) On 11 June 2020, 180,869,565 new ordinary shares were issued for the acquisition of an associate (Note 25). The closing share price of the Company's share at the date of issue is HK$0.2 per share.

41. SHARE OPTION SCHEME

The Company has adopted a new share option scheme on 31 January 2013 which will remain valid for a period of 10 years commencing from 31 January 2013. The Board may, at its discretion, invite eligible persons to take up options to subscribe for the shares in the Company. Eligible persons shall include any employee, directors (including executive, non-executive and independent non-executive directors) and consultants of the Company or of any subsidiary of the Company or such other persons who at the sole determination of the Board have contributed to the Group at the time when an option is granted to such person.

The maximum number of shares issued and to be issued on the exercise of options granted and to be granted to each eligible participant (included both exercised and outstanding options) in any 12 month period must not exceed 1% of the total issued share capital of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to Shareholder's approval in a general meeting.

The maximum number of shares of the Company which may be issued upon exercise of all the outstanding options granted and yet to be issued under the Share Option Scheme or any other schemes must not, in aggregate, exceed 30% of the shares of the Company in issue from time to time.

41. SHARE OPTION SCHEME – continued

The exercise price of the share options is determinable by the directors, and may not be less than the highest of:

(i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day;

(ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a share of the Company.

Details of the share options granted, exercised, cancelled and lapsed during both of the years presented are set out as follows:

Year ended 30 June 2020

Grantee	Grant date	Exercise price per share	Exercisable period	Number of share options: Balance as at 1 July 2019	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Balance as at 30 June 2020
		HK$							
Other eligible participants*	14/08/2019	0.33	1/1/2020 to 31/12/2022	—	90,800,000	—	—	—	90,800,000
Directors and related party	07/01/2020	0.33	1/6/2020 to 31/12/2022	—	26,000,000	—	—	—	26,000,000
Employees	07/01/2020	0.33	1/6/2020 to 31/12/2022	—	66,800,000	—	—	—	66,800,000
				—	92,800,000	—	—	—	92,800,000
			Total	—	183,600,000	—	—	—	183,600,000

Year ended 30 June 2019

Grantee	Grant date	Exercise price per share	Exercisable period	Number of share options: Balance as at 1 July 2018	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Balance as at 30 June 2019
		HK$							
Other Eligible	21/07/2015	1.28	01/07/2016–30/06/2019	10,000,000	—	—	—	(10,000,000)	—
Participants*	21/07/2015	1.28	01/01/2017–30/06/2019	10,000,000	—	—	—	(10,000,000)	—
			Total	20,000,000	—	—	—	(20,000,000)	—

* Other eligible participants include business partners and consultants of the Group.

41. SHARE OPTION SCHEME – continued

During the year ended 30 June 2020, the following share options were granted by the Company:

Date of grant	Number of shares under options granted	Exercise price per share	Exercisable period
		HK$	
14 August 2019	90,800,000	0.33	1 January 2020 to 31 December 2022
7 January 2020	92,800,000	0.33	1 June 2020 to 31 December 2022

The estimated fair values of the options at the dates of grant on 14 August 2019 and 7 January 2020 are HK$8,969,000 and HK$4,497,000 respectively. These fair values were calculated using the Binomial Model. The inputs into the model were as follows:

	Share options granted on	
	14 August 2019	**7 January 2020**
Exercise price	HK$0.33	HK$0.33
Expected volatility	46.23%	49.03%
Expected life	3.38 years	2.98 years
Risk-free rate	1.32%	1.63%
Expected dividend yield	0%	0%
Exercise multiple	2.2 to 2.8 times	2.2 to 2.8 times

Expected volatility was determined by reference to the historical volatility of the Company's share prices over the previous 3.38 years and 2.98 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expenses of HK$8,265,000 for the current year (2019: HK$Nil) in relation to share options granted by the Company.

42. ACQUISITION OF SUBSIDIARIES

Year ended 30 June 2020

The Group has not acquired any subsidiaries during the year ended 30 June 2020.

