



Reach New Holdings Limited

新達控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8471

Annual Report

2020



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This report, for which the directors (the “Directors”) of Reach New Holdings Limited (the “Company”) 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. Lam Kai Yuen ("**Mr. Gabi Lam**") (*Chief executive officer*)

Mr. Lam Kai Cheong ("**Mr. Jeffrey Lam**")

Non-executive Director

Mr. Lam Cheung Chuen ("**Mr. Lam**") (*Chairman*)

Independent non-executive Directors

Mr. Moy Yee Wo, Matthew ("**Mr. Moy**")

Mrs. So Chan Wai Hang ("**Mrs. So**")

Mr. Ho Yuk Hay ("**Mr. Ho**")

AUDIT COMMITTEE

Mr. Ho Yuk Hay (*Chairman*)

Mr. Moy Yee Wo, Matthew

Mrs. So Chan Wai Hang

NOMINATION COMMITTEE

Mr. Moy Yee Wo, Matthew (*Chairman*)

Mrs. So Chan Wai Hang

Mr. Ho Yuk Hay

REMUNERATION COMMITTEE

Mrs. So Chan Wai Hang (*Chairlady*)

Mr. Moy Yee Wo, Matthew

Mr. Ho Yuk Hay

REGISTERED OFFICE

PO Box 1350

Regatta Office Park

Windward 3

Grand Cayman KY1-1108

Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Sun Tin Lun Industrial Centre

No. 6 Taihao Road

Sandong Digital Industrial Park

Sandong Town, Huizhou City

Guangdong Province, PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited

PO Box 1350

Regatta Office Park

Windward 3

Grand Cayman KY1-1108

Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited

Level 54, Hopewell Centre

183 Queen's Road East

Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank Limited

Bank of China, Huizhou Industrial Park Branch

Industrial and Commercial Bank of China

COMPANY SECRETARY

Mr. Chan Fei Fei (*Certified Public Accountant*)

COMPLIANCE OFFICER

Mr. Lam Kai Yuen

AUTHORISED REPRESENTATIVES

Mr. Lam Kai Yuen

Mr. Chan Fei Fei (*Certified Public Accountant*)

AUDITOR

McMillan Woods (Hong Kong) CPA Limited

Certified Public Accountants

LEGAL ADVISER

As to Hong Kong Law

ONC Lawyers

Solicitors

Hong Kong

COMPANY'S WEBSITE

www.sthl.com.hk

(information of this website does not form part of this report)

STOCK CODE

8471

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Reach New Holdings Limited (the "**Company**", and together with its subsidiaries, the "**Group**"), I am pleased to present the annual report of the Company for the year ended 31 December 2020.

The PRC garment accessories market faced with numerous challenges during 2020. Our business was inevitably affected by the outbreak of the COVID-19 pandemic, the keen price competition in the market, the pressure of increasing operating costs, the continuous cost reduction measures taken by the Group's customers given the advent of trade protectionism and intensifying trade frictions between the People's Republic of China ("**PRC**") and the United States of America (the "**USA**") and the potential decline in the economy in the PRC. During 2020, the Group recorded revenue of approximately RMB60.6 million, representing a decrease of approximately 20.4% as compared to that of last year. While the Group's gross profit for 2020 was approximately RMB13.8 million, representing a decrease of approximately 36.4% as compared to that of last year.

With extensive industry experience and expertise of our Directors and management, we have used our best effort to alleviate the impact from those challenges in the market.

In order to deal with the challenging market conditions, the Group will continue to undertake cost control measures and broaden customer base and product offerings. We will endeavor to maintain our growth in our comprehensive labelling solution services, production management and customer services and to enhance our overall competitiveness and market share. In addition, the Group will continue to explore new business opportunities to strengthen our income stream, including sales of garment products through different channels.

We foresee that the coming years will continue to be challenging for the garment accessory market. We will continue to capture market opportunities so as to achieve a sustainable business growth and maximise the long-term benefits for our shareholders.

Finally, on behalf of the Board and the management, I wish to extend my sincere appreciation to all of our staff for their tireless efforts, diligence and contribution during 2020, and express my utmost gratitude to all shareholders, investors, customers, suppliers and business partners for their continued and valuable support and trust to the Group.

REACH NEW HOLDINGS LIMITED

LAM CHEUNG CHUEN

Chairman and non-executive Director

Hong Kong, 22 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is an established labelling solution provider and a one-stop garment accessories manufacturer and supplier based in the PRC. The Group mainly engages in the production of three types of products, which are (i) printed products (e.g. hangtags, price tags and stickers), (ii) woven labels (e.g. woven brand labels, woven size labels and badges) and (iii) printed labels (e.g. printed brand labels, printed size labels and care content labels). The Group also sources and sells other garment accessories, such as tapes, hanging tablets, string locks, leather badge, buttons and metal products, to the customers in the PRC. The Group's customers include (i) garment brand companies, (ii) sourcing companies designated by garment brand companies and (iii) garment manufacturers in the PRC.

