



合寶豐年  
ALPHA ERA

**ALPHA ERA INTERNATIONAL HOLDINGS LIMITED**

**合寶豐年控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**Stock code: 8406**

**Annual Report 2020**

## **CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.**

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

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

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

### Non-executive Director

Mr. Lee Kin Kee

### Independent non-executive Directors

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

## BOARD COMMITTEE

### Audit Committee

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

### Remuneration Committee

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

### Nomination Committee

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

## COMPLIANCE OFFICER

Mr. Xiao Jiansheng

## AUTHORISED REPRESENTATIVES

Mr. Huang Xiaodong  
Mr. Wan Hon Keung

## COMPANY SECRETARY

Mr. Wan Hon Keung

## REGISTERED OFFICE IN THE CAYMAN ISLANDS

Windward 3, Regatta Office Park  
P.O. Box 1350, Grand Cayman  
KY1-1108, Cayman Islands

## HEAD OFFICE

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2, 9th Floor, LT Tower  
No. 31 Chong Yip Street,  
Kwun Tong, Kowloon  
Hong Kong

## AUDITORS

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

## LEGAL ADVISERS

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

## **CORPORATE INFORMATION** (continued)

### **COMPLIANCE ADVISER**

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

### **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS**

Ocorian Trust (Cayman) Limited  
Windward 3, Regatta Office Park  
P.O. Box 1350, Grand Cayman  
KY1-1108, Cayman Islands

### **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

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

### **PRINCIPAL BANKERS**

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

### **GEM STOCK CODE**

8406

### **COMPANY'S WEBSITE**

[www.alpha-era.co](http://www.alpha-era.co)

## CHAIRMAN'S STATEMENT

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of Alpha Era International Holdings Limited (the “**Company**”), I am pleased to present the annual report of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2020 (the “**Year**”).

During the past year, the novel coronavirus (“the **COVID-19**”) had a significant impact on the global economy and the Group’s production capacity was also affected early last year. Although the outbreak of the COVID-19 pandemic has caused disruptions to economic activities and people’s lives, including the forced suspension of product exhibitions, the pandemic has also created new business opportunities for the Group. Since the outbreak of the COVID-19 pandemic in North America in last year, local citizens have been going out less and spending more time playing at home, resulting in a significant increase in the demand for inflatable playground products, the Group’s main product. In addition to the increase in sales to the Group’s existing North American customers, retail sales through e-commerce platforms also increased significantly.

For the year ended 31 December 2020, the Group recorded a total revenue of approximately RMB260,735,000 (2019: approximately RMB223,831,000), representing an increase of approximately RMB36,904,000 or 16.5%. Profit for the Year was approximately RMB23,557,000 (2019: approximately RMB18,882,000), representing an increase of approximately RMB4,675,000 or 24.8%.

Looking forward to 2021, it is expected that the Group will maintain a steady growth in revenue from the sales of inflatable playground products. In order to meet the market demand for inflatable playground products, the Group has set up a new factory in Yongzhou City, Hunan Province in December last year, in addition to the factory in Heyuan City, Guangdong Province which commenced production in early 2020, and the Group expects the factory in Yongzhou City to commence production in the first quarter of this year. In addition to increasing production facilities to increase the Group’s production capacity, the Group will continue to focus on technological improvements to improve production efficiency and reduce production costs, and the Group will also invest resources to expand the Group’s sales network.

Furthermore, the Group’s new spunbond meltblown spunbond (“**SMS**”) non-woven fabrics production line has commenced trial production and sales in the first quarter of this year. The production line can produce medical hygiene grade non-woven fabrics, three-layer medical grade SMS mask fabrics and non-woven fabrics for a wide range of applications, and it is expected to be beneficial to the Group’s long-term development.

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

**Huang Xiaodong**

*Chairman and Executive Director*

**Alpha Era International Holdings Limited**

Hong Kong, 24 March 2021

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW AND OUTLOOK

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

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

Although the outbreak of the COVID-19 pandemic since the beginning of 2020 had impact on the production and operations of the Group, it also brought new business opportunities to the Group. Since the outbreak of the COVID-19 pandemic in North America since March 2020, local citizens have reduced their outings and increased their time to stay and play at home. The demand of inflatable playgrounds, being the principal products offered by the Group, has increased significantly. In addition to the increase in sales to the existing customers of the Group in North America, retail sales through e-commerce platforms also increased significantly.

The Group recorded a total revenue of approximately RMB260,735,000 for the Year, representing an increase of approximately RMB36,904,000 or 16.5% as compared to approximately RMB223,831,000 for the year ended 31 December 2019. Gross profit margin increased from 23.4% last year to 28.7% for the Year. The profit for the Year was approximately RMB23,557,000, representing an increase of approximately RMB4,675,000 or 24.8% as compared to the profit of approximately RMB18,882,000 for the year ended 31 December 2019.

Looking forward to 2021, the Group expects to maintain a steady growth in revenue from the sales of inflatable products. In order to meet the future production capacity requirement, the Group has set up a new factory in Yongzhou City, Hunan Province in December 2020. Furthermore, the Group's new SMS non-woven fabric production line has started trial production in January 2021, this production line can produce medical and sanitary non-woven fabrics, as well as non-woven fabrics for a wide range of applications. The Group expects these new production facilities can provide long term contribution to the Group's revenue and profits.

# MANAGEMENT DISCUSSION AND ANALYSIS (continued)

## FINANCIAL REVIEW

### REVENUE

The Group's revenue was approximately RMB260,735,000 for the Year, representing an increase of approximately RMB36,904,000 or 16.5% as compared to the revenue of approximately RMB223,831,000 for the year ended 31 December 2019. Revenue from the sales of inflatable playgrounds with air blowers for the Year was approximately RMB236,423,000 (2019: approximately RMB196,769,000 representing an increase of by approximately RMB39,654,000 or 20.2% compared with the corresponding period in 2019, which accounted for approximately 90.7% of the Group's total revenue (2019: approximately 87.9%); revenue from the sales of other inflatable products for the Year was approximately RMB2,890,000 (2019: approximately RMB6,547,000), representing a decrease of approximately RMB3,657,000 or 55.9% compared with the corresponding period in 2019, which accounted for approximately 1.1% of the Group's total revenue (2019: approximately 2.9%); revenue from the sales of electronic solar products for the Year was approximately RMB7,345,000 (2019: approximately RMB8,845,000), representing a decrease of approximately RMB1,500,000 or 17.0% compared with the corresponding period in 2019, which accounted for approximately 2.8% of the Group's total revenue (2019: approximately 4.0%); revenue from the sales of inflatable products related accessories and subcontracting work for the Year was approximately RMB14,077,000 (2019: approximately RMB11,670,000), representing an increase of by approximately RMB2,407,000 or 20.6% compared with the corresponding period in 2019, which accounted for approximately 5.4% of the Group's total revenue (2019: approximately 5.2%).

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

### COST OF SALES

The cost of sales increased by approximately RMB14,387,000 or 8.4% from approximately RMB171,437,000 for the corresponding period in 2019 to approximately RMB185,824,000 for the Year which is generally in line with the increase in revenue.

### GROSS PROFIT AND GROSS PROFIT MARGIN

The Group recorded a gross profit of approximately RMB74,911,000 for the Year, representing an increase of approximately RMB22,517,000 as compared with that for the year ended 31 December 2019 (2019: approximately RMB52,394,000). The gross profit margin was approximately 28.7% for the Year, representing a significant increase of approximately 5.3% as compared to the that of previous year (2019: approximately 23.4%). The increase in gross profit margin was mainly attributable to the substantial increase in retail sales of inflatable products in North America via the e-commerce sales platforms which are of relatively higher profit margin.

### OTHER INCOME AND GAINS

Total other income and gains was approximately RMB1,189,000 for the Year, representing a decrease of approximately RMB16,000 as compared with that for the year ended 31 December 2019 (2019: approximately RMB1,205,000). The decrease was mainly due to (i) the Group recorded a decrease in interest income of approximately RMB157,000; (ii) a decrease in other income and gains of approximately RMB325,000; partially offset by (iii) an increase in grants and subsidies of approximately RMB466,000.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### DISTRIBUTION AND SELLING EXPENSES

Total distribution and selling expenses was approximately RMB25,487,000 for the Year (2019: approximately RMB13,385,000), representing an increase of approximately RMB12,102,000 or 90.4% as compared with last year. The increase was mainly due to the increase in (i) freight and transportation expenses of approximately RMB8,214,000; (ii) advertising and promotion expenses of approximately RMB161,000; and (iii) commission and sales services expenses of approximately RMB3,531,000. Such increase was mainly incurred in the operation of overseas sales platforms in North America and Europe.

### ADMINISTRATIVE AND OTHER EXPENSES

The administrative and other expenses was approximately RMB20,030,000 for the Year (2019: approximately RMB14,625,000), representing an increase of approximately RMB5,405,000 or 37.0% as compared with last year. The increase was mainly resulted from the increase in employees and benefits expenses of approximately RMB982,000; and (ii) the increase in net foreign exchange loss of approximately RMB3,698,000.

### FINANCE COSTS

The Group recorded an interest on lease liabilities of approximately RMB2,191,000 for the Year, representing an increase of approximately RMB541,000 or 32.8% (2019: approximately RMB1,650,000).

### INCOME TAX EXPENSE

Income tax expenses was approximately RMB4,997,000 for the Year (2019: approximately RMB5,196,000), representing a decrease of approximately RMB199,000 or 3.8% as compared with last year. An analysis of the Group's income tax expense for the Year is set out in Note 8 to the consolidated financial statements.

### PROFIT AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit and total comprehensive income attributable to owners of the Company for the Year was approximately RMB22,472,000 (2019: approximately RMB19,818,000).

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

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

As at 31 December 2020, the Group's total equity attributable to owners of the Company amounted to approximately RMB121.9 million (2019: approximately RMB104.9 million).

The current ratio of the Group as at 31 December 2020 was approximately 3.62 times as compared to that of approximately 3.56 times as at 31 December 2019. The quick ratio of the Group as at 31 December 2020 was approximately 2.23 times as compared to that of approximately 2.58 times as at 31 December 2019. The Directors believe that the Group is in a healthy financial position to expand its core business and to achieve its business objectives.

Since no borrowings was outstanding as at 31 December 2020 and 31 December 2019, no gearing ratio was applicable.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### CAPITAL EXPENDITURE

During the Year, there was capital expenditure of approximately RMB15,225,000 (2019: approximately RMB3,627,000) which was used in the purchase of property, plant and equipment.

### PROPOSED FINAL DIVIDEND

The Board does not propose the payment of any final dividend for the year ended 31 December 2020 (2019: HK0.75 cents per ordinary share) to the shareholders of the Company.

### CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any significant contingent liabilities (2019: Nil).

### PLEDGE OF ASSETS

As at 31 December 2020, the Group had no assets pledged for bank borrowings or for other purpose (2019: Nil).

### CAPITAL COMMITMENTS

As at 31 December 2020, the Group is committed to contribute RMB200,000 to the registered capital of an indirect wholly-owned subsidiary (2019: RMB200,000), and has entered into contractual commitments for the acquisition of property, plant and equipment of approximately RMB863,000 (2019: approximately RMB208,000).

### MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the Year, the Group did not have any material acquisitions and disposal of subsidiaries and affiliated companies (2019: Nil).

### SIGNIFICANT INVESTMENTS HELD BY OUR GROUP

During the Year, there was no significant investment held by the Group (2019: Nil).

### FUTURE PLAN FOR MATERIAL INVESTMENT AND CAPITAL ASSETS

Save as disclosed in the announcement dated 17 December 2020 in relation to the expansion of production facilities in Yongzhou City with expected initial capital investment of approximately RMB400,000, the Group does not have any plan for material investment and capital assets for the coming year.

### FOREIGN CURRENCY EXPOSURE

As approximately 88.1% and 84.7% of the Group's revenue for the years ended 31 December 2020 and 31 December 2019 respectively are denominated in US Dollars but the costs incurred for the production are denominated in RMB, significant fluctuation in the exchange rate between RMB against US Dollars may materially affect the Group's business results of operations. As a result of the Group's business expansion to overseas markets, the Group may continue to generate a significant amount of sales, assets and liabilities denominated in a currency other than RMB. In this case, the Group would be exposed to risks related to the exchange rate and the currency in which its assets and liabilities are denominated. A depreciation of RMB would require the Group to use more RMB funds to service the same amount of foreign currency liabilities, or a depreciation of foreign currency against RMB would result in receipts from receivables substantially less than the contractual amounts in terms of RMB at the settlement date.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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

### TREASURY POLICIES

The Group is exposed to credit risk primarily arising from trade receivables and bank deposits. Trade receivables are from customers with good collection track records with the Group. For trade receivables, the Group adopts the policy of dealing only with customers of appropriate credit history to mitigate credit risks. During the Year, a reversal of allowance for credit losses in relation to trade receivables of approximately RMB162,000 (2019: approximately RMB139,000) was recognised.

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

### EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group had 726 full-time employees (31 December 2019: 536). Most of the employees are located in Zhongshan City and Heyuan City, Guangdong Province, the PRC. The total employee remuneration, including remuneration of the Directors, for the Year amounted to approximately RMB51,871,000 (2019: approximately RMB41,665,000).

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

### USE OF PROCEEDS FROM SHARE OFFER

The net proceeds from the issue of new shares of the Company at the time of its listing on GEM on 7 December 2017 through a share offer of 120,000,000 shares of HK\$0.01 each in the share capital of the Company at the price of HK\$0.315 per share, after deduction of the related underwriting fees, professional service fees and issuance expenses paid by the Group in connection thereto, were approximately HK\$20.7 million.

The actual net proceeds from the issue of new shares of the Company under the share offer was different from the estimated net proceeds of approximately HK\$17.1 million as set out in the Prospectus. The Group adjusted the use of proceeds in the same manner and in the same proportion as shown in the Prospectus, which was (i) approximately 26.5% of the net proceeds, or approximately HK\$5.5 million, will be used for expanding and enhancing product offerings through continuous product development efforts and continuing to strengthen brand recognition; (ii) approximately 26.5% of the net proceeds, or approximately HK\$5.5 million, will be used for expanding production capacity; (iii) approximately 21.1% of the net proceeds, or approximately HK\$4.4 million, will be used for attracting and retaining quality personnel; (iv) approximately 20.7% of the net proceeds, or approximately HK\$4.3 million, will be used for uplifting marketing effort, expanding distribution network and exploring new business opportunities; and (v) approximately 5.2% of the net proceeds, or approximately HK\$1.0 million, will be used as general working capital.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Up to 31 December 2020, all of the net proceeds from the Listing had been fully utilised and the net proceeds had been applied as follows:

	<b>Planned use of proceeds up to 31 December 2020 HK\$'000</b>	<b>Actual use of proceeds balance up to 31 December 2020 HK\$'000</b>
Expand and enhance the product offerings	5,464	5,464
Expand production capacity	5,464	5,464
Attract and retain quality personnel	4,371	4,371
Increase marketing effort, expand distribution network and explore new business opportunities	4,282	4,282
General working capital	1,077	1,077
Total	20,658	20,658

### PRINCIPAL RISKS AND UNCERTAINTIES

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

1. The Group's past revenue and profit margin may not guarantee the Group's future revenue and profit margin.
2. The Group is subject to risks of fluctuations in the exchange rate between RMB and US Dollars.
3. The Group is subject to risks associated with marketing, distribution and sales of its products internationally.
4. Sales of the Group's products are subject to changes in consumer perception and preference.
5. The Group may be subject to product liability claims.
6. Fluctuations in the price and supply of raw materials may bring negative impact to the performance of the Group.
7. The Group is dependent on a skilled workforce in the PRC to run its production facilities and the Group may experience a shortage of labour or its labour costs may increase.
8. The Group is subject to environmental protection regulations and requirements.
9. The Group is subject to changes in economic, political and social conditions in the PRC and policies adopted by the PRC government.
10. The PRC legal system is not fully developed and has inherent uncertainties which could limit the legal protections available to the Group.