Year ended 30 June 2019

On 6 May 2019, a wholly owned subsidiary of the Company acquired 100% equity interest in Hero Global Holdings Limited ("**Hero Global**"), for a consideration which was satisfied by the issue of 650,000,000 at price HK$0.155 per share. Hero Global and its subsidiaries are principally engaged in the provision of internet plus solution and supply chain services and trading of goods through internet platform. In addition, a subsidiary of Hero Global entered into an agreement with the vendor, under which the subsidiary will render management services to the vendor for period of three years commencing from 12 November 2018 in return for annual services fee amounted to RMB28,000,000 payable to the subsidiary by the vendor. The acquisition of Hero Global is for the purpose of enabling the Group to expand its business portfolio.

Pursuant to the related sale and purchase agreement, the vendor warranted to the Group that (i) the actual net profit after taxation of Hero Global for each of the three years ending 31 December 2019, 2020 and 2021 shall not be less than HK$23,000,000, HK$23,000,000 and HK$23,000,000 respectively; or (ii) the aggregate net profit for the three years ending 31 December 2019, 2020 and 2021 shall not be less than HK$69,000,000 in total ("**guaranteed profit**"). If the aggregate net profit for the three years ending 31 December 2019, 2020 and 2021 is less than the guaranteed profit, the vendor shall compensate the Group the shortfall multiplied by a compensation factor of 1.7 in cash.

Before the completion of the acquisition, 30% equity interest in a subsidiary of Hero Global, Sinopharm Health Cross border E-commerce Company Limited ("**Sinopharm Health**") was held by the Group, therefore Sinopharm Health was regarded on associate of the Group before the acquisition.

The acquisition has been accounted for by using the acquisition method of accounting.

Acquisition related costs amounted to approximately HK$300,000 have been excluded from the cost of acquisition and have been recognised directly as an expense for the prior year ended 30 June 2019 and included in the "administrative and operating expenses" line item in the consolidated statement of profit or loss and other comprehensive income.

Assets acquired and liabilities recognised at the date of acquisition

	HK$'000
Trade receivables	**2,588**
Other receivables, deposits & prepayments	**560**
Bank balances and cash	**10**
Accruals and other payables	**(3,433)**
	(275)

The fair value of trade and other receivables of the acquired entities at the date of acquisition amounted to HK$3,148,000 which represented the gross contractual amounts at the date of acquisition.

42. ACQUISITION OF SUBSIDIARIES – continued

Goodwill arising from acquisition

	HK$'000
Consideration for the acquisition, satisfied by issue of shares *(note i)*	**100,750**
Plus: Fair value gain on investment in associates *(note ii)*	**17,375**
Plus: Recognised amount of identified net liabilities acquired	**275**
Goodwill arising on acquisition *(Note 21)*	**118,400**

Notes:

(i) The consideration for the acquisition is calculated based on the closing share price of the Company's shares at the date of completion of the acquisition.

(ii) The fair value of 30% equity interest in the associate (Sinopharm Health) at the date of acquisition was estimated to be HK$17,375,000, which was valued by independent valuer on income approach, discount cash flow based on the financial projections prepared by the management of Hero Global covering a 5-year period, and the discount rate of approximately 12.49% that reflects current market assessment of the time value of money and the risk specific to Hero Global. Cash flows beyond 5-year period have been extrapolated using a steady 2.5% growth rate. The excess of fair value over the insignificant carrying amount of such equity interest, amounted to HK$17,375,000 was recognized in profit or loss in respect of the prior year ended 30 June 2019 and included in other income and gains (Note 11).

(iii) Management is of the view that it is unlikely that the aforementioned profit guarantee given by the vendor will be ultimately materialised, accordingly the fair value of the profit guarantee is minimal and is not recognised.

Goodwill arose in the acquisition because the cost of combination included a control premium addition, the consideration for the acquisition effectively included amounts in relation to benefit of expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition is not expected to be deductible for tax purpose.