Looking forward, the Directors consider that the future opportunities and challenges faced by the Group will continue to be affected by the overall development of the garment accessory market in the PRC as well as factors affecting the increasing labour costs and material costs. The Directors are of the view that further development of garment market in the PRC, shortening of garment updating cycle and the multifunction of labels remains to be the key drivers for the growth of the PRC garment accessories industry.

With the Group's experienced management team and reputation in the market, the Directors consider that the Group is well-positioned to compete against its competitors under such future challenges that are commonly faced by all competitors, and the Group will continue to adopt a positive yet prudent approach in its business strategies aiming to enhance the Group's profitability and maximise the shareholders' value in the long run.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2020, the Group recorded revenue of approximately RMB60.6 million, a decrease of approximately 20.4% comparing with that of approximately RMB76.1 million for the year ended 31 December 2019. A breakdown on revenue of the Group by product types for 2020 and the comparative figures in 2019 is summarised as below:

Product types	For the year ended 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
Printed products	22,735	37.5	29,776	39.1
Woven labels	12,441	20.5	15,791	20.7
Printed labels	14,222	23.5	21,215	27.9
Others (note)	10,505	17.4	9,336	12.3
Revenue from information technology business	657	1.1	–	–
	60,560	100	76,118	100

Note: Others mainly include tapes, string locks, leather badge, buttons and metal products, etc..

MANAGEMENT DISCUSSION AND ANALYSIS

The decrease in the Group's revenue was mainly attributable to (i) the outbreak of the COVID-19 pandemic (the "**Pandemic**"), which caused disruption to the economic and production activities in the PRC, including the production activities of the Group and its customers, which engage in the garment manufacturing; (ii) the continuous cost reduction measures taken by the Group's customers, given the advent of trade protectionism and continuing trade frictions between the PRC and the USA; (iii) the PRC's slower economic growth, which drove down the demand in garment market; (iv) the keen price competition in garment market; and (v) some of our customers shifted their production base to Southeast Asia for the purpose of lowering production cost and to lessen the impact of the trade frictions between the PRC and the USA.

Due to the above-mentioned economic atmosphere, the Pandemic and the keen price competition in garment market, some of the Group customers in the PRC are facing drop in garment sales order, and the Group's product is in positive correlation with the Group customers' garment sales order and hence, the Group's revenue decreased.

The global outbreak of the Pandemic during 2020 caused a serious hit to the global economy. As per the Company's announcement "Impact of Novel Coronavirus (COVID-19) Epidemic on Business Operations" dated 17 February 2020, the Pandemic caused the Group's factories located in Huizhou of Guangdong Province (the "**Huizhou Factories**") to suspend its operation for around three weeks and production gradually resumed in March 2020, which led to a drop in the Group's production capacity and resulted in a drop in the Group's revenue for the year ended 31 December 2020.

The Group will put more resources and effort in marketing by attracting potential customers in the PRC and at the same time exploring the expansion of the customer base of the Group to PRC and foreign garment brand companies, in order to increase sales and enhance its profitability. In addition, the Group will continue to explore new business opportunities to diversify income streams, including sales of garment products through different channels.

Cost of sales and gross profit

During the year ended 31 December 2020, the Group's gross profit decreased by approximately 36.4% from approximately RMB21.7 million for the year ended 31 December 2019 to approximately RMB13.8 million for the year ended 31 December 2020. The Group's cost of sales primarily consists of material costs, direct labour costs, subcontracting costs, rental and rates, depreciation on machinery and utilities.

During the year ended 31 December 2020, the cost of sales in relation to the information segment was approximately RMB3.5 million.

During the year ended 31 December 2020, the Group's revenue decreased by 20.4% while the cost of sales decreased by 14.1% as compared that of the previous year, as a result, the Group's gross profit margin decreases from approximately 28.5% for the year ended 31 December 2019 to approximately 22.7% for the year ended 31 December 2020.