# MANAGEMENT DISCUSSION AND ANALYSIS (continued)

## COMPLIANCE WITH LAWS AND REGULATIONS

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

## RELATIONSHIP WITH CUSTOMERS, SUPPLIES, SUBCONTRACTORS AND EMPLOYEES

### Customers

The Group considers its customers as one of the most important stakeholders. The Group's commitment to continue its dedication to quality control, product safety and customer service are essential in maintaining the trust of its customers. Besides selling its products in the domestic market, the Group also sold to over 40 countries in Europe, Australia and Oceania, North America, Asia, Central and South America and Africa during the year ended 31 December 2020. During the Year, the Group recorded revenue of approximately RMB230,289,000 from the sales to overseas customers (2019: approximately RMB191,128,000), which accounted for approximately 88.3% of the total revenue (2019: approximately 85.4%). The Group recorded approximately 52.0% of the total revenue from the Group's top five customers (2019: approximately 56.3%). The Directors believe that the well-established relationships with major customers of the Group and market conditions, together with the reliable and high-quality products and dedicated customer service, will continue to strengthen market presence and future expansion of the Group.

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

### Suppliers

The Group selects the suppliers on the basis of product quality, their background and credibility, reputation, service, price, scale of production and ability to meet the delivery schedule and requests. The Group typically works with reputable and reliable suppliers to secure key raw materials such as air blowers used in production process. The Group has established stable and good relationships with its suppliers of principal raw materials. The raw materials are generally available from a number of domestic suppliers, and the Group normally will have at least two sources of supply for each type of raw materials to avoid dependency. The Group requires goods provided by the Group's suppliers to meet high quality standards and to conduct regular evaluation on suppliers. During the Year, purchases of materials from the Group's five largest suppliers amounted to approximately RMB85,458,000 (2019: approximately RMB78,302,000) and represented approximately 65.6% of the total cost of goods purchased (2019: approximately 68.8%).

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

### Subcontractors

During the year ended 31 December 2020, the Group subcontracted a portion of sewing, printing and packaging works to 15 subcontractors (2019: 16), which are mainly local factories involving in sewing and packaging works. The total subcontracting fees amounted to approximately RMB18,930,000 (2019: approximately RMB17,567,000), representing approximately 10.2% of the total cost of goods (2019: approximately 10.2%). Subcontractors are selected based on assessment of (i) service quality; (ii) timeliness on delivery; (iii) quotation; and (iv) whether they have a quality assurance system that meets the Group's work requirements.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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

### **Employees**

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

# BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. Huang Xiaodong (黃小冬) (“Mr. Huang”)**, aged 59, is the Chairman and an executive Director of the Company. Mr. Huang is responsible for the overall strategic management and development of the Group’s business operations. Mr. Huang joined the Group in June 2003, he was appointed as the director on 3 November 2015 and re-designated as the Chairman and executive Director on 5 March 2016. He is a director of all subsidiaries of the Company.

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

**Mr. Xiao Jiansheng (肖健生) (“Mr. Xiao”)**, aged 58, is the Chief Executive Officer and an executive Director of the Company. Mr. Xiao is responsible for overseeing the Group’s operation, business development, finance and administration. Mr. Xiao joined the Group in June 2003, he was appointed as the director on 1 February 2016 and re-designated as the Chief Executive Officer and executive Director on 5 March 2016. Mr. Xiao is also a member of each of the remuneration committee of the Company (the “**Remuneration Committee**”) and the nomination committee of the Company (the “**Nomination Committee**”), he is a director of all subsidiaries of the Group.

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

## NON-EXECUTIVE DIRECTOR

**Mr. Lee Kin Kee (李建基) (“Mr. Lee”)**, aged 57, was appointed as the non-executive Director on 5 March 2016.

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

Mr. Lee has been an independent non-executive director of Landrich Holding Limited (stock code: 2132), which is listed on The Stock Exchange of Hong Kong Limited, since 21 September 2020.

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

## INDEPENDENT NON-EXECUTIVE DIRECTOR

**Mr. Mao Guohua (毛國華) (“Mr. Mao”)**, aged 53, was appointed as an independent non-executive Director on 20 June 2017. He is also the chairman of the Nomination Committee and a member of each of the Audit Committee of the Company (the “**Audit Committee**”) and the Remuneration Committee.

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

## BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT (continued)

**Mr. Liu Zexing (劉澤星) (“Mr. Liu”)**, aged 52, was appointed as an independent non-executive Director on 1 March 2020. He is also the chairman of Remuneration Committee and a member of each of the Audit Committee and Nomination Committee.

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

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

**Mr. Ho Hin Chung (何顯聰) (“Mr. Ho”)**, aged 50, was appointed as an independent non-executive Director on 7 December 2018. He is also the chairman of the Audit Committee and a member of each of the Remuneration Committee and Nomination Committee. He obtained a Bachelor of Social Science from Lingnan College Hong Kong (currently known as Lingnan University) in November 1995. He has further obtained a Master of Arts degree in Professional Accounting and Information Systems from City University of Hong Kong in November 2005 and a Master of Laws in Chinese Business Law from The Chinese University of Hong Kong in December 2008.

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

### SENIOR MANAGEMENT

**Mr. Wang Haifeng (王海峰) (“Mr. Wang”)**, aged 50, joined the Group in June 2003 and is the Financial Controller of the Group now. Mr. Wang has over 20 years of experience in financial accounting.

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

**Ms. Lin Yannong (林燕儂) (“Ms. Lin”)**, aged 48, joined the Group in June 2003 and is the Marketing Director of the Group now. Ms. Lin has over 20 years of experience in sales and marketing.

Ms. Lin is primarily responsible for planning and handling marketing and promotional activities. She obtained a bachelor’s degree in international business and economics from Shantou University (汕頭大學) in June 1994 and a postgraduate diploma in business-to-business market management from the School of Professional and Continuing Education of the University of Hong Kong (香港大學專業進修學院) in August 2015.

## BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT (continued)

**Ms. Li Qihong (李秋紅) (“Ms. Li”)**, aged 49, joined the Group in June 2003 and is the Head of Production Department of the Group now. Ms. Li has over 20 year of experience in factory management.

Ms. Li is primarily responsible for overseeing the production of the Group, she completed an international business administration workshop (國際高級工商管理總裁研修班) at the School of Continuing Education, Tsinghua University (清華大學繼續教育學院) in October 2011.

**Mr. Zhu Wenyi (朱文軼) (“Mr. Zhu”)**, aged 42, joined the Group in May 2004 and is the Art Director of the Group now. Mr. Zhu has over 10 years of experience in product design.

Mr. Zhu is primarily responsible for product design of the Group, he obtained a bachelor’s degree in Arts and Design from Guangzhou Academy of Fine Arts (廣州美術學院) in July 2003.

### COMPANY SECRETARY AND CHIEF FINANCIAL OFFICER

**Mr. Wan Hon Keung (溫漢強) (“Mr. Wan”)**, aged 59, joined the Group in September 2015 and was appointed as the Company Secretary and the Chief Financial Officer of the Company on 5 March 2016. Mr. Wan has over 30 years’ experience in commercial accounting, administration and corporate governance.

Mr. Wan is primarily responsible for overseeing corporate finance, investor relations and financial management of the Group. He was admitted as an associate member of Hong Kong Society of Accountants (currently known as the Hong Kong Institute of Certified Public Accountants) in June 1997. Mr. Wan was also admitted as a fellow member of The Association of Chartered Certified Accountants in May 2002.

## REPORTS OF THE DIRECTORS

The Directors are pleased to present their report and the audited consolidated financial statements for the year ended 31 December 2020.

### PRINCIPAL ACTIVITIES

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

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

### RESULTS AND DIVIDENDS

The results of the Group for the Year and the financial position of the Group at that date are set out in the consolidated financial statements on pages 68 to 69.

The Board does not recommend the payment of any final dividend for the year ended 31 December 2020 to the shareholders of the Company (2019: HK0.75 cents per ordinary share).

### FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years, as set out on page 122 in this annual report as extracted from this report.

### PROPERTY, PLANT AND EQUIPMENT

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

### SHARE CAPITAL

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

### RESERVES

Details of movements in the reserves of the Group and the Company during the Year are set out in the consolidated statement of changes in equity on page 70 of this annual report and Note 32 to the consolidated financial statements, respectively.

### PRE-EMPTIVE RIGHTS

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

## REPORTS OF THE DIRECTORS (continued)

### MAJOR CUSTOMERS AND SUPPLIERS

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

Sales	
– the largest customer	15.3%
– five largest customers in aggregate	52.0%
Purchases	
– the largest supplier	25.3%
– five largest suppliers in aggregate	65.6%

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

### RELATED PARTY TRANSACTION

Save as disclosed in Note 31 to the consolidated financial statements, no other related party transactions were conducted by the Group during the Year.

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

### DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserves available for distribution to the shareholders, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands amounted to approximately RMB47.0 million.

### DIVIDEND POLICY

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

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

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

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

## REPORTS OF THE DIRECTORS (continued)

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

### SHARE OPTION SCHEME

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

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

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

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

## REPORTS OF THE DIRECTORS (continued)

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

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

## DIRECTORS

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

### Executive Directors

Mr. Huang Xiaodong (*Chairman*)

Mr. Xiao Jiansheng (*Chief Executive Officer*)

### Non-executive Director

Mr. Lee Kin Kee

### Independent non-executive Directors

Mr. Mao Guohua

Mr. Liu Zexing (appointed on 1 March 2020)

Mr. Ho Hin Chung

Mr. Gan Mingqing (resigned on 1 March 2020)

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

## PREMITTED INDEMNITY PROVISION

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

### **DIRECTORS' SERVICE CONTRACTS**

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

### **CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS**

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

### **DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS**

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

### **MANAGEMENT CONTRACTS**

The Board is not aware of any contract during the year ended 31 December 2020 entered into with the management and administration of the whole or any substantial part of the business of the Company.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

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

### **BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**

Biographical details of the Directors and the senior management of the Group are set out on pages 14 to 16 of this annual report.

### **EQUITY-LINKED AGREEMENTS**

Save as disclosed in the section headed "Share Option Scheme", no equity-linked agreements were entered into by the Company at any time during the year ended 31 December 2020 or subsisted at the end of the year.

## REPORTS OF THE DIRECTORS (continued)

### EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in Notes 10 and 11 to the consolidated financial statements, respectively. The emolument of the number of the highest paid individuals who are not the Directors for the year ended 31 December 2020 are set out in Note 11 to the consolidated financial statements.

The emoluments of the senior management of the Group for the year ended 31 December 2020 falls within the following band:

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

### EMOLUMENT POLICY

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

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

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

As at 31 December 2020, the interests of the Directors and chief executive of the Company (the "Chief Executive") in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules (the "Required Standard of Dealings") or Rule 23.07 of the GEM Listing Rules are as follows:

#### Long position in ordinary shares of the Company

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

## REPORTS OF THE DIRECTORS (continued)

Notes:

- (1) Mr. Lee Kin Kee (“**Mr. Kevin Lee**”) beneficially owns the entire issued share capital of Blink Wishes Limited. Therefore, Mr. Kevin Lee is deemed, or taken to be, interested in all the Shares held by Blink Wishes Limited for the purpose of the SFO.
- (2) The percentage is calculated on the basis of 800,000,000 shares in issue as at the date of this report.

Save as disclosed above, as at 31 December 2020, none of the Directors or the Chief Executive or their respective associates had any interests in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Required Standard of Dealings.

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

As at 31 December 2020, so far as is known to the Directors and the Chief Executive and based on the public records filed on the website of the Stock Exchange and records kept by the Company, the interest of the persons or corporations (other than the Directors and the Chief Executive) in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

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

Notes:

- (1) Mr. Lee King Sun (“**Mr. Lee**”) beneficially owns the entire issued share capital of Nonton Limited. Therefore, Mr. Lee is deemed, or taken to be, interested in all the Shares held by Nonton Limited for the purpose of the SFO.
- (2) Ms. Chak Lai Hung Theresa (“**Ms. Chak**”) is the spouse of Mr. Lee. Under the SFO, Ms. Chak is deemed to be interested in the same number of Shares held by Mr. Lee is interested.
- (3) Ms. Law Siu Ling (“**Ms. Law**”) is the spouse of Mr. Kevin Lee. Under the SFO, Ms. Law is deemed to be interested in the same number of Shares held by Mr. Kevin Lee is interested.
- (4) The percentage is calculated on the basis of 800,000,000 shares in issue as at the date of this report.

Save as disclosed above, as at 31 December 2020, there was no person or corporation (other than the Directors and the Chief Executive) who had any interest in the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company under section 336 of the SFO.

## REPORTS OF THE DIRECTORS (continued)

### COMPETING AND CONFLICT OF INTERESTS

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

### DEED OF NON-COMPETITION

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

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

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

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

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

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

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

### INTERESTS OF THE COMPLIANCE ADVISER

As at 31 December 2020, as notified by the Company's compliance adviser, Frontpage Capital Limited (the "**Compliance Adviser**"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser, neither the Compliance Adviser nor its directors, employees or close associates has any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

### CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting is scheduled to be held on Friday, 7 May 2021 (the “AGM”).

In order to establish entitlements to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 4 May 2021 to Friday, 7 May 2021, both days inclusive, during which period no transfer of the shares of the Company will be registered. Shareholders are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Monday, 3 May 2021.

### EVENTS AFTER THE REPORTING PERIOD

The Board is not aware of any significant event requiring disclosure that has been taken place subsequent to 31 December 2020 and up to the date of this annual report.

### DONATIONS

Charitable donations made by the Group during the year ended 31 December 2020 amounted to RMB20,000 (2019: RMB50,000).

### CORPORATE GOVERNANCE

Details of the Company’s corporate governance practices are set out in the Corporate Governance Report on pages 26 to 35 of this report.

### SUFFICIENCY OF PUBLIC FLOAT

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

### INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

### INDEPENDENT AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2020 were audited by HLB Hodgson Impey Cheng Limited. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint HLB Hodgson Impey Cheng Limited as the auditors of the Company.