Net cash inflow arising on acquisition of subsidiaries

	HK$'000
Bank balances and cash acquired	**10**

42. ACQUISITION OF SUBSIDIARIES – continued

Impact of acquisition on the results of the Group

Included in the Group's revenue and loss for the year ended 30 June 2019 were revenue of HK$13,423,000 and profit of HK$487,000 respectively attributable to Hero Global and its subsidiaries.

Had the acquisition of Hero Global been effected at the beginning of the year ended 30 June 2019, the revenue of the Group for the year ended 30 June 2019 would have been HK$46,091,000 and the loss for the year ended would have been HK$45,866,000. The proforma information is in illustrative purposes only and is not necessarily on indication of revenue and results of operation of the Group that actually would have been achieved, had the acquisition been completed at the beginning of the year ended 30 June 2019, nor is it intended to be projection of future results.

43. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Included in accruals and other payables interest on convertible bonds payable	Interest payable	Convertible bonds	Obligations under finance leases	Amounts due to directors	Lease liabilities	Other borrowing	Unlisted warrant	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 July 2018	6,832	—	89,413	344	39,781	—	—	—	136,370
Financing cash (outflows)/inflows	(10,763)	—	—	(194)	7,868	—	—	—	(3,089)
Finance costs	7,177	—	4,765	—	—	—	—	—	11,942
Other non-cash changes	—	—	(4,833)	—	—	—	—	—	(4,833)
At 30 June 2019	3,246	—	89,345	150	47,649	—	—	—	140,390
Initial application of HKFRS 16 *(Note 3)*	—	—	—	(150)	—	609	—	—	459
At 1 July 2019	**3,246**	**—**	**89,345**	**—**	**47,649**	**609**	**—**	**—**	**140,849**
Financing cash (outflows)/inflows	**—**	**(2,090)**	**(7,170)**	**—**	**(14,331)**	**(1,748)**	**15,600**	**8,000**	**(1,739)**
Finance costs	**—**	**2,090**	**15,667**	**—**	**—**	**397**	**—**	**—**	**18,154**
Other non-cash changes	**—**	**—**	**(8,672)**	**—**	**—**	**13,392**	**—**	**(6,120)**	**(1,400)**
At 30 June 2020	**3,246**	**—**	**89,170**	**—**	**33,318**	**12,650**	**15,600**	**1,880**	**155,864**

44. MAJOR NON-CASH TRANSACTIONS

During the year ended 30 June 2020,

(a) the Group acquired 40% equity interest in an associate, Ever Development, for a consideration which was satisfied by the issue of the new ordinary shares of the Company, details of which are set out in Note 25.

(b) a non-controlling interest made capital contribution to a subsidiary of the Company by way of transferring land use rights of certain land parcels to the subsidiary, details of which are set out in Note 20(a).

During the year ended 30 June 2019, the Group acquired 100% equity interest in Hero Global for a consideration which was satisfied by the issue of new ordinary shares of the Company, details of which are set out in Note 42.

45. OPERATING LEASE COMMITMENTS

From 1 July 2019, the Group has recognised right-of-use assets for its operating leases, see Note 3 for further information. The Group's future aggregate minimum lease payments due under non-cancellable operating leases as at 30 June 2019 are as follows:

	30-6-2019 HK$'000
Within one year	1,772
In the second to fifth years inclusive	211
	1,983

Operating lease payments represent rental payable by the Group for certain of its office properties. Leases are negotiated for an average terms of 1 to 5 years.

46. CAPITAL COMMITMENTS

Capital commitments contracted but not provided for in the consolidated financial statements are as follows:

	30-6-2020 HK$'000	30-6-2019 HK$'000
Acquisition of property, plant and equipment	**1,540**	—

47. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The retirement benefits scheme contributions charged to the consolidated statement of profit or loss and other comprehensive income represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

The employees of the Group's subsidiaries that operated in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute pension, based on a certain percentage of their payroll costs, to the pension schemes. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

The total expenses recognised in profit or loss of HK$992,000 (Year ended 30-6-2019: HK$1,304,000) represent contributions payable to the retirement benefit schemes in respect of the year.