On behalf of the Board

**Mr. Huang Xiaodong**

*Chairman and Executive Director*

Hong Kong, 24 March 2021

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICE

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

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

## BOARD OF DIRECTORS

### Compositions and Responsibilities

The Board as at the date of this annual report:

#### Executive Directors

Mr. Huang Xiaodong (*Chairman*)

Mr. Xiao Jiansheng (*Chief Executive Officer*)

#### Non-executive Director

Mr. Lee Kin Kee

#### Independent non-executive Directors

Mr. Mao Guohua

Mr. Liu Zexing

Mr. Ho Hin Chung

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

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

## CORPORATE GOVERNANCE REPORT (continued)

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

The biographical details of the Directors and senior management of the Company are set out in the section headed with "Biographical Details of the Directors and Senior Management" from pages 14 to 16 of this annual report. Save as disclosed in the section "Biographical Details of the Directors and Senior Management" in this annual report, each of the Board members has no financial, business, family or other material or relevant relationships with each other.

### CORPORATE GOVERNANCE FUNCTIONS

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

1. to develop and review the policies and practices on corporate governance of the Group and make recommendations;
2. to review and monitor the training and continuous professional development of the Directors and senior management;
3. to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;
4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Directors and employees; and
5. to review the Company's compliance with the Code and disclosure in the corporate governance report of the Company.

## CORPORATE GOVERNANCE REPORT (continued)

### APPOINTMENT AND RE-ELECTION

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

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

At the forthcoming annual general meeting of the Company, separate ordinary resolutions will be put forward to the shareholders of the Company in relation to the proposed election of Mr. Lee Kin Kee as non-executive Director, Mr. Ho Hin Chung as independent non-executive Director, all for a term commencing from the date of the annual general meeting which approves their appointments and ending at the conclusion of the third subsequent annual general meeting of the Company.

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

### CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

### BOARD COMMITTEES

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

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

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

## CORPORATE GOVERNANCE REPORT (continued)

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

### Audit Committee

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

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

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

The Audit Committee has held five meetings during the Year to review and comment on the Company's 2019 annual results, 2020 interim results and quarterly results as well as the Company's internal control procedures and risk management system, the attendance of the members of the Audit Committee are summarised below:

	<b>Number of attendance/ number of meetings</b>
Mr. Ho Hin Chung ( <i>Chairman</i> )	5/5
Mr. Mao Guohua	5/5
Mr. Liu Zexing (appointed on 1 March 2020)	5/5
Mr. Gan Mingqing (resigned on 1 March 2020)	N/A

N/A represents not applicable

The Group's consolidated financial statements for the year ended 31 December 2020 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the consolidated financial statements of the Group for the year ended 31 December 2020 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

## CORPORATE GOVERNANCE REPORT (continued)

### Remuneration Committee

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

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

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

	<b>Number of attendance/ number of meetings</b>
Mr. Liu Zexing ( <i>Chairman</i> ) (appointed on 1 March 2020)	1/1
Mr. Mao Guohua	3/3
Mr. Ho Hin Chung	3/3
Mr. Xiao Jiansheng	3/3
Mr. Gan Mingqing (resigned on 1 March 2020)	0/2

### Nomination Committee

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

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

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

	<b>Number of attendance/ number of meetings</b>
Mr. Mao Guohua ( <i>Chairman</i> )	2/2
Mr. Liu Zexing (appointed on 1 March 2020)	1/1
Mr. Ho Hin Chung	2/2
Mr. Xiao Jiansheng	2/2
Mr. Gan Mingqing (resigned on 1 March 2020)	0/1

## CORPORATE GOVERNANCE REPORT (continued)

### ATTENDANCE RECORDS OF BOARD MEETING AND GENERAL MEETING

During the Year, seven Board meetings were held. Details of the attendance of each Director at the Board meetings and annual general meeting of the Company held on 15 June 2020 are set out below:

	Number of attendance Number of meetings	AGM
<b>Executive Director</b>		
Mr. Huang Xiaodong ( <i>Chairman</i> )	7/7	1/1
Mr. Xiao Jiansheng ( <i>Chairman</i> )	7/7	1/1
<b>Non-executive Director</b>		
Lee Kin Kee	6/7	1/1
<b>Independent non-executive Director</b>		
Mr. Liu Zexing (appointed on 1 March 2020)	5/6	1/1
Mr. Mao Guohua	7/7	1/1
Mr. Ho Hin Chung	7/7	1/1
Mr. Gan Mingqing (resigned on 1 March 2020)	0/1	N/A

N/A represents not applicable

### COMPANY SECRETARY

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

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

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

### AUDITORS’ REMUNERATION

The amount of fees charged by the external auditors generally depends on the scope and volume of the external auditors’ work performed. For the Year, the remuneration paid or payable to the external auditors of the Company in respect of the statutory audit services amounted to approximately RMB579,000.

## CORPORATE GOVERNANCE REPORT (continued)

### RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

The Audit Committee reviewed the internal control review report issued by the independent consultancy company and the Company's risk management and internal control systems in respect of the year ended 31 December 2020 and considered that they are effective and adequate. The Board assessed the effectiveness of internal control systems by considering the internal control review report and reviews performed by the Audit Committee and concurred the same.

The Group has yet to establish its internal audit function during the year ended 31 December 2020 as required under Code Provision C.2.5. The Audit Committee and the Board, has considered the internal control review report prepared by an independent consultancy company to form the basis to review the adequacy and effectiveness of the Group's risk management and internal control systems. The Audit Committee and the Board will continue to review the need for an internal audit function on an annual basis.

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

### DIRECTORS' SECURITIES TRANSACTIONS

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

### BOARD DIVERSITY POLICY

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

#### Summary of the Board Diversity Policy

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

#### Measurable Objectives

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

#### Monitoring and Reporting

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

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

### COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2020, as far as the Board and management are aware, there was no material breach of non-compliance with the applicable laws and regulations by the Group that has a significant impact on the businesses and operations of the Group.

# CORPORATE GOVERNANCE REPORT (continued)

## COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONSHIP

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

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

- (i) corporate communications such as annual reports, quarterly reports, interim reports and circulars are issued printed form and are available on the Stock Exchange's website and the Company's website;
- (ii) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;
- (iii) corporate information is made available on the Company's website; and
- (iv) the Hong Kong share registrar of the Company serves the shareholders in respect of share registration, dividend payment and related matters.

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

## SHAREHOLDERS' RIGHTS

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

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

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

### **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

To the best knowledge of the Directors, there are no uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing the consolidated financial statements. The Company's external auditors' responsibilities in respect of the consolidated financial statements is set out in the Independent Auditors' Report on pages 63 to 67 of this annual report.

### **CHANGES IN CONSTITUTIONAL DOCUMENTS**

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## INTRODUCTION AND APPROACH TO ESG AND REPORTING

Alpha Era International Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) is principally engaged in the manufacturing and sales of inflatable products and related accessories.

The Group is pleased to present the fourth Environmental, Social and Governance (“ESG”) Report (the “ESG Report”) for the financial year ended 31 December 2020 (the “Reporting Period”). The ESG Report summarizes the initiatives, programs and performance of the Group as well as demonstrates its commitment to sustainability.

The Group believes sustainability is a key to achieve continuous success and has integrated this key concept into its business strategy. In order to pursue a successful and sustainable business model, the Group recognizes the importance of integrating ESG aspects into its risk management system and has taken corresponding measures in its daily operation and governance perspective.

## ESG GOVERNANCE STRUCTURE

The Group’s senior management is dedicated to ESG issues, leading employees and related department managers to be responsible for ESG matters. Related parties are responsible for ESG data collection and consolidation of the ESG report. The related employees would report to the senior management assisting in the assessment and identification of the risk management of the Group on ESG aspects and whether its internal control system is appropriate and effective. They also review the ESG performance of the Group, including environmental, health and safety, labour standards, product responsibility and other ESG aspects. The senior management sets the tone at the top level for its ESG strategies, and is responsible for ensuring effective risk management and internal controls.

## REPORTING SCOPE

This ESG Report covers the Group’s business operations and activities in the People’s Republic of China (“PRC”) and the administrative office in Hong Kong unless specified otherwise. The key performance indicators (“KPIs”) gathered are shown in the ESG Report and are supplemented by explanatory notes to establish benchmarks. The Group will continue to expand the scope of disclosure in the future as the Group’s data collection system becomes more mature and its work on sustainable development is strengthened.

## REPORTING FRAMEWORK

This ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the “ESG Reporting Guide”) as set out in the Appendix 20 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Information relating to the corporate governance practices of the Group has been set out in the Corporate Governance Report on pages 26 to 35 of annual report 2020.

## REPORTING PERIOD

The ESG Report specifics the ESG activities, challenges and measures being taken during the financial year ended 31 December 2020.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

## STAKEHOLDER ENGAGEMENT

The Group values its stakeholders and their feedback regarding its businesses and ESG aspects. In order to understand and address their key concerns, the Group maintains close communication with the key stakeholders, including shareholders and investors, clients, employees, suppliers, government as well as communities and the public. The Group will continue to increase the involvement of stakeholders via constructive conversation with a view to charting a course for long-term prosperity. The Group's communication channels with the key stakeholders and their respective interests and concerns are summarized as follows:

Stakeholders	Interests and concerns	Engagement channels
<b>Shareholders and investors</b>	<ul style="list-style-type: none"> <li>• Return on investment</li> <li>• Corporate strategy and governance</li> <li>• Corporate sustainability</li> </ul>	<ul style="list-style-type: none"> <li>• Annual general meetings and other shareholder meetings</li> <li>• Financial reports</li> <li>• Announcements, notices of meetings, circulars</li> <li>• Corporate website</li> </ul>
<b>Clients</b>	<ul style="list-style-type: none"> <li>• Full compliance with regulations</li> <li>• Sustainability performance of operations</li> <li>• Customer rights protection</li> <li>• Product and service quality</li> </ul>	<ul style="list-style-type: none"> <li>• Financial reports</li> <li>• Corporate website</li> <li>• Regular meetings and communication</li> <li>• Customer service hotline and email</li> <li>• Customer satisfaction survey</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>• Compensation and benefits</li> <li>• Occupational health and safety</li> <li>• Career development opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• In-house training programs</li> <li>• Performance reviews and appraisals</li> <li>• Complaints channels</li> <li>• Suggestion box</li> </ul>
<b>Suppliers</b>	<ul style="list-style-type: none"> <li>• Long-term partnership</li> <li>• Ethical business practices</li> <li>• Supplier assessment criteria</li> <li>• Responsible supply chain management</li> <li>• Fair and open procurement</li> </ul>	<ul style="list-style-type: none"> <li>• Field inspections</li> <li>• Audits and assessments</li> <li>• Audio conferences</li> </ul>
<b>Government</b>	<ul style="list-style-type: none"> <li>• Compliance with laws and regulation</li> <li>• Continuous communication</li> </ul>	<ul style="list-style-type: none"> <li>• Field inspections</li> <li>• Compliance consultant</li> <li>• Legal consultant</li> </ul>
<b>Communities and the public</b>	<ul style="list-style-type: none"> <li>• Giving back to society</li> <li>• Environmental protection</li> <li>• Employment opportunities</li> <li>• Social welfare</li> <li>• Transparent information</li> </ul>	<ul style="list-style-type: none"> <li>• ESG reports</li> <li>• Community investment</li> <li>• Charity activities</li> <li>• Corporate website</li> <li>• Financial reports</li> </ul>

The Group aims to collaborate with its stakeholders to improve its ESG performance and create greater value for the wider community on a continuous basis.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

## MATERIALITY ASSESSMENT

The management and employees who are responsible for the key functions of the Group have participated in preparing the ESG report and assisted the Group in reviewing its operation, identifying key ESG issues, and assessing the importance of these issues to its businesses and stakeholders. The Group compiled a questionnaire with reference to the identified material ESG issues to collect the information from the stakeholders of the Group, including but not limited to, the Group's clients, suppliers and employees.

A summary of the Group's material ESG issues according to their relative importance is as follows:

<b>Least material</b>	<b>Material</b>	<b>Most material</b>
<ul style="list-style-type: none"><li>• Air emissions</li><li>• Greenhouse gas ("GHG") emissions</li><li>• Waste management</li><li>• Energy consumption</li><li>• Water consumption</li><li>• Noise pollution</li><li>• Prevention of child labor or forced labor</li></ul>	<ul style="list-style-type: none"><li>• Use of packaging materials</li><li>• Remuneration and benefits</li><li>• Fair and open procurement</li><li>• Anti-corruption</li><li>• Community investment</li></ul>	<ul style="list-style-type: none"><li>• Recruitment, promotion and dismissal</li><li>• Occupational health and safety</li><li>• Development and training of employees</li><li>• Product quality supervision</li></ul>

Based on the materiality assessment results, the Group was informed of the topics that stakeholders were most concerned about. The Group is particularly focused upon topics such as recruitment, promotion and dismissal, occupational health and safety, development and training of employees, and product quality supervision. In this ESG Report, the Group will further disclose the Group's performance in terms of relevant aspects, and consider the results as important reference points for the planning of ESG management for the next financial year.

During the Reporting Period, the Group confirmed that appropriate and effective management policies and internal control systems for ESG issues were in place and confirmed the information disclosed in the Report meets the ESG Reporting Guide.

## CONTACT US

The Group welcomes comments and suggestions from all stakeholders. You may provide your comments on the ESG Report or towards the Group's performance in respect of sustainability via email to [info@alpha-era.co](mailto:info@alpha-era.co).

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

## A. ENVIRONMENT

### A1. Emissions

The Group attaches great importance to good environmental management and strives to protect the environment in order to fulfill its social responsibilities. The Group has formulated Operational Control on Environmental System(《環境體系運行控制程序》), which aims to prevent pollution and minimize potential environmental impacts. The Group's factories are accredited with ISO 14001:2015 Environmental Management System.

The Group prepared and implemented various emissions and waste reduction measures based the relevant laws and regulations. During the Reporting Period, the Group was not aware of any material non-compliance with environmental related laws and regulations including but not limited to the Environmental Protection Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Water Pollution, the Law of the People's Republic of China on Prevention and Control of Atmospheric Pollution, the Law of the People's Republic of China on Prevention and Control of Environmental Noise Pollution, the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, the Waste Disposal Ordinance of Hong Kong, and other environmental protection related laws and regulations that would have a significant impact on the Group.

#### ***Air Emissions***

The Group's major sources of exhaust gas emissions were originated from diesel and petrol consumed by vehicles. In response to the above sources, the Group has actively taken the following emissions reduction measures to minimize the impacts:

- Conduct regular vehicle inspection and maintenance to enhance vehicle and boiler efficiency;
- Encourage the use of public transportation for business travel;
- Avoid peak hour traffic;
- Encourage the use of bicycle;
- Encourage car-pooling;
- Reduce the number of business trips by utilizing electronic communication means such as video conferences;
- Educate employees to turn off engines of idling vehicles; and
- Actively adopt other measures to reduce emissions, which are described in the section headed "GHG Emissions" under this aspect.

Regular inspections have been performed by an external professional assessment company to inspect the level of the pollutants generated. Inspections are conducted according to the Determination of Particulate Matter in Exhaust Gas and Sampling Method of Gaseous Pollutants in a Fixed Source of Pollution (GB/T 16157-1996) and have passed the National Standard Air Pollutant Release Standard (DB44/27-2001) as well as the Emission Standard for Order Pollutants (GB 14554-93). The level of exhaust gases such as benzene, toluene and xylene generated from the process of injecting oil into the inflatable playgrounds was satisfactory during the Reporting Period.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

Summary of exhaust gas emissions performance:

Types of Exhaust Gas	Unit	Emissions 2020
Nitrogen oxides (NO <sub>x</sub> )	kg	202.22
Sulphur oxides (SO <sub>x</sub> )	kg	0.41
Particulate matter (PM)	kg	18.99

### GHG Emissions

GHG emissions from the Group were primarily due to the petrol and diesel consumption for transportation (Scope 1), purchased electricity (Scope 2), and employee business-related air travels (Scope 3). The Group has adopted the following measures to reduce GHG emissions during operation:

- Actively adopt vehicle emission reduction measures, which are described in the section headed “Air Emissions” under this aspect.
- Actively adopt environmental protection, energy conservation, and water conservation measures, which are described in the section headed “Energy Consumption” and “Water consumption” in aspect A2.

Through the implementation of the above measures, the employees’ awareness of GHG reduction has enhanced.

Summary of the GHG emissions performance:

Indicator <sup>1</sup>	Unit	Emissions 2020
Direct GHG emissions (Scope 1)	tCO <sub>2</sub> e	76.49
Energy indirect GHG emissions (Scope 2)	tCO <sub>2</sub> e	1,890.34
Indirect GHG emissions (Scope 3)	tCO <sub>2</sub> e	30.77
Total GHG emissions (Scope 1, 2 and 3)	tCO <sub>2</sub> e	1,997.60
Total GHG emissions intensity <sup>2</sup>	tCO <sub>2</sub> e/employee	2.75

Note:

1. GHG emissions data is presented in terms of carbon dioxide equivalent and based on, including but not limited to, The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards issued by the World Resources Institute and the World Business Council for Sustainable Development, How to prepare an ESG Report – Appendix 2: Reporting Guidance on Environmental KPIs issued by the Stock Exchange, Global Warming Potential Values from the IPCC Fifth Assessment Report, 2014 (AR5), the latest emission factors of China’s regional power grid basis, and 2019 Sustainability Report published by CLP Power Hong Kong Limited.
2. As at 31 December 2020, the Group had a total of 726 employees. This data has also been used for calculating other intensity data.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

## ***Sewage Discharge***

The Group discharges two types of wastewater, namely domestic sewage and industrial effluent.

### *Domestic sewage*

Domestic sewage is discharged from the accommodation that the Group provided to employees in the PRC. The Group strictly controls the discharge of sewage to minimize its environmental impacts. Regular inspections are performed by a professional external assessment company to check against various standards such as the Standard Examination Methods for Drinking Water – Organoleptic and Physical Parameters (GB 5749-2006) and Technical Specifications Requirements for Monitoring of Surface Water and Waste Water (HJ/T 91-2002). According to the report conducted by the assessment company, the test results were satisfactory during the Reporting Period. The Group's sewage emissions comply with the Standard for Drinking Water Quality (GB 5749-2006) and Discharge Limits of Water Pollutants (DB44/26-2001) in the PRC.

### *Industrial effluent*

Water used in the production processes of the inflatable products eventually becomes industrial effluent, which is hazardous wastewater. Therefore, the Group engages a government-authorized service company to collect the effluent and conduct water purification to remove undesirable matters through the process of screening, grit removal and sedimentation. Besides, the Group is continuously looking for possible ways to enhance the recycling of effluent in the future.

Summary of sewage discharge performance:

<b>Types of Sewage</b>	<b>Unit</b>	<b>Discharge 2020</b>
Industrial effluent	tonnes	82.43
Total sewage intensity	tonnes/employee	0.11

### *Waste Management*

The Group recognizes the importance of good waste management practices which not only protects the reputation and quality of the products produced, but also safeguards the health and safety of its employees. Therefore, the Group has established a detailed Procedure for Operational Control on Environmental System(《環境體系運行控制程序》) that regulates the Group's waste management practices of non-hazardous waste and hazardous waste, and clearly states the procedures for the collection, storage and disposal of wastes. The Group has also established Rules on Waste Classification (《垃圾分類細則》) to guide the employees and Hazardous Waste Collection Record Form (《危險廢棄物收集記錄表》) to monitor the collection and storage of hazardous waste. Specific areas are assigned for the temporary storage of hazardous wastes for safety purposes and a licensed third-party is engaged in the collection of waste for recycling and reuse purposes.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

### *Hazardous Wastes*

The Group has established guidelines governing the management and disposal of hazardous wastes.

Summary of hazardous waste discharge performance:

<b>Types of Hazardous Waste</b>	<b>Unit</b>	<b>Discharge 2020</b>
Waste lamp	tonnes	0.02
Waste of packaging bucket	tonnes	0.51
Waste of screen printing	tonnes	0.10
Used cleaning cloth from production	tonnes	0.95
Used battery	tonnes	0.02
Used active charcoal	tonnes	0.30
Used photographic plastic	tonnes	0.20
Total hazardous waste	tonnes	2.10
Total hazardous waste intensity	tonnes/employee	0.0029

### *Non-hazardous Wastes*

The Group adheres to the principles of waste management, and is committed to handling and disposing of all wastes generated by its business activities through abiding by the 3R principle (Reduce, Reuse and Recycle). All of its waste management practices comply with relevant environmental laws and regulations. The non-hazardous wastes disposed of by the Group's business activities were mainly scrap paper and metal. The following measures were adopted to reduce non-hazardous wastes in its business operation:

- Place recycling bins in office areas to cultivate employees' recycling habits;
- Distribute office memos to remind staff to only print necessary materials to avoid wastage;
- Record the paper consumption;
- Reuse envelopes, folders and cartons in office;
- Use recycled paper for printing and copying; and
- Promote double-sided printing to utilize paper efficiently.

Through the implementation of the above measures, the employees' awareness of waste reduction was enhanced.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

Summary of Non-hazardous waste discharge performance:

<b>Types of Non-hazardous Waste</b>	<b>Unit</b>	<b>Discharge 2020</b>
Scrap metal	tonnes	27.49
Scrap paper	tonnes	1.82
Total non-hazardous wastes	tonnes	29.31
Total non-hazardous waste intensity	tonnes/employee	0.040

## A2. Use of Resources

The Group continues with initiatives to introduce resource efficiency and eco-friendly measures to the Group's operations and is committed to optimizing the use of resources in all of its business operations. The Group has established relevant policies and procedures in governing the use of energy and water with reference to the objectives of achieving higher efficiency and reducing the unnecessary use of materials.

### **Energy Consumption**

The Group has developed related energy measures and initiatives on the efficient use of energy, such measures and initiatives have been formally documented in the Procedure for Operational Control on Environmental System (《環境體系運行控制程序》). Employees are required to take the related measures and initiatives, and assume responsibility for the Group's overall energy efficiency. The Group has developed a Energy Usage Statistics Table (《能源使用統計表》) to record the energy consumption of each department. If the energy consumption level is high, an investigation will be taken to find out the root cause, where corrective and preventive actions will be taken. The Group also regularly reviews its energy consumption objectives and targets to continuously enhance the Group's energy consumption performance.

The Group has introduced various measures and initiatives to achieve the goal of electricity saving and efficient consumption. Such measures and initiatives include but not limited to the following:

- Pose green messages in the workplaces;
- Switch off computers, printers, machines and other electronic devices after office hours or when leaving the workplace to reduce power consumption;
- Check and turn off all machines and equipment when they leave the factories or offices;
- Upgrade the electrical equipment with high efficient energy label continuously;
- Turn on lights only in areas that are essential for safety and security purposes after office hours or during lunch hours on working days;
- Turn off all unnecessary lightings and use natural lightings as far as practicable;
- Apply optimal temperature setting of air-conditioning; and
- Actively adopt vehicle emission reduction measures, which are described in the section headed "Air Emissions" in A1 aspect.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

Through the implementation of the above measures, the employees' awareness of energy conservation has enhanced.

Summary of energy consumption performance:

Types of Energy	Energy category	Unit	2020
Direct energy Electricity	Petrol	MWh	241.13
	Diesel	MWh	40.27
Indirect energy	Electricity	MWh	2,261.44
Total energy consumption		MWh	2,542.84
Energy consumption intensity		MWh/employee	3.50

### Water Consumption

The Group commits to treasure the water resources by implementing a variety of measures and initiatives which have been formally documented in the Procedure for Operational Control on Environmental System (《環境體系運行控制程序》) to reduce water consumption. The Group encourages all employees to develop the habit of water conservation. The following are some measures that the Group has implemented to increase water efficiency:

- Pose water-saving reminders, and guide employees to consume water reasonably; and
- Fix dripping taps promptly to avoid further leakage and wastage.

Through the implementation of the above measures, the employees' awareness of water conservation has enhanced.

Summary of water consumption performance:

Indicator	Unit	2020
Total water consumption	m <sup>3</sup>	77,901.85
Total water consumption intensity	m <sup>3</sup> /employee	107.30

In view of the geographical location of the Group's operations and nature of the business, the Group does not have any issues in sourcing water that is fit for purpose.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

## ***Use of Packaging Materials***

Apart from energy and water resources, the main resources used by the Group are packaging materials. The Group consumes various types of packaging materials, such as plastics, paper cartons and wave balls in its daily operations. The Group conducts an annual review based on the packaging material consumption rate. The Group also maximizes the usage of packaging material. For example, the Group packs more products in larger boxes in order to avoid excessive packaging.

Summary of packaging materials consumption performance:

<b>Types of packaging materials</b>	<b>Unit</b>	<b>2020</b>
Plastic products (plastic bags, repair patches and adhesive tape)	tonnes	16,215.00
Paper products (paper cartons, paper instructions and paper holders)	tonnes	174,884.00
Others (wave balls, camp nails and repair glues)	tonnes	80,000.00
Total consumption of packaging materials	tonnes	271,099.00
Total packing materials consumption intensity	tonnes/employee	373.41

## **A3. Environment and Natural Resources**

The Group pursues the best practices for environmental protection and focuses on the Group's business impacts on the environment and natural resources. In addition to complying with relevant environmental laws and international standards for protecting the natural environment, the Group integrates concepts of environmental protection and natural resource conservation into its internal management and daily operations in order to achieve environmental sustainability.

In the upcoming years, the Group plans to further increase employees' awareness on environmental protection and improve resources efficiency. The Group will also work closely with its suppliers to minimise the negative environmental impact of the supply chain.

### ***Plasticizers***

The Group commits to reducing the adverse impacts on the environment through using widely recognized environmentally friendly plasticizers. Plasticizers are the main raw materials used to soften PVC, making it elastic, flexible and bendable. Many studies have been conducted to evaluate the impact of plasticizers on humans and the environment. The Member States Committee of European Chemicals Agency (ECHA) stated that some elements of plasticizers are the endocrine disruptor that causes adverse endocrine effects in fish and other aquatic organisms. Therefore, the Group uses polyethylene terephthalate ("PET"), an eco-friendly plasticizer that is easy to reprocess and decompose into its basic monomers. PET can be recycled into different useful materials, such as carpeting, car parts, fiberfill for coats and sleeping bags, shoes, luggage, t-shirts. Moreover, according to the study conducted by scientists at the University of Pittsburgh on examining the environmental consequences of biopolymer production, PET has the least negative environmental impacts compared to other plasticizers when considering factors such as biodegradability, recycled percentage, mass from renewable sources, life cycle health hazards and life cycle energy use.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

## ***Working Environment***

The Group is committed to providing employees with a comfortable working environment to enhance work efficiency. The Group maintains office discipline and environmental hygiene and keeps the personal office areas and public areas clean and tidy. The Group's employees will monitor the condition of the living quarters and workspace from time to time to set up emergency plans in advance and adopt prevention and control measures to identify problems and risks. The Group will deal with the identified problems and potential risks in time to maintain a sound working environment.

## ***Noise Pollution***

The Group has always been aware of its impact of noise pollution on the surrounding communities and the health of workers. The Group actively communicates with nearby communities and its workers on noise issues and provides its workers with health and safety equipment for protection. In order to evaluate the Group's level of noise pollution, a third-party inspection is carried out every year. The inspection report verified that the Group has complied with Emission Standard for Industrial Enterprises Noise at Boundary (GB12348-2008) in the PRC. The noise level of the Group at daytime and mid-night was maintained at a reasonable level during the Reporting Period.

## **B. SOCIAL**

### **B1. Employment**

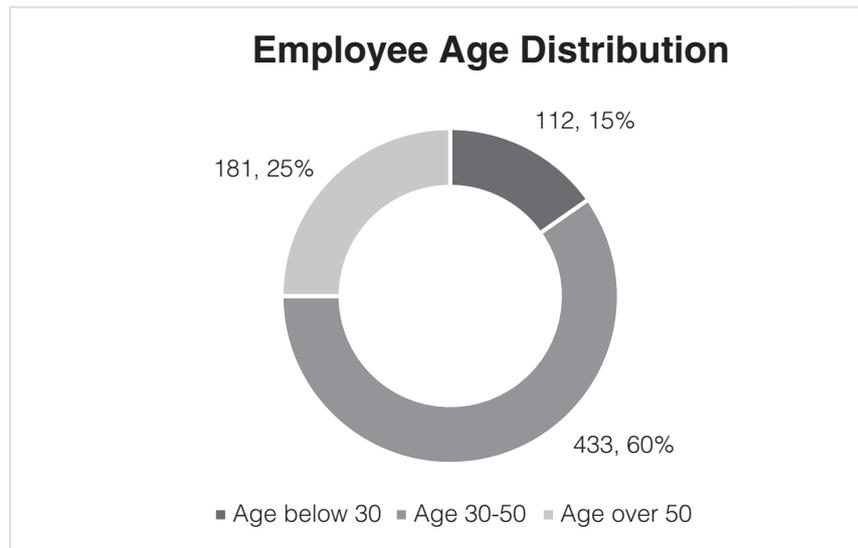
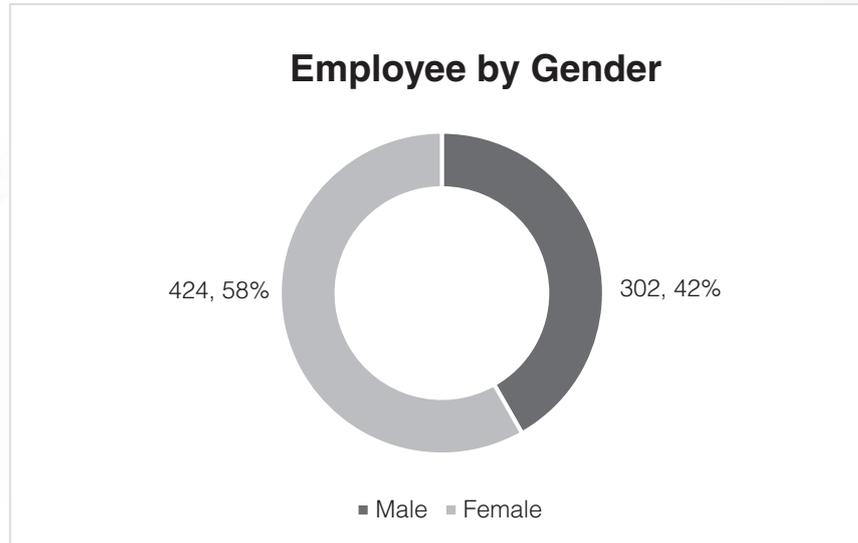
Human resources are the foundation of supporting the development of the Group. The Group's success relies heavily on the ability to attract, develop and retain employees. The Group adheres to the people-oriented principle, respects and protects the legitimate rights and interests of each employee. The Group regulates labor employment management, safeguards employees' occupational health and safety, strengthens democratic management, safeguards the interests of employees, and fully respects and values employees' enthusiasm, initiative and creativity so as to build a harmonious relationship with all its employees.