48. SHARE AWARD SCHEME

On 24 January 2005, the Company adopted a share award scheme for employees and consultants, excluding executive directors and chief executive, of the Group for the purpose of recognising the contributions of certain employees and consultants of the Group to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate them and give an incentive to these persons to continue to contribute to the Group's long term success and prosperity. Under the scheme, following the making of an award to employees and consultants, the relevant newly issued shares vest over a period of time provided that the employees and consultants continue to contribute to the Group at the relevant time and satisfies any other conditions specified at the time the award is made. The maximum aggregate number of shares that can be awarded under the scheme is limited to 20% of the issued share capital of the Company and no cash consideration should be paid for the shares allotted under the share award scheme.

No share award was granted during the year ended 30 June 2020 (Year ended 30-6-2019: Nil) and no share award remained outstanding on that date (30-6-2019: Nil).

49. RELATED PARTY TRANSACTIONS

(a) Transactions and balances with related parties

In addition to those disclosed elsewhere in the consolidated financial statements, the Group had material transactions and balances with related parties as follows:

(i) Included in trade receivables at 30 June 2020 is receivable from a shareholder, Sinopharm Traditional Chinese Medicine Overseas Holding Limited, amounted to HK$15,376,000 (30–6–2019: Nil), such receivable represent internet plus services (supply chain) fee which was recognised as revenue for the current year.

(ii) Amounts due to directors of HK$33,318,000 (30-6-2019: HK$47,649,000) are unsecured, interest free and have no fixed repayment terms, details of which are set out in Note 32.

(iii) Included in other receivables is amount due from a related company of HK$2,808,000 (30-6-2019: HK$2,866,000). The amount is unsecured, interest free and has no fixed repayment terms. The Company's director, Madam Cheung Kwai Lan, is the member of committee of the related company.

(iv) Included in other receivables are amounts due from subsidiaries of a joint venture of HK$1,040,000 (30-6-2019: HK$1,135,000). The amounts, which are unsecured, interest free and have no fixed repayment terms, are fully impaired.

(v) On 2 April 2020, the Company entered into a subscription agreement with a director, Mr. Chan Ting. Pursuant to the subscription agreement, the Company has conditionally agreed to allot and issue and Mr. Chan Ting has conditionally agreed to subscribe for 800,000,000 new shares of the Company at the subscription price of HK$0.2 per share and the completion of the subscription is conditional upon and subject to all the conditions precedent being fulfilled or waived on or before 30 June 2020 ("**the Long Stop Date**"). On 28 August 2020, the parties to the subscription agreement entered into third supplemental agreement to further extend the Long Stop Date to 30 September 2020. Completion of the subscription of the new shares has not taken place up to the date of the approval of these consolidated financial statements.

(b) Compensation of directors and key management personnel

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

	Year ended 30-6-2020 HK$'000	Year ended 30-6-2019 HK$'000
Short term benefits	**15,381**	15,462
Post-employment benefits	**72**	71
	15,453	15,533

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES

(a) Particulars of the Company's principal subsidiaries as at 30 June 2020 are as follows:

Name	Place of incorporation and operation	Nominal value of issued and paid-up share	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Champion Vision Global Limited	Samoa and PRC	Ordinary share US$1	—	51%	Investment Holding
Cheerfull Group Holdings Limited	BVI	Ordinary shares US$50,000	—	100%	Investment Holding
China Success Enterprises Limited	BVI	Ordinary shares US$2,000	100%	—	Investment Holding
China Vanguard (China) Property Development Limited	Hong Kong	Ordinary shares HK$1	—	100%	Manufacturing and distribution of personal protective equipment
China Vanguard (Hong Kong) Property Development Limited	Hong Kong	Ordinary shares HK$1	—	100%	Manufacturing and distribution of personal protective equipment
Next Champion Limited	Hong Kong	Ordinary shares HK$1	—	100%	Distribution of personal protective equipment
深圳市博眾信息技術有限公司# (Shenzhen Bozone IT Co. Ltd.†) *(Note 2)*	PRC	Registered capital RMB50,000,000	—	100%	Provision of lottery-related hardware and software systems
Sinopharm Health Cross Border E-Commerce Company Limited	Hong Kong	Ordinary shares HK$100	—	100%	Provision of internet plus solution services
Sinopharm (Hong Kong) Industrial Co., Limited	Hong Kong	Ordinary shares HK$1,000,001	—	100%	Distribution of personal protective equipment
深圳國科防偽科技有限公司#(前稱「**深圳生港科技有限公司**」) (Shenzhen Guoke Anti-Counterfeit Technology Company Limited†) (formerly known as "**Shenzhen Sheng-Gang Technology Co. Limited**"†) *(Note 2)*	PRC	Registered capital US$6,809,751	100%	—	Investment Holding
Sinopharm Tech Corporate Management Limited (formerly known as "**China Vanguard Corporate Management Limited**")	Hong Kong	Ordinary shares HK$20,000,000	100%	—	Corporate management
Sinopharm Tech Medical Supplies Limited (formerly known as "**Loyalion Limited**")	Hong Kong	Ordinary shares HK$1,000	—	100%	Manufacturing and distribution of personal protective equipment
吉林國科醫療用品有限公司# (Jilin Guoke Medical Supplies Co. Ltd.†) *(Note 2)*	PRC	Registered capital RMB10,000,000	—	76%	Manufacturing and distribution of personal protective equipment
前海初道科技(深圳)有限公司# (Qianhai Chudao Technology (Shenzhen) Ltd.†) *(Note 2)*	PRC	Registered capital RMB5,000,000	—	100%	Provision of internet plus solution services

The statutory financial year end date of these subsidiaries is 31 December.

† For identification purpose only.

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES – continued

(a) Particulars of the Company's principal subsidiaries as at 30 June 2020 are as follows: – continued

Notes:

1. Wholly-foreign-owned enterprises established under the law of the PRC.

2. A limited liability company established under the law of the PRC.

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

Information about principal subsidiaries of the Group at the end of reporting period is as follows:

Principal activity	Place of incorporation and operation	Number of non-wholly owned subsidiaries 30-6-2020	30-6-2019
Provision of lottery-related services	PRC	—	2
Provision of internet plus solution services	PRC	**1**	1
Manufacturing and distribution of personal protective equipment	PRC	**1**	—

Principal activity	Place of incorporation and operation	Number of wholly owned subsidiaries 30-6-2020	30-6-2019
Provision of lottery-related services	PRC	**1**	2
Provision of internet plus solution services	Hong Kong and PRC	**2**	1
Provision of internet plus supply chain services	Hong Kong and PRC	**1**	1
Manufacturing and distribution of personal protective equipment	Hong Kong	**3**	—

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES – continued

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests

Name of subsidiary	Place of incorporation and operation	Proportion of ownership and voting rights held by non-controlling interests		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		30-6-2020	30-6-2019	**30-6-2020 HK$'000**	30-6-2019 HK$'000	**30-6-2020 HK$'000**	30-6-2019 HK$'000
Caimi (Beijing) Science and Technology Co., Ltd. *(note)*	PRC	**N/A**	49.21%	**—**	(7)	**—**	(419)
Champion Vision Global Limited	Samoa and PRC	**49%**	49%	**(2,617)**	2,847	**(4,112)**	(444)
Individual immaterial subsidiaries with non-controlling interests				**(299)**	(1,670)	**3,807**	366
Total				**(2,916)**	1,170	**(305)**	(497)

Note: This subsidiary was de-registered by the Group on 2 March 2020.