The Group has formally documented relevant employment policies in the Employee Handbook (《員工手冊》), covering recruitment, promotion and dismissal, remuneration and benefits, diversity and equal opportunities, etc. The Group has established a series of human resource management policies to provide employees with a healthy, happy and motivated working atmosphere, and to guide employees to actively integrate their personal pursuit into the long-term development of the Group. The Group reviews these policies and its employment process periodically to ensure the continuous improvement of its employment standards.

During the Reporting Period, the Group was not aware of any material non-compliance with related laws and regulations including but not limited to the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China and the Employment Ordinance of Hong Kong that would have a significant impact on the Group.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

As at 31 December 2020, the Group had 726 employees in total, 725 full-time employees in PRC and 1 full-time employee in Hong Kong. The following shows the breakdown of employees by gender and age group.



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

### *Employee Turnover during the Reporting Period*

The ratio of employee turnover to total number of employees was 59.32% during the Reporting Period. The following table shows the breakdown of employee turnover.

	<b>Number of People</b>	<b>Ratio of Employee Turnover</b>
<b>By Gender</b>		
Male	220	50.11%
Female	219	49.89%
<b>By Age Group</b>		
Age below 30	129	29.38%
Age 30-50	258	58.77%
Age over 50	52	11.85%

### *Recruitment, Promotion and Dismissal*

The Group seeks to build an elite workforce by recruiting outstanding employees. The Group has established the Recruitment Management Procedure (《雇用管理程序》) to standardize the hiring procedures and recruitment principles, and adheres to the hiring principles of morality, knowledge, ability, experience and fitness applicable to job positions as well as the principles of fairness, openness and justice, so as to continuously attract, employ and develop talents.

The Group offers promotion and development opportunities for outperforming employees through an open and fair assessment system so as to explore their capability, assist them on career development and contribute to the Group's sustainable growth. Staff performance reviews are carried out regularly to assess employees' work performance based on the principle of meritocracy, talents and competitiveness on an open and fair basis.

Besides, the Group does not tolerate the dismissal of employees under any unreasonable basis, and exit interviews are required to be conducted with the resigned staff to collect opinions for any possible improvements on the Group's policies.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

## ***Remuneration and Benefits***

The Group has established a fair, reasonable and competitive Remuneration Management System (《薪酬管理制度》) and Remuneration Management Procedure (《薪酬管理制度》) that provides compensation to employees based on the principles of fairness, competition, incentives, rationality and legality. The remuneration package of the Group's employees consists of basic salary, performance bonus, overtime pay, working age salary, food subsidy, related subsidies and various bonuses.

The Group signed and executed labor contracts with all employees in the PRC in accordance with the Labor Contract Law of the People's Republic of China. The Group pays five social insurances and one housing fund for its employees in the PRC, namely endowment insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing provident fund to ensure employees are covered by social insurance. The Group also remits contributions to the Mandatory Provident Fund Schemes (the "MPF Schemes") under the Hong Kong's Mandatory Provident Fund Schemes Ordinance for employees in Hong Kong.

Besides, the Group respects the rights of employees on rest and leave, and regulates their working hours and their rights for various types of rest times and holidays. The Group offers a wide variety of leave entitlements for different circumstances such as maternity leave, paternity leave, marriage leave, study leave, compassionate leave, and compensation leave.

## ***Diversity, Equal Opportunity and Anti-Discrimination***

The sustainable growth of the Group relies on the diversity of talents and the provision of equal opportunities. The Group endeavors to hire people based on experience and expertise and make decisions independent of race, creed, national origin, ancestry, sex, marital status, disability, religious or political affiliation, age or sexual orientation. It is of the Group's firm belief that all employees should have the right to work in an environment free of discrimination, harassment, victimization, and vilification. Therefore, the Group is committed to creating and maintaining an inclusive and collaborative workplace culture. In addition, the Group emphatically states its zero-tolerance stance on any aforementioned behaviors in the workplace.

## **B2. Health and Safety**

### ***Occupational Health and Safety***

The Group is committed to providing and maintaining a safe and healthy environment for all its employees, contractors, customers and others who visit or work on its premises and preventing work-related accidents, injuries and illnesses. The Group believes that employees are the most valuable assets of an enterprise and regards human resources as its corporate wealth. The Group has established an Operational Control Procedure on Occupational Health and Safety Policy (《職業健康安全體系運行控制程序》) which includes the prevention and remediation of safety accidents, detection on potential safety hazards in the workplace, and maintenance of a safe working environment. The Group reviews, and if necessary, revises this policy and its health and safety practices at least annually to ensure continuous improvements of its health and safety standards.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

During the Reporting Period, the Group was not aware of any material non-compliance with health and safety-related laws and regulations including but not limited to the Occupational Safety and Health Ordinance, the Labor Law of the People's Republic of China, the Work Safety Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases and the Fire Protection Law of the People's Republic of China that would have a significant impact on the Group. During the Reporting Period, the Group recorded 0 work-related fatalities and 20 reported accidents due to work-related injury. The Group reviews and investigates every injury case under the internal guideline procedures. Corrective measures will be identified for the prevention of similar accidents.

	Unit	2020
<b>Number and Rate of Work-related Fatalities</b>		
Number of Work-related Fatalities	people	0
	accidents	0
Work-related Fatality Rate	per thousand employees	0
<b>Number and Rate of Work-related Injuries</b>		
Number of Lost Days	days	127.5
Number of Work-related Injury	people	20
	accidents	20
Injury Rate	per thousand employees	27.55

### ***Internal Health and Safety Management System***

To pursue an injury-free working environment, the Group requires all employees to receive safety training before the commencement of work. The Group also emphasizes to its employees that strict compliance with safety requirements is vital to protect themselves from accidents and injuries. Safety guidelines such as Safety Management System on Electricity Utilization (《安全用電管理制度》) and Production Equipment Management Regulation (《生產設備管理規定》) are adopted to avoid any safety issues. When safety issues are spotted, employees are required to report in a timely manner. The Group has also formulated a series of emergency plans in case of any accidents and organized fire drills on a regular basis to further reinforce employees' safety awareness.

Besides, the Group provides staff with health and safety notifications to provide related information and increase their awareness. The Group also arranges body checks for employees, particularly paying attention to those who have abnormal examination results and provides treatment advice.

### ***Fire Safety***

The Group has also formulated its Fire Safety Management System (《消防安全管理制度》) in accordance with the Fire Protection Law of the People's Republic of China and Provisions on the Supervision and Administration of Fire Protection of Construction Projects. To raise employees' fire prevention awareness, fire drills are conducted regularly and employees are educated on the correct use of fire extinguishers and the Group's fire evacuation plans are improved. In response to emergencies, first-aid kits and fire extinguishers are strategically placed in different prominent areas around the workplace.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

## ***Other Health and Safety Measures***

With the outbreak of COVID-19, the Group is highly aware of its potential health and safety impacts on employees. The Group has strengthened its operating environmental hygiene to ensure a healthy and safe working environment. The Group has also taken precautionary measures, such as:

- Perform temperature checks and registrations before entering offices and the factories;
- Require all vehicles and personnel to be disinfected when entering the factories;
- Provide adequate disinfection supplies such as hand sanitizer in its operations;
- Encourage employees to wash their hands frequently with soap and water, or with a hand sanitizer;
- Keep social distancing of at least 1 meter from others when lining up for canteen meals and minimize meal gatherings; and
- Cancel large-scale events such as spring dinner.

## **B3. Development and Training**

The Group recognizes the valuable contribution its talents have made to the continued success of the Group. The Group believes that its ability to recruit and retain experienced and skilled labor is key to growth and development.

### ***Development and Training of Employees***

The Group has developed relevant training procedures to standardize the management of employees' training and holds various training programs in order to improve the knowledge and skills of employees. A training plan is developed based on the requirements from various departments and employees.

The Group has conducted quality and environment management training programs to enhance the knowledge of employees on the standards of ISO9001 and ISO14001. The programs include quality assurance training in the production process, inspection assurance of materials received from suppliers, health and safety precautions in using production equipment and machinery as well as customer relationship management. This helps employees to become more professional in quality and environmental management. The training content is regularly updated to ensure contents are relevant to stakeholder's changing needs such as change in law and regulatory requirements, market, product trends and customer behavior.

To help new employees adapt to the workplace, the Group provides induction training for new employees. Besides, the Group launches a mentoring program, for which experienced employees act as mentors to guide newcomers. This program can effectively facilitate communication, build team spirit and strengthen their sense of belonging.

In addition to internal training, the Group encourages and supports employees to participate in external personal and professional training to fulfill the needs of the Group's development. To encourage employees in taking the initiative in learning and pursue further career development, the Group offers reimbursements to its employees who have received relevant training and completed development programs that pertain to their respective work positions and skills.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

The following table shows the percentage of employees trained, total training hours, and average training hours per employee by gender and employment category during the Reporting Period.

<b>Employee Training</b>	<b>Percentage of Employees Trained</b>	<b>Total Training Hours</b>	<b>Average Training Hours/Employee</b>
<b>By Gender</b>			
Male	78.48%	2,067.5	6.85
Female	77.59%	2,608.5	6.15
<b>By Employment Category</b>			
Senior Management	60.00%	70	7.00
Management	85.00%	1,169	9.74
General Staff	76.85%	3,436	5.77
<b>Total</b>	<b>77.96%</b>	<b>4,675</b>	<b>6.44</b>

### B4. Labor Standards

#### *Prevention of Child Labor or Forced Labor*

Child and forced labor are strictly prohibited during the recruitment process as defined by laws and regulations. The Group has established a complete recruitment process to examine candidates' background and official reporting procedures to handle any exceptions. Personal data are collected during the employment process to assist in the selection of suitable candidates and to verify candidates' personal data. The human resource department ensures that the identity documents are carefully checked. The human resource department is also responsible for inspecting employees from time to time to verify their actual age is consistent with personal information provided. If violation is involved, it will be dealt with in the light of circumstances.

Furthermore, employees' overtime working is based on voluntary principles so as to avoid the violation of labor standards and safeguard the rights and interests of employees. Overtime salary or compensatory leave are also required to be provided afterward. To prevent any form of forced labor, a job description outlining the principal responsibilities of an employee is attached in the labor contract and an employee suggestion box is set up for employees to report any workplace violation.

The Group also prohibits any punitive measures, management methods and behaviors such as abusive, corporal punishment, violence, mental stress, sexual harassment (including inappropriate language, posture and physical contact) under any circumstances.

During the Reporting Period, the Group was not aware of any material non-compliance with child and forced labor-related laws and regulations including but not limited to the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China and Employment Ordinance of Hong Kong that would have a significant impact on the Group.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

## B5. Supply Chain Management

As a socially responsible enterprise, it is critical to maintain and manage a reliable supply chain that is consistent with the Group's policies on sustainability. The Group is committed to building and maintaining close business relationships with its business partners. The Group has also established measures and procedures to reduce risks associated with the economy, environment and society.

### ***Procurement Practices***

The Group has established a rigorous and standardized procurement system. The Group has formulated the Supplier Selection Form (《供應商評審表》) to evaluate and select suppliers. During the supplier selection process, the Group not only reviews suppliers' basic information, but also considers a number of other factors such as the delivery schedule, pricing, possession of requisite licenses, certifications, and compliance to relevant industrial laws, regulations and standards.

In addition, all suppliers are evaluated carefully and subjected to regular monitoring and assessments. The Group reviews and evaluates supplier performance in accordance with its Supplier Monthly Assessment Form (《供應商月度綜合考核表》). The Group classifies them into different grades (S/A/B/C/D) based on monthly assessment results. In order to ensure suppliers' capability in quality assurance, safety and environmental responsibility, field visit and investigation will be conducted. The investigation reviews the production capacity, technology level, quality assurance capabilities, supply capacity, safety and environment management qualifications.

In view of the increasing environmental concerns in society, the Group is aware of the importance of managing the environmental and social risks of its supply chain. The Group embedded environmental and social consideration in the procurement process and supplier communication. The Group also informs suppliers of its environmental policy and requirements and its initiatives in green procurement through fax and mail. The Group especially requires suppliers who provide chemical substances to provide material safety data sheets ("MSDS") and other relevant test reports. The Group will continue to monitor its supply chain with regards to their environmental and social performance.

During the Reporting Period, the Group has 134 suppliers and they are all located in the PRC. The Group was not aware of any key suppliers that had any actions or practices which have a significant negative impact on business ethics, environmental protection, human rights and labor practices.

### ***Fair and Open Procurement***

Besides, the business cooperation process of the Group is conducted in an open, fair and impartial manner. The Group will not discriminate against any business partners and will not allow any corruption or bribery. Any employee has an obvious or potential conflict of interest with the Group's business partners will not participate in related business activities. The Group focuses on the integrity of its partners and will only select business partners who have a good track record in the past and do not have any serious non-compliance or violation of business ethics.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

## **B6. Product Responsibility**

The Group actively safeguards the quality of its products with its internal control process and maintains on-going communication with its customers to ensure mutual understanding while fulfilling customers' needs and expectations. The Group aims to apprehend customers' needs and expectations and strive to continuously improve the quality of its products and services.

During the Reporting Period, the Group was not aware of any material non-compliance with laws and regulations including but limited to the Law of the People's Republic of China on the Protection of Consumer Rights and Interests, the Product Quality Law of the People's Republic of China, the Patent Law of the People's Republic of China, the Advertising Law of the People's Republic of China, and the Personal Data (Privacy) Ordinance of Hong Kong, the Trade Descriptions Ordinance of Hong Kong, and the Copyright Ordinance of Hong Kong that would have a significant impact on the Group.

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

### ***Product Quality Supervision***

The Group recognizes the importance of achieving and maintaining high product quality standards for the sustainable growth of the Group. The Group's factory in Zhongshan has obtained the certificate of ISO 9001:2015 Quality Management System on the design and manufacture of inflatable products.

To maintain high product quality, the Group attaches great emphasis on quality management. The Group has established a quality control team and Quality Control Handbook (《品質控制手冊》) for ensuring the quality standards of the raw materials and products at each stage of production processes, as well as its end products. The Group's raw materials and products comply with international product safety and quality standards, such as the standards of the American toy safety standard ASTM F963-11, European Commission standard EN71-1, EN71-2 and EN71-8, Australia and New Zealand toy standard AS/NZS ISO8124-1:2013.

The quality control team is also responsible for conducting product risk assessments for new products. A product quality and safety test report summarizing all findings will be submitted to the engineering department. The quality control team will also conduct random sample testing during the trial production process. The engineering department is required to give solutions on the concerns raised by the quality control team. The products will not enter the market until the quality control team confirm all the testing results are satisfactory and no quality and safety issues are being found.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

## ***Innovation***

The Group views that the effort in conducting research and development is indispensable to maintain a high product quality standard. The Group constantly seeks to develop new products and enhance its existing products with special features through its research and development capabilities. To expand its research and development capabilities, the Group has developed a design department comprising professional technicians and engineers.

To ensure that the products invented and designed by the Group are not being plagiarized, the Group has formulated Measures for the Protection of Intellectual Property Rights (《維護和保障智慧財產權措施》). The Group protects its intellectual property rights worldwide through administrative and legal means, cooperation with customs, and litigation. If the Group notices competitive products or marketing materials that potentially infringe its intellectual property rights, the Group will investigate further and follow up as required. As at 31 December 2020, the Group owned 109 design patents, 19 utility patents and 1 invention patent in total.

## ***Customer Services***

The Group provides delighting and high quality service experience to customers through standardized service quality management. The Group values its customers' opinions. The Group regularly conducts customer satisfaction surveys and has an online opinion form on the Group's website to collect customer opinions. Besides, the Group reviews all complaints from customers, suppliers and partners in accordance with internal procedures and guidelines. Appropriate follow-up measures will be taken. If applicable, the Group will conduct relevant investigations to resolve complaints and make improvements accordingly. The Group believes that complaints are good opportunities to receive feedback from the community and customers, so as to continuously enhance its services and products.

## ***Protection of Privacy***

The Group is committed to protecting customer confidential information, privacy and interests of the Group and its stakeholders. The Group has formulated Information Security Regulations (《信息安全規定》) to ensure privacy and security of data. Employees should strictly abide by these regulations including but not limited to updating the operating system and anti-virus software on a prompt and regular basis, using encryption technology to protect sensitive data files and avoiding downloading software or programs from unknown sources. The Group's information technology engineers will also check the information system regularly to minimize potential risks of data leakage.

## ***Advertising and Labelling***

The Group owns different brands such as Happyhop Brand, Happyhop Pro Brand and Action Air. The Group promotes its products mainly through advertisements, social networking pages and industry exhibitions. The Group emphasizes the importance of proper advertising and compliance with relevant requirements of media advertisements. The Group verifies all information regarding its products and businesses before the publication of promotional materials or product sales to prevent any false, misleading or deceptive information from being publicized.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

## B7. Anti-Corruption

The Group considers ethical conduct is of utmost importance in corporate sustainable development and long-term success. Therefore, the Group values the importance of anti-corruption work and is committed to building a fair, open, honest and transparent corporate culture. During the Reporting Period, the Group was not aware of any material non-compliance with laws and regulations of bribery, extortion, fraud and money laundering including but not limited to the Company Law of the People's Republic of China, the Bidding Law of the People's Republic of China, the Anti-Unfair Competition Law of the People's Republic of China and the Prevention of Bribery Ordinance of Hong Kong that would have a significant impact on the Group. During the Reporting Period, there was no legal case regarding corrupt practices brought against the Group or its employees.

The Group has established anti-bribery and anti-corruption control procedures, anti-fraud mechanism, whistle-blowing procedures, and anti-conflict of interest regulation to guide the employees, ensuring that the Group strictly adheres to a high standard of business conduct. The Group encourages employees to report to management if any actual or potential illegal activities are discovered. All complaints filed are confidential and the Group is responsible for protecting the legitimate rights and interests of the whistleblower.

The Group has adopted a zero-tolerance approach towards all forms of corruption, including deception, bribery, forgery, extortion, conspiracy, embezzlement, money laundering and collusion. The Group has specified in the Employee Handbook (《員工手冊》) that the Group is entitled to terminate the employment contract with any employee who is engaged in any kind of misconduct or malpractice, and reserve the right to take further legal actions against such person.

## B8. Community Investment

The Group is committed to emboldening and supporting the public by means of social participation and contribution as part of its strategic development, and to nurture the corporate culture and realize its responsibility as a corporate citizen in the daily work life throughout the Group. The Group aims to promote the stability of the society and support the underprivileged in rehabilitation to improve the quality of life. The Group is an active member of the Red Cross Society of China ("RCSC"), a humanitarian social relief organization, and supports RCSC through donation.

The Group hopes to foster employees' sense of social responsibility by encouraging them to participate in charitable activities to make greater contributions to the community. The Group believes that by participating in activities that contribute to the community, the Group can enhance the civic awareness of its employees and establish correct values within them.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

Index Table of ESG Reporting Guide of the Stock Exchange of Hong Kong Limited

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Statement
<b>Aspect A1: Emissions</b>		
General Disclosure	Information on:  (a) the policies; and  (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions
KPI A1.1	The types of emissions and respective emissions data.	Emissions – Air Emissions, GHG Emissions, Sewage Discharge, Waste Management
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity.	Emissions – GHG Emissions
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity.	Emissions – Sewage Discharge, Waste Management
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity.	Emissions – Sewage Discharge, Waste Management
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Emissions – Air Emissions, GHG Emissions
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emissions – Sewage Discharge, Waste Management

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Statement
<b>Aspect A2: Use of Resources</b>		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources
KPI A2.1	Direct and/or indirect consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity.	Use of Resources – Energy Consumption
KPI A2.2	Water consumption in total and intensity.	Use of Resources – Water Consumption
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Use of Resources – Energy Consumption
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Use of Resources – Water Consumption
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Use of Resources – Use of Packaging Materials
<b>Aspect A3: The Environment and Natural Resources</b>		
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	Environment and Natural Resources
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environment and Natural Resources – Plasticizers, Working Environment, Noise Pollution

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Statement
<b>Aspect B1: Employment</b>		
General Disclosure	Information on:  (a) the policies; and  (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment – Recruitment, Promotion and Dismissal, Remuneration and Benefits, Diversity, Equal Opportunity and Anti-Discrimination
KPI B1.1	Total workforce by gender, employment type, age and geographical region.	Employment
<b>Aspect B2: Health and Safety</b>		
General Disclosure	Information on:  (a) the policies; and  (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety – Occupational Health and Safety, Internal Health and Safety Management System, Fire Safety
KPI B2.1	Number and rate of work-related fatalities.	Health and Safety – Occupational Health and Safety
KPI B2.2	Lost days due to work injury.	Health and Safety – Occupational Health and Safety
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Health and Safety – Occupational Health and Safety, Internal Health and Safety Management System, Fire Safety, Other Health and Safety Measures

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Statement
<b>Aspect B3: Development and Training</b>		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training – Development and Training of Employees
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Development and Training – Development and Training of Employees
KPI B3.2	The average training hours completed per employee by gender and employee category.	Development and Training – Development and Training of Employees
<b>Aspect B4: Labor Standards</b>		
General Disclosure	Information on:  (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	Labor Standards – Prevention of Child Labor or Forced Labor
KPI B4.1	Description of measures to review employment practices to avoid child and forced labor.	Labor Standards – Prevention of Child Labor or Forced Labor
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Labor Standards – Prevention of Child Labor or Forced Labor
<b>Aspect B5: Supply Chain Management</b>		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management – Procurement Practices, Fair and Open Procurement
KPI B5.1	Number of suppliers by geographical region.	Supply Chain Management
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supply Chain Management – Procurement Practices, Fair and Open Procurement

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Statement
<b>Aspect B6: Product Responsibility</b>		
General Disclosure	Information on:  (a) the policies; and  (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility – Product Quality Supervision, Innovation, Customer Services, Protection of Privacy, Advertising and Labelling
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Product Responsibility – Innovation
KPI B6.4	Description of quality assurance process and recall procedures.	Product Responsibility – Product Quality Supervision, Customer Services
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Product Responsibility – Protection of Privacy
<b>Aspect B7: Anti-corruption</b>		
General Disclosure	Information on:  (a) the policies; and  (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Anti-corruption
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Anti-corruption

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

<b>Subject Areas, Aspects, General Disclosures and KPIs</b>	<b>Description</b>	<b>Section/Statement</b>
<b>Aspect B8: Community Investment</b>		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment

# INDEPENDENT AUDITORS' REPORT



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

31/F, Gloucester Tower  
The Landmark  
11 Pedder Street  
Central  
Hong Kong

## TO THE SHAREHOLDERS OF ALPHA ERA INTERNATIONAL HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

### OPINION

We have audited the consolidated financial statements of Alpha Era International Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 68 to 121, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

# INDEPENDENT AUDITORS' REPORT (continued)

## KEY AUDIT MATTERS

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

### Key audit matters

#### Impairment assessment of trade receivables

Refer to note 18 to the consolidated financial statements.

We identified the impairment assessment of trade receivables as a key audit matter due to the use of judgement and estimations in assessing the recoverability of trade receivables.

In determining the loss allowance for trade receivables, the management considers the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables. Management also considered forward-looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment.

### How our audit addressed the key audit matters

Our procedures in relation to impairment assessment of trade receivables mainly included:

- Obtaining an understanding of how the loss allowance is estimated by the management and testing the aging analysis of the trade receivables to the source documents, on a sample basis;
- Reviewing the aging analysis of the trade receivables throughout the year to understand the settlement patterns by the customers;
- Assessing the reasonableness of recoverability of trade receivables with reference to the credit history including default or delays in payments, settlement records, subsequent settlements and aging analysis of individual customers, on a sample basis; and
- Assessing the appropriateness of the expected credit loss provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit losses.

# INDEPENDENT AUDITORS' REPORT (continued)

## OTHER INFORMATION

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

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

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

## RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

## AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

## INDEPENDENT AUDITORS' REPORT (continued)

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

## INDEPENDENT AUDITORS' REPORT (continued)

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

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

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

**HLB Hodgson Impey Cheng Limited**

*Certified Public Accountants*

**Chan Ching Pang**

Practising Certificate Number: P05746

Hong Kong, 24 March 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	5	<b>260,735</b>	223,831
Cost of sales		<b>(185,824)</b>	(171,437)
Gross profit		<b>74,911</b>	52,394
Other income and gains	6	<b>1,189</b>	1,205
Distribution and selling expenses		<b>(25,487)</b>	(13,385)
Administrative and other expenses		<b>(20,030)</b>	(14,625)
Net reversal of impairment on financial assets		<b>162</b>	139
Finance costs	7	<b>(2,191)</b>	(1,650)
Profit before tax		<b>28,554</b>	24,078
Income tax expense	8	<b>(4,997)</b>	(5,196)
Profit for the year	9	<b>23,557</b>	18,882
<b>Other comprehensive (expense)/income, net of income tax</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		<b>(1,085)</b>	936
Other comprehensive (expense)/income for the year		<b>(1,085)</b>	936
<b>Total comprehensive income for the year</b>		<b>22,472</b>	19,818
		<b>RMB cents</b>	RMB cents
<b>Earnings per share</b>			
– Basic and diluted	13	<b>2.9</b>	2.4

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	14	21,855	8,273
Right-of-use assets	15	20,244	15,788
Intangible assets	16	544	560
Deferred tax assets	22	1,414	1,335
		<b>44,057</b>	25,956
<b>Current assets</b>			
Inventories	17	52,361	36,516
Trade and other receivables	18	32,137	51,379
Tax recoverable		128	–
Cash and bank balances	19	52,114	44,447
		<b>136,740</b>	132,342
<b>Total assets</b>		<b>180,797</b>	158,298
<b>Current liabilities</b>			
Trade and other payables	20	33,262	31,534
Lease liabilities	21	3,284	2,710
Current tax liabilities		1,274	2,923
		<b>37,820</b>	37,167
<b>Net current assets</b>		<b>98,920</b>	95,175
<b>Total assets less current liabilities</b>		<b>142,977</b>	121,131
<b>Non-current liabilities</b>			
Lease liabilities	21	18,810	14,209
Deferred tax liabilities	22	2,261	2,060
		<b>21,071</b>	16,269
<b>Net assets</b>		<b>121,906</b>	104,862
<b>Capital and reserves</b>			
Equity attributable to owners of the Company			
Share capital	23	6,969	6,969
Reserves	24	114,937	97,893
<b>Total equity</b>		<b>121,906</b>	104,862

The consolidated financial statements were approved and authorised for issue by the board of directors on 24 March 2021 and signed on its behalf by:

**Mr. Huang Xiaodong**  
Director

**Mr. Xiao Jiansheng**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital RMB'000	Share premium RMB'000 <i>(Note 24)</i>	Special reserve RMB'000 <i>(Note 24)</i>	Statutory reserve RMB'000 <i>(Note 24)</i>	Foreign currency translation reserve RMB'000 <i>(Note 24)</i>	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2019	6,969	26,558	17,429	4,866	1,008	33,452	90,282
Profit for the year	-	-	-	-	-	18,882	18,882
Other comprehensive income for the year	-	-	-	-	936	-	936
Total comprehensive income for the year	-	-	-	-	936	18,882	19,818
Dividends recognised as distribution <i>(Note 12)</i>	-	-	-	-	-	(5,238)	(5,238)
Statutory reserve appropriation	-	-	-	1,663	-	(1,663)	-
Balance at 31 December 2019	6,969	26,558	17,429	6,529	1,944	45,433	104,862
Profit for the year	-	-	-	-	-	23,557	23,557
Other comprehensive expense for the year	-	-	-	-	(1,085)	-	(1,085)
Total comprehensive (expense)/income for the year	-	-	-	-	(1,085)	23,557	22,472
Dividends recognised as distribution <i>(Note 12)</i>	-	-	-	-	-	(5,428)	(5,428)
Statutory reserve appropriation	-	-	-	1,538	-	(1,538)	-
<b>Balance at 31 December 2020</b>	<b>6,969</b>	<b>26,558</b>	<b>17,429</b>	<b>8,067</b>	<b>859</b>	<b>62,024</b>	<b>121,906</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
<b>Cash flows from operating activities</b>		
Profit before tax	28,554	24,078
Adjustments for:		
Depreciation of property, plant and equipment	1,638	1,740
Depreciation of right-of-use assets	3,815	3,283
Amortisation of intangible assets	108	106
Interest income	(86)	(243)
Write-down of inventories	1,953	1,002
Finance costs	2,191	1,650
Net reversal of impairment on financial assets	(162)	(139)
Loss/(gain) on disposal of property, plant and equipment, net	1	(8)
Movements in working capital	38,012	31,469
Increase in inventories	(17,798)	(5,963)
Decrease in trade and other receivables	19,404	12,928
Increase in trade and other payables	1,728	2,915
Cash generated from operations	41,346	41,349
Income taxes paid	(6,720)	(3,513)
<b>Net cash generated by operating activities</b>	<b>34,626</b>	<b>37,836</b>
<b>Cash flows from investing activities</b>		
Interest received	86	243
Decrease in short-term bank deposit	–	8,782
Payments for property, plant and equipment	(15,225)	(3,627)
Proceeds from disposal of property, plant and equipment	4	16
Payments for intangible assets	(92)	(75)
<b>Net cash (used in)/generated by investing activities</b>	<b>(15,227)</b>	<b>5,339</b>
<b>Cash flows from financing activities</b>		
Capital element on lease liabilities	(3,003)	(2,115)
Interest element on lease liabilities	(2,191)	(1,650)
Dividends paid	(5,428)	(5,238)
<b>Net cash used in financing activities</b>	<b>(10,622)</b>	<b>(9,003)</b>
<b>Net increase in cash and cash equivalents</b>	<b>8,777</b>	<b>34,172</b>
<b>Cash and cash equivalents at the beginning of year</b>	<b>44,447</b>	<b>9,848</b>
Effect of foreign exchange rate changes, net	(1,110)	427
<b>Cash and cash equivalents at the end of year</b>	<b>52,114</b>	<b>44,447</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 1 GENERAL INFORMATION

Alpha Era International Holdings Limited (the “Company”) was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company with limited liability on 3 November 2015.