Summarized financial information in respect of each of the Group's subsidiaries that have material non-controlling interests are set out below. The summarised financial information below represents amount before intragroup elimination.

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES – continued

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests – continued

(i) Caimi (Beijing) Science and Technology Co., Ltd.

	30-6-2019 HK$'000
Non-current assets	—
Current assets	1,644
Current liabilities	(789)
Non-current liabilities	—
Equity attributable to equity holders of the Company	436
Non-controlling interests	419

	Year ended 30-6-2019 HK$'000
Revenue	—
Expenses	(14)
Loss for the year	(14)
Loss attributable to equity holders of the Company	(7)
Loss attributable to non-controlling interests	(7)
	(14)
Net cash outflows from operating activities	(20)
Net cash inflows from investing activities	1
Net cash outflows from financing activities	—
Net cash outflows	(19)

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES – continued

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests – continued

(ii) Champion Vision Global Limited

	30-6-2020 HK$'000	30-6-2019 HK$'000
Non-current assets	**—**	954
Current assets	**4,111**	10,743
Current liabilities	**(12,502)**	(10,550)
Non-current liabilities	**—**	(2,054)
Capital deficiency attributable to equity holders of the Company	**(4,279)**	(462)
Non-controlling interests	**(4,112)**	(444)

	Year ended 30-6-2020 HK$'000	Year ended 30-6-2019 HK$'000
Revenue	**—**	8,995
Expenses	**(5,340)**	(3,186)
(Loss)/profit for the year	**(5,340)**	5,809
(Loss)/profit attributable to equity holders of the Company	**(2,723)**	2,962
(Loss)/profit attributable to non-controlling interests	**(2,617)**	2,847
	(5,340)	5,809
Net cash inflows/(outflows) from operating activities	**210**	(121)
Net cash inflows from investing activities	**—**	—
Net cash inflows from financing activities	**—**	—
Net cash inflows/(outflows)	**210**	(121)

51. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

(a) Statement of Financial Position

	30-6-2020 HK$'000	30-6-2019 HK$'000
Non-current assets		
Interests in subsidiaries	**48,983**	147,299
Property, plant and equipment	**823**	550
Intangible assets	**16**	38
	49,822	147,887
Current assets		
Other receivables, deposits and prepayments	**2,886**	2,368
Bank balances and cash	**523**	353
	3,409	2,721
Current liabilities		
Accruals and other payables	**(40,534)**	(20,140)
Amounts due to directors	**(9,168)**	(47,032)
Obligations under finance leases	**—**	(150)
Convertible bonds	**(89,170)**	(89,345)
Derivative financial liabilities	**(1,880)**	(10)
Lease liabilities	**(164)**	—
	(140,916)	(156,677)
Net current liabilities	**(137,507)**	(153,956)
Total assets less current liabilities	**(87,685)**	(6,069)
Non-current liabilities		
Lease liabilities	**(307)**	—
	(307)	—
Net liabilities	**(87,992)**	(6,069)
Share capital	**53,621**	51,360
Reserves	**(141,613)**	(57,429)
Capital deficiency	**(87,992)**	(6,069)

The Company's statement of financial position was approved and authorised by the Board of Directors on 29 September 2020 and are signed on its behalf by:

CHEUNG Kwai Lan
Director

CHAN Ting
Director

51. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY – continued

(b) Reserves of the Company

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Employee share-based compensation reserve HK$'000	Share option reserve HK$'000	Convertible bonds reserve HK$'000	Special reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 July 2018	41,135	2,480,372	1,484	35,572	—	—	2,569	(2,603,993)	(42,861)
Loss and total comprehensive expenses for the year	—	—	—	—	—	—	—	(103,942)	(103,942)
Shares issued on placement of shares	2,100	37,884	—	—	—	—	—	—	39,984
Shares issued on acquisition of subsidiaries	8,125	92,625	—	—	—	—	—	—	100,750
Transferred to accumulated losses	—	—	—	(35,572)	—	—	—	35,572	—
At 30 June 2019 and 1 July 2019	**51,360**	**2,610,881**	**1,484**	**—**	**—**	**—**	**2,569**	**(2,672,363)**	**(6,069)**
Loss and total comprehensive expenses for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(132,312)**	**(132,312)**
Recognition of equity settled share-based payments	**—**	**—**	**—**	**—**	**8,265**	**—**	**—**	**—**	**8,265**
Shares issued on acquisition of associate	**2,261**	**33,913**	**—**	**—**	**—**	**—**	**—**	**—**	**36,174**
Equity component recognised for convertible bonds	**—**	**—**	**—**	**—**	**—**	**5,950**	**—**	**—**	**5,950**
At 30 June 2020	**53,621**	**2,644,794**	**1,484**	**—**	**8,265**	**5,950**	**2,569**	**(2,804,675)**	**(87,992)**

FIVE-YEAR FINANCIAL SUMMARY

For the year ended 30 June 2020

RESULTS

	For the year ended 30 June				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				(Restated)	(Restated)
Revenue	**165,934**	43,503	25,347	26,359	34,657
Cost of sales and services	**(121,281)**	(19,802)	(9,642)	(12,913)	(12,255)
Gross profit	**44,653**	23,701	15,705	13,446	22,402
Other income	**11,223**	66,269	13,951	3,954	10,203
Selling and distribution expenses	**(4,791)**	—	(1,409)	(6,837)	(6,276)
Administrative and operating expenses	**(63,183)**	(57,815)	(80,268)	(84,388)	(97,084)
Provision for doubtful receivables	**(2,628)**	(213)	(8,797)	(43,127)	(46,465)
Impairment loss on assets	**(133,058)**	(67,930)	—	(53,776)	(85,712)
Finance costs	**(18,154)**	(11,950)	(12,581)	(13,316)	(11,988)
Share of result of joint ventures	**—**	—	—	(31)	(490)
Share of profits of associates	**558**	—	—	—	—
Loss before tax	**(165,380)**	(47,938)	(73,399)	(184,075)	(215,410)
Income tax credit	**1,390**	2,312	1,814	2,835	1,568
Loss for the year	**(163,990)**	(45,626)	(71,585)	(181,240)	(213,842)

Certain figures in respect of the years ended 30 June 2016 an 30 June 2017 have been restated to conform with the presentation of the consolidated results for the year ended 30 June 2020.

ASSETS AND LIABILITIES

	30-6-2020	30-6-2019	30-6-2018	30-6-2017	30-6-2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**188,173**	228,668	175,497	134,063	259,311
Total liabilities	**(261,558)**	(191,429)	(235,496)	(123,470)	(109,830)
Net assets/(liabilities)	**(73,385)**	37,239	(59,999)	10,593	149,481
Equity/(capital deficiency) attributable to equity holders of the Company	**(73,080)**	37,736	(59,392)	(646)	136,341
Non-controlling interests	**(305)**	(497)	(607)	11,239	13,140
Total equity/(capital deficiency)	**(73,385)**	37,239	(59,999)	10,593	149,481

GLOSSARY

"Articles of Association"	the articles of association of the Company
"Board"	the board of Directors
"BVI"	the British Virgin Islands
"CGU(s)"	cash generating unit(s)
"Company"	Sinopharm Tech Holdings Limited
"Director(s)"	the director(s) of the Company
"GEM"	GEM of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Group"	the Company and its subsidiaries from time to time
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"HKAS"	Hong Kong Accounting Standard
"HKFRSs"	Hong Kong Financial Reporting Standards
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"new and revised HKFRSs"	new and revised Hong Kong Financial Reporting Standards, amendments and interpretations
"PRC"	the People's Republic of China, which for the purpose of this report, shall exclude Hong Kong, Macau Special Administrative Region and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.0125 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	United States dollar, the lawful currency of the United States of America
"Year 2019"	financial year ended 30 June 2019
"Year 2020"	financial year ended 30 June 2020