The shares of the Company have been listed on GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 7 December 2017. Its parent and ultimate holding company is Nonton Limited (“Nonton”), a company incorporated in the British Virgin Islands (“BVI”) with limited liability and wholly-owned by Mr. Lee King Sun (“Mr. Lee”).

The addresses of the registered office and the principal place of business of the Company are Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands and Unit 2, 9th Floor, LT Tower, No. 31 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong respectively.

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

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

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

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

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>
Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>

The application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs in the current year had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

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

### New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	<i>Insurance Contracts and the related Amendments</i> <sup>1</sup>
Amendments to HKFRS 16	<i>Covid-19-Related Rent Concessions</i> <sup>4</sup>
Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i> <sup>2</sup>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i> <sup>5</sup>
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)</i> <sup>1</sup>
Amendments to HKAS 16	<i>Property, Plant and Equipment – Proceeds before Intended Use</i> <sup>2</sup>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i> <sup>2</sup>
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2018 – 2020</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2023.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2020.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2021.

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

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation of consolidated financial statements

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Basis of preparation of consolidated financial statements (Continued)**

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.

### **Significant accounting policies**

#### ***Basis of consolidation***

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

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

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated 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.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant accounting policies (Continued)

#### *Revenue from contracts with customers*

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

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

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant accounting policies (Continued)

#### *Revenue from contracts with customers (Continued)*

The Group recognises revenue from the following goods and services:

(i) *Sales of goods*

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

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

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

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

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

(ii) *Provision of sub-contracting services*

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant accounting policies (Continued)

#### *Leases*

##### *Definition of a lease*

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, 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 contract are subsequently changed. 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.

##### *The Group as a lessee*

Short-term leases and leases of low-value assets

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

Right-of-use assets

The cost of right-of-use asset includes:

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant accounting policies (Continued)

#### *Leases (Continued)*

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant accounting policies (Continued)

#### *Leases (Continued)*

##### *The Group as a lessee (Continued)*

##### Lease modifications

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

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

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

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

#### *Foreign currencies*

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant accounting policies (Continued)

#### *Foreign currencies (Continued)*

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

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

#### *Borrowing costs*

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

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

#### *Government grants*

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant accounting policies (Continued)

#### *Retirement benefit costs*

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

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

#### *Short-term employee benefits*

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

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

#### *Taxation*

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

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant accounting policies (Continued)

#### *Taxation (Continued)*

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

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

#### *Property, plant and equipment*

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

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

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

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

#### *Intangible assets*

##### *Intangible assets acquired separately*

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Significant accounting policies (Continued)

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

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

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

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant accounting policies (Continued)

#### *Inventories*

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

#### *Cash and cash equivalents*

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

#### *Provisions*

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

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

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

#### *Financial instruments*

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant accounting policies (Continued)

#### *Financial instruments (Continued)*

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

#### *Financial assets*

Classification and subsequent measurement of financial assets

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

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

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

- the financial asset is held within a business model whose objective is achieved by both 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.

All other financial assets are subsequently measured at 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.

A financial asset is held for trading if:

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant accounting policies (Continued)

#### *Financial instruments (Continued)*

##### *Financial assets (Continued)*

##### Amortised cost and interest income

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

##### Impairment of financial assets

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

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the 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.

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, in which case 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant accounting policies (Continued)

#### *Financial instruments (Continued)*

#### *Financial assets (Continued)*

#### Impairment of financial assets (Continued)

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial 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 payment are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant accounting policies (Continued)

#### *Financial instruments (Continued)*

#### *Financial assets (Continued)*

#### Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

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.

(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; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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 and 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. The Groups uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

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 Company expects to receive, discounted at the effective interest rate determined at initial recognition.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

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

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

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is 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 adjustments is recognised through a loss allowance account.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 receivables is recognised in profit or loss.

##### *Financial liabilities and equity*

##### Classification as debt or equity

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

##### Equity instruments

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

##### Financial liabilities

Financial liabilities are subsequently measured at amortised cost using the effective interest method.

##### *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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

### 3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Significant accounting policies (Continued)

##### *Related parties*

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

- (a) the party is a person or a close member of that person's family and that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group.

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

### Impairment losses on trade receivables

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

## 5. REVENUE AND SEGMENT INFORMATION

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

### 5. REVENUE AND SEGMENT INFORMATION (Continued)

#### Revenue

	2020 RMB'000	2019 RMB'000
Revenue from customers		
– Sale of inflatable products and related accessories	260,251	220,106
– Sub-contracting income	484	3,725
	<b>260,735</b>	223,831

#### Disaggregation of revenue from contracts with customers

	2020 RMB'000	2019 RMB'000
<b>Disaggregated by major products and services</b>		
Inflatable playgrounds with air blowers	236,423	196,769
Other inflatable products	2,890	6,547
Inflatable products related accessories and sub-contracting work	21,422	20,515
	<b>260,735</b>	223,831

The Group's contract with customers for the sale of inflatable products and related accessories include only one single performance obligation and the Group recognises revenue from sale at the point of time when the customers obtain control of the goods.

Revenue recognised during the year in relation to sale of inflatable products and related accessories that was included in the contract liabilities at the beginning of year was approximately RMB2,389,000 (2019: RMB1,305,000). All of the Group's remaining performance obligation for contract with customers are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 5. REVENUE AND SEGMENT INFORMATION (Continued)

### Geographical information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of revenue is based on the locations of the customers. Save for right-of-use assets of approximately RMB85,000 (2019: approximately RMB211,000) are located in Hong Kong, the Group's other major non-current assets are all located in the PRC.

	2020 RMB'000	2019 RMB'000
Revenue from external customers:		
– China	30,447	32,703
– Europe	26,860	39,580
– Australia and Oceania	16,352	17,368
– North America	130,867	45,671
– Asia	56,194	85,711
– Central and South America	15	2,753
– Africa	–	45
	<b>260,735</b>	<b>223,831</b>

### Information about major customers

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

	2020 RMB'000	2019 RMB'000
Customer A	34,474	55,757
Customer B	N/A <sup>1</sup>	27,744
Customer C	39,975	N/A <sup>1</sup>
Customer D	33,582	N/A <sup>1</sup>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

### 6. OTHER INCOME AND GAINS

	2020 RMB'000	2019 RMB'000
Interest income on bank deposits	86	243
Grants and subsidies ( <i>Note</i> )	833	367
Others	270	595
	<b>1,189</b>	1,205

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

### 7. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest on lease liabilities	2,191	1,650

### 8. INCOME TAX EXPENSE

	2020 RMB'000	2019 RMB'000
<b>Current tax</b>		
Hong Kong Profits Tax		
– Current tax	2,021	2,114
– Over-provision in prior years	–	(390)
PRC withholding tax	–	497
PRC Enterprise Income Tax		
– Current tax	2,856	2,559
– Over-provision in prior years	–	(154)
<b>Deferred tax (<i>Note 22</i>)</b>	<b>120</b>	570
Total income tax recognised in profit or loss	<b>4,997</b>	5,196

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 8. INCOME TAX EXPENSE (Continued)

Hong Kong Profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profit for the year.

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

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

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

	2020 RMB'000	2019 RMB'000
Profit before tax	<b>28,554</b>	24,078
Tax at PRC Enterprise Income Tax rate of 15% (Note)	<b>4,283</b>	3,612
Tax effect of expenses not deductible for tax purpose	<b>747</b>	516
Tax effect of non-taxable income	<b>(34)</b>	(89)
Tax concession	<b>(70)</b>	(18)
Temporary differences not recognised	<b>(105)</b>	150
Withholding tax on undistributed profits	<b>201</b>	290
Tax effect of unrecognised tax losses	<b>(148)</b>	302
PRC withholding tax	-	497
Over-provision in prior years	-	(154)
Effect of different tax rates of group entities operating in different jurisdictions	<b>123</b>	90
Income tax expense for the year	<b>4,997</b>	5,196

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

### 9. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2020 RMB'000	2019 RMB'000
Auditors' remuneration	579	546
Cost of inventories recognised as an expense	185,824	171,437
Depreciation of property, plant and equipment ( <i>Note (i)</i> )	1,638	1,740
Depreciation of right-of-use assets ( <i>Note (ii)</i> )	3,815	3,283
Write-down of inventories	1,953	1,002
Amortisation of intangible assets	108	106
Net foreign exchange losses	3,973	275
Short-term lease expenses ( <i>Note (iii)</i> )	–	437
Employee benefits expense (including directors' emoluments ( <i>Note 10</i> )):		
Salaries, wages and other benefits	50,365	38,224
Contribution to retirement benefits schemes	1,506	3,441
Total employee benefits expense ( <i>Note (iv)</i> )	51,871	41,665

Notes:

- (i) Depreciation of property, plant and equipment amounting to approximately RMB1,414,000 (2019: RMB1,503,000) are capitalised in inventories and amounting to approximately RMB224,000 (2019: RMB237,000) are included in administrative expenses.
- (ii) Depreciation of right-of-use assets amounting to approximately RMB3,480,000 (2019: RMB3,071,000) are capitalised in inventories and amounting to approximately RMB335,000 (2019: RMB212,000) are included in administrative expenses.
- (iii) These amounts are not included in the measurement of lease liabilities.
- (iv) Total employee benefits expense amounting to approximately RMB41,410,000 (2019: RMB32,791,000) are capitalised in inventories; amounting to approximately RMB1,889,000 (2019: RMB1,681,000) are included in distribution and selling expenses; and amounting to approximately RMB8,572,000 (2019: RMB7,193,000) are included in administrative expenses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

	Fees RMB'000	Salaries and other benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to retirement benefits schemes RMB'000	Total RMB'000
<b>2020</b>					
<b>Executive directors</b>					
Mr. Huang Xiaodong ("Mr. Huang")	107	240	143	1	491
Mr. Xiao Jiansheng ("Mr. Xiao")	71	402	140	1	614
<b>Non-executive director</b>					
Mr. Lee Kin Kee	214	-	-	-	214
<b>Independent non-executive directors</b>					
Mr. Mao Guohua	51	-	135	-	186
Mr. Ho Hin Chung	214	-	-	-	214
Mr. Liu Zexing (Note (i))	43	-	135	-	178
Mr. Gan Mingqing (Note (ii))	8	-	-	-	8
	<b>708</b>	<b>642</b>	<b>553</b>	<b>2</b>	<b>1,905</b>
<b>2019</b>					
<b>Executive directors</b>					
Mr. Huang	106	240	120	1	467
Mr. Xiao	71	324	120	1	516
<b>Non-executive director</b>					
Mr. Lee Kin Kee	211	-	-	-	211
<b>Independent non-executive directors</b>					
Mr. Mao Guohua	51	-	-	-	51
Mr. Ho Hin Chung	211	-	-	-	211
Mr. Gan Mingqing (Note (ii))	51	-	-	-	51
	<b>701</b>	<b>564</b>	<b>240</b>	<b>2</b>	<b>1,507</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

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

Notes:

- (i) Mr. Liu Zexing was appointed as an independent non-executive director on 1 March 2020.
- (ii) Mr. Gan Minging resigned on 1 March 2020.

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

Neither the chief executive officer nor any of the directors waived or agreed to waive any emoluments during the year ended 31 December 2020 (2019: Nil).

### 11. FIVE HIGHEST PAID EMPLOYEES

Of the five individuals with the highest emoluments, two (2019: two) of them are directors of the Company whose emoluments are set out in note 10 above. Details of the emoluments in respect of the remaining three (2019: three) highest paid individuals are as follows:

	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
Salaries and other benefits in kind	<b>1,639</b>	1,355
Contributions to retirement benefits schemes	<b>21</b>	30
	<b>1,660</b>	1,385

Note: Amounts included discretionary bonuses of approximately RMB346,000 (2019: RMB140,000).

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

During the year ended 31 December 2020, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office (2019: Nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

### 12. DIVIDENDS

	2020 RMB'000	2019 RMB'000
Dividends recognised as distribution	<b>5,428</b>	5,238

During the year ended 31 December 2020, a final dividend in respect of the year ended 31 December 2019 of HK\$0.75 cents per ordinary share in an aggregate amount of HK\$6,000,000 had been proposed and paid.

No final dividend was proposed by the board of directors in respect of the year ended 31 December 2020.

### 13. EARNINGS PER SHARE

	2020 RMB'000	2019 RMB'000
<b>Earnings</b>		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	<b>23,557</b>	18,882

	2020 '000	2019 '000
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>800,000</b>	800,000

The diluted earnings per share is equal to the basic earnings per share as there is no dilutive potential ordinary share in issue during years ended 31 December 2020 and 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and equipment RMB'000	Computer equipment RMB'000	Construction in progress RMB'000	Total RMB'000
<b>Cost</b>							
Balance at 1 January 2019	6,953	12,734	768	266	1,925	-	22,646
Additions	173	1,408	-	-	29	2,017	3,627
Disposals	(40)	(80)	-	-	-	-	(120)
Effect of foreign exchange differences	1	-	-	-	-	-	1
Balance at 31 December 2019	7,087	14,062	768	266	1,954	2,017	26,154
Additions	1,347	1,009	577	92	517	11,683	15,225
Disposals	-	(4)	(38)	-	-	-	(42)
Transfer	27	154	-	-	-	(181)	-
Effect of foreign exchange differences	-	-	-	(1)	-	-	(1)
Balance at 31 December 2020	8,461	15,221	1,307	357	2,471	13,519	41,336
<b>Accumulated depreciation</b>							
Balance at 1 January 2019	5,924	7,794	641	233	1,660	-	16,252
Depreciation expense	649	1,020	32	4	35	-	1,740
Eliminated on disposals	(40)	(72)	-	-	-	-	(112)
Effect of foreign exchange differences	1	-	-	-	-	-	1
Balance at 31 December 2019	6,534	8,742	673	237	1,695	-	17,881
Depreciation expense	496	1,031	64	8	39	-	1,638
Eliminated on disposals	-	(3)	(34)	-	-	-	(37)
Effect of foreign exchange differences	-	-	-	(1)	-	-	(1)
Balance at 31 December 2020	7,030	9,770	703	244	1,734	-	19,481
<b>Carrying amounts</b>							
Balance at 31 December 2020	<b>1,431</b>	<b>5,451</b>	<b>604</b>	<b>113</b>	<b>737</b>	<b>13,519</b>	<b>21,855</b>
Balance at 31 December 2019	553	5,320	95	29	259	2,017	8,273

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 15. RIGHT-OF-USE ASSETS

	<b>Land and buildings</b> RMB'000
<hr/>	
<b>Cost</b>	
Balance at 1 January 2019	16,882
Additions	1,203
Lease modification	859
Effect of foreign exchange differences	(4)
<hr/>	
Balance at 31 December 2019	18,940
Additions	4,156
Lease modification	4,109
Effect of foreign exchange differences	(14)
<hr/>	
Balance at 31 December 2020	27,191
<hr/>	
<b>Accumulated depreciation</b>	
Balance at 1 January 2019	–
Depreciation expense	3,283
Lease modification	(130)
Effect of foreign exchange differences	(1)
<hr/>	
Balance at 31 December 2019	3,152
Depreciation expense	3,815
Lease modification	(12)
Effect of foreign exchange differences	(8)
<hr/>	
Balance at 31 December 2020	6,947
<hr/>	
<b>Carrying amounts</b>	
Balance at 31 December 2020	<b>20,244</b>
<hr/>	
Balance at 31 December 2019	15,788
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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

### 15. RIGHT-OF-USE ASSETS (Continued)

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

	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
Depreciation of right-of-use assets	<b>3,815</b>	3,283
Interest expense on lease liabilities	<b>2,191</b>	1,650
Expense relating to short-term leases	<b>–</b>	437

During the year, additions to right-of-use assets were approximately RMB4,156,000 (2019: RMB1,203,000). This amount primarily related to capitalised lease payments payable under new lease agreements.

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

For the year ended 31 December 2020, total cash outflow for leases amounts to approximately RMB5,194,000 (2019: RMB4,202,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 16. INTANGIBLE ASSETS

	Patents RMB'000	Trademarks RMB'000	Total RMB'000
<b>Cost</b>			
Balance at 1 January 2019	314	1,143	1,457
Additions	58	17	75
Balance at 31 December 2019	372	1,160	1,532
Additions	38	54	92
Balance at 31 December 2020	410	1,214	1,624
<b>Accumulated amortisation</b>			
Balance at 1 January 2019	215	651	866
Amortisation expense	22	84	106
Balance at 31 December 2019	237	735	972
Amortisation expense	21	87	108
Balance at 31 December 2020	258	822	1,080
<b>Carrying amounts</b>			
Balance at 31 December 2020	<b>152</b>	<b>392</b>	<b>544</b>
Balance at 31 December 2019	135	425	560

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

Patents	10 years
Trademarks	10 years

## 17. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	<b>7,326</b>	9,545
Work in progress	<b>18,730</b>	15,902
Finished goods	<b>26,305</b>	11,069
	<b>52,361</b>	36,516

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

### 18. TRADE AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	18,122	45,587
Allowance for credit losses	(52)	(221)
	<b>18,070</b>	45,366
Value-added tax	2,449	2,268
Deposit paid	1,234	1,206
Other receivables and prepayment ( <i>Note</i> )	10,384	2,539
	<b>32,137</b>	51,379

*Note:* Included in the balance of other receivables and prepayment at 31 December 2020 were prepayment for sub-contracting fee and purchase of materials of approximately RMB4,169,000 (2019: RMB709,000).

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

	2020 RMB'000	2019 RMB'000
0 – 30 days	11,656	29,018
31 – 60 days	6,414	11,421
61 – 90 days	–	1,876
91 – 120 days	–	2,867
121 – 365 days	–	184
	<b>18,070</b>	45,366

As at 31 December 2020, total bills received amounting to approximately RMB1,727,000 (2019: approximately RMB1,714,000) are held by the Group for the future settlement of trade receivables. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

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

The management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality. Trade receivables that are neither past due nor impaired relate to a number of independent customers with good settlement history.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

### 18. TRADE AND OTHER RECEIVABLES (Continued)

Movement in the loss allowance of trade receivables are as follows:

	Lifetime ECL (not credit- impaired) RMB'000	Lifetime ECL (credit- impaired) RMB'000	Total RMB'000
At 1 January 2019	353	2,523	2,876
Reversal of impairment losses recognised	(139)	–	(139)
Written off	–	(2,544)	(2,544)
Exchange differences	7	21	28
At 31 December 2019	221	–	221
Reversal of impairment losses recognised	(162)	–	(162)
Exchange differences	(7)	–	(7)
At 31 December 2020	<b>52</b>	<b>–</b>	<b>52</b>

### 19. CASH AND BANK BALANCES

	2020 RMB'000	2019 RMB'000
Cash at banks and on hand	<b>52,114</b>	44,447
Cash and cash equivalents	<b>52,114</b>	44,447

Cash at banks earn interest at floating rates based on daily bank deposit rates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

### 20. TRADE AND OTHER PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables	17,314	20,029
Contract liability	3,109	2,618
Accrued salaries and other benefits ( <i>Note</i> )	8,457	5,788
Other payables and accruals	4,382	3,099
	<b>33,262</b>	31,534

*Note:* Accrued salaries and other benefits disclosed above included emoluments payable to the directors of the Company amounting to approximately RMB620,000 (2019: RMB287,000) as at 31 December 2020.

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

	2020 RMB'000	2019 RMB'000
0 – 30 days	7,059	9,432
31 – 60 days	7,628	6,173
61 – 90 days	2,220	2,701
91 – 120 days	217	1,359
121 – 365 days	70	296
Over 365 days	120	68
	<b>17,314</b>	20,029

The trade payables are non-interest bearing.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 21. LEASE LIABILITIES

	2020 RMB'000	2019 RMB'000
Current	3,284	2,710
Non-current	18,810	14,209
	<b>22,094</b>	16,919

The Group leases certain properties for its operations. Lease contracts are entered into for term of approximately 2 to 10 (2019: 2 to 6) years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants. Leased assets may not be used as security for borrowing purposes.

## 22. DEFERRED TAXATION

	ECL RMB'000	Accelerated tax depreciation RMB'000	Withholding tax on undistributed profits RMB'000	Total RMB'000
Balance at 1 January 2019	475	1,129	(1,770)	(166)
(Charged)/credited to profit or loss (Note 8)	(448)	168	(290)	(570)
Exchange differences	11	-	-	11
Balance at 31 December 2019	38	1,297	(2,060)	(725)
(Charged)/credited to profit or loss (Note 8)	(30)	111	(201)	(120)
Exchange differences	(2)	-	-	(2)
Balance at 31 December 2020	<b>6</b>	<b>1,408</b>	<b>(2,261)</b>	<b>(847)</b>
			2020 RMB'000	2019 RMB'000
Analysed for reporting purpose as:				
Deferred tax assets			1,414	1,335
Deferred tax liabilities			(2,261)	(2,060)
			<b>(847)</b>	(725)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

### 22. DEFERRED TAXATION (Continued)

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

### 23. SHARE CAPITAL

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

	2020 RMB'000	2019 RMB'000
<b>Authorised:</b>		
1,000,000,000 ordinary shares of HK\$0.01 each	<b>10,000</b>	10,000
<b>Issued and fully paid:</b>		
800,000,000 ordinary shares of HK\$0.01 each	<b>8,000</b>	8,000
Equivalents to RMB'000	<b>6,969</b>	6,969

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 24. RESERVES

### Share premium

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

### Special reserve

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

### Statutory reserve

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

### Foreign currency translation reserve

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

## 25. SHARE OPTION SCHEME

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

### 25. SHARE OPTION SCHEME (Continued)

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 25. SHARE OPTION SCHEME (Continued)

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

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

There was no share option granted to eligible participants during the years ended 31 December 2019 and 2020. There were no outstanding share options as at 31 December 2019 and 2020.

## 26. RETIREMENT BENEFIT PLANS

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

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

The total expense recognised in profit or loss of approximately RMB1,506,000 (2019: RMB3,441,000) for the year ended 31 December 2020 represents contributions payable to the plans by the Group at rates specified in the rules of the plans.

## 27. CAPITAL MANAGEMENT

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 28. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

	2020 RMB'000	2019 RMB'000
<b>Financial assets</b>		
Amortised cost	<b>75,918</b>	91,317
<b>Financial liabilities</b>		
Amortised cost	<b>52,247</b>	45,835

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

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

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

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

#### ***Foreign currency risk management***

For the year ended 31 December 2020, approximately 88% (2019: 85%) of the Group's revenue are denominated in United States dollar ("US\$"). The Group's dominant operations are in the PRC and most of the operating expenses are primarily denominated in RMB. The Group is exposed to currency risk arising from currency exposures with respect to US\$ and RMB. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 28. FINANCIAL INSTRUMENTS (Continued)

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

#### *Foreign currency risk management (Continued)*

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

	2020 RMB'000	2019 RMB'000
<b>Assets</b>		
US\$	29,847	38,014
RMB	2,028	750
<b>Liabilities</b>		
US\$	5,269	3,738

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

#### *Sensitivity analysis*

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

	2020 RMB'000	2019 RMB'000
<b>Assets</b>		
US\$	524	826
RMB	101	38

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 28. FINANCIAL INSTRUMENTS (Continued)

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

#### *Interest rate risk management*

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

#### *Credit risk management*

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

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

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

<b>At 31 December 2020</b>	<b>Notes</b>	<b>12m or life-time ECL</b>	<b>Gross carrying amounts RMB'000</b>	<b>Loss allowance RMB'000</b>	<b>Net carrying amount RMB'000</b>
Trade receivables	18	Life-time ECL (provision matrix)	18,122	(52)	18,070
Other receivables	18	12m ECL	5,734	–	5,734
Bank balances	19	12m ECL	51,896	–	51,896

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 28. FINANCIAL INSTRUMENTS (Continued)

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

#### Credit risk management (Continued)

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

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

On that basis, the loss allowance as at 31 December 2020 and 2019 was determined as follows for trade receivables:

At 31 December 2020	Expected loss rate	Carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.3%	18,122	52
At 31 December 2019	Expected loss rate	Carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.4%	43,815	187
1-30 days past due	1.9%	1,585	30
31-60 days past due	1.9%	187	4
		45,587	221

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

## 28. FINANCIAL INSTRUMENTS (Continued)

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

#### *Credit risk management (Continued)*

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

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or with good reputation. The Group is also subject to concentration of credit risk arising from its trade receivables. As at 31 December 2020, trade receivables that are due from the Group's largest five customers approximate to 81% (2019: 83%).

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

#### *Liquidity risk management*

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

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

	Weighted average effective interest rate %	On demand or within 1 year RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Over 5 years RMB'000	Total contractual undiscounted cash flows RMB'000	Carrying amounts RMB'000
<b>At 31 December 2020</b>							
Trade and other payables	-	30,153	-	-	-	30,153	30,153
Lease liabilities	9.5%	5,140	5,048	13,257	5,225	28,670	22,094
		<b>35,293</b>	<b>5,048</b>	<b>13,257</b>	<b>5,225</b>	<b>58,823</b>	<b>52,247</b>
<b>At 31 December 2019</b>							
Trade and other payables	-	28,916	-	-	-	28,916	28,916
Lease liabilities	11%	4,312	4,279	11,838	1,349	21,778	16,919
		<b>33,228</b>	<b>4,279</b>	<b>11,838</b>	<b>1,349</b>	<b>50,694</b>	<b>45,835</b>

### (c) Fair value measurements of financial instruments

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

### 29. CAPITAL COMMITMENTS

At 31 December 2020, the Company is committed to RMB200,000 to the registered capital of an indirect wholly-owned subsidiary (2019: RMB200,000) and has entered into contractual commitments for the acquisition of property, plant and equipment of approximately RMB863,000 (2019: RMB208,000).

### 30. RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

	<b>Lease liabilities</b>
	RMB'000
As at 1 January 2019	16,882
Non-cash changes	
Lease modifications	953
New leases	1,203
Interest on lease liabilities (Note 7)	1,650
Exchange differences	(4)
Cash flows	(3,765)
As at 31 December 2019	16,919
Non-cash changes	
Lease modifications	4,029
New leases	4,156
Interest on lease liabilities (Note 7)	2,191
Exchange differences	(7)
Cash flows	(5,194)
<b>As at 31 December 2020</b>	<b>22,094</b>

### 31. RELATED PARTY TRANSACTIONS

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

#### Compensation of key management personnel

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

	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
Salaries and other benefits	<b>2,742</b>	2,336
Contributions to retirement benefits schemes	<b>23</b>	32
	<b>2,765</b>	2,368

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

### 32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2020 RMB'000	2019 RMB'000
<b>Non-current assets</b>		
Investment in a subsidiary	26,344	26,344
<b>Current assets</b>		
Prepayments	246	267
Amounts due from subsidiaries	27,243	35,931
Cash and bank balances	125	178
	27,614	36,376
<b>Total assets</b>	<b>53,958</b>	62,720
<b>Capital and reserves</b>		
Equity attributable to owners of the Company		
Share capital	6,969	6,969
Reserves	46,989	55,751
<b>Total equity</b>	<b>53,958</b>	62,720

The Company's statement of financial position were approved and authorised for issue by the board of directors on 24 March 2021 and signed on its behalf:

**Mr. Huang Xiaodong**  
*Director*

**Mr. Xiao Jiansheng**  
*Director*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

### 32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

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

	Share premium RMB'000	Special reserve RMB'000	Foreign currency translation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
Balance at 1 January 2019	26,558	20,392	509	(11,875)	35,584
Profit for the year	-	-	-	24,422	24,422
Other comprehensive income for the year	-	-	983	-	983
Total comprehensive income for the year	-	-	983	24,422	25,405
Dividends recognised as distribution (Note 12)	-	-	-	(5,238)	(5,238)
Balance at 31 December 2019	26,558	20,392	1,492	7,309	55,751
Loss for the year	-	-	-	(1,681)	(1,681)
Other comprehensive expense for the year	-	-	(1,653)	-	(1,653)
Total comprehensive expense for the year	-	-	(1,653)	(1,681)	(3,334)
Dividends recognised as distribution (Note 12)	-	-	-	(5,428)	(5,428)
<b>Balance at 31 December 2020</b>	<b>26,558</b>	<b>20,392</b>	<b>(161)</b>	<b>200</b>	<b>46,989</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

### 33. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries at 31 December 2020 are as follows:

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

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

## FINANCIAL SUMMARY

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

	For the year ended 31 December				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
<b>RESULTS</b>					
Revenue	<b>260,735</b>	223,831	192,977	176,810	172,347
Gross profit	<b>74,911</b>	52,394	48,838	41,020	38,921
Profit before tax	<b>28,554</b>	24,078	24,839	13,972	14,683
Income tax expense	<b>(4,997)</b>	(5,196)	(3,577)	(4,423)	(5,258)
Profit for the year	<b>23,557</b>	18,882	21,262	9,549	9,425

	As at 31 December				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
<b>ASSETS AND LIABILITIES</b>					
Total assets	<b>180,797</b>	158,298	122,942	116,001	83,961
Total liabilities	<b>(58,891)</b>	(53,436)	(32,660)	(47,734)	(46,540)
Total equity	<b>121,906</b>	104,862	90,282	68,267	37,421