Other income, gains and losses

During the year ended 31 December 2020, the Group recorded an other income of approximately RMB2.5 million which mainly comprise of the government subsidies as the relief measures to counter the negative impact brought by the outbreak of the Pandemic amounting to approximately RMB1.2 million and deemed gain on disposal of a subsidiary amounting to approximately RMB1.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Distribution and selling expenses

Distribution and selling expenses decreased to approximately RMB4.3 million for the year ended 31 December 2020 from approximately RMB5.3 million for the year ended 31 December 2019. Despite the drop of revenue during the year, the Group kept putting resources and effort in sales and marketing to explore potential customers in the PRC market targeting to gain market share and maintain the Group's advantages in keen competition. This results in the disproportionate decrease of our distribution cost compared to our drop in revenue.

Administrative expenses

Administrative expenses increased to approximately RMB22.7 million for the year ended 31 December 2020 from approximately RMB21.0 million for the year ended 31 December 2019, which was mainly due to approximately RMB1.4 million administration cost incurred by the information technology business during the year ended 31 December 2020 and the exchange loss of approximately RMB0.7 million incurred during the year. Administrative expenses consist primarily of staff costs and benefits, depreciation (excluding depreciation for plant and machinery), office expenses and other general administrative expenses.

Income Tax expense

Income tax expense of the Group decreased from approximately RMB0.7 million for the year ended 31 December 2019 to nil for the year ended 31 December 2020. The decrease was mainly due to the decrease in profit before tax for a PRC subsidiary.

Loss for the year

The information technology segment incurred a loss attributable to the owners of the Company of approximately RMB1.3 million for the year ended 31 December 2020. The Group also record impairment losses on non-financial assets amounting to RMB2.5 million. The significant drop in revenue coupled with the loss incurred from the information technology segment and the impairment losses on non-financial assets contributed to the increase in the loss attributable to the owners of the Company for the year ended 31 December 2020.

As a result of the foregoing, the loss for the year ended 31 December 2020 amounted to approximately RMB14.1 million, comparing with loss of approximately RMB5.1 million for the year ended 31 December 2019.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, the Group had total assets of approximately RMB73.6 million (2019: approximately RMB74.4 million), which was financed by total liabilities and shareholders' equity (comprising share capital, reserves and non-controlling interest) of approximately RMB15.3 million (2019: approximately RMB7.8 million) and approximately RMB58.3 million (2019: approximately RMB66.6 million), respectively.

The Group maintained sufficient working capital as at 31 December 2020 with bank and cash balances of approximately RMB31.4 million (2019: approximately RMB41.4 million). The Board of Directors will continue to follow a prudent treasury policy in managing its cash balances and maintain a strong and healthy liquidity to ensure that the Group is well placed to take advantage of growth opportunities for the business.

GEARING RATIO

The gearing ratio of the Group as at 31 December 2020 was nil (2019: nil) as the Group had no outstanding loans and borrowings nor bank overdrafts as at 31 December 2020. The gearing ratio is calculated based on the total obligation under bank borrowings and overdrafts divided by total equity at the end of the year and multiplied by 100%.

MANAGEMENT DISCUSSION AND ANALYSIS

TREASURY POLICIES

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Year. The Group strives to reduce exposure to credit risk by performance ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

PLEDGE OF ASSETS

As at 31 December 2020, the Group did not pledge any assets (2019: nil) as securities for any facilities granted to the Group.

FOREIGN EXCHANGE EXPOSURE

The business operations of the Group's subsidiaries were conducted mainly in the PRC with revenues and expenses of the Group's subsidiaries denominated mainly in RMB. As at 31 December 2020, the Group's cash and bank deposits, were denominated in RMB and Hong Kong Dollar ("**HKD**"). Any significant exchange rate fluctuations of HKD against RMB as the functional currency may have a financial impact to the Group.

As at 31 December 2020, the Directors considered the Group's foreign exchange risk to be insignificant. During the year ended 31 December 2020, the Group did not use any financial instruments for hedging purposes.

CAPITAL STRUCTURE

Placing under general mandate completed on 13 May 2020

On 28 April 2020, the Company entered into a placing agreement with Mouette Securities Company Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as placing agent (the "**Placing Agent**"), whereby the Company agreed to issue and the Placing Agent agreed to place up to 50,000,000 new shares under general mandate to not less than six placees at the placing price of HK\$0.113 per placing share. The Placing was completed on 13 May 2020 and the Placing Agent successfully placed an aggregate of 50,000,000 placing shares, representing (i) 6.25% of the issued share capital of the Company immediately before the Placing and (ii) approximately 5.88% of the issued share capital of the Company as enlarged by the issue of 50,000,000 placing shares to not less than six independent Placees at the Placing Price of HK\$0.113 per placing Share. The gross proceeds and the net proceeds (after deducting the placing fee and other related expenses incurred in the Placing) from the Placing were HK\$5.65 million and approximately HK\$5.41 million, respectively. For further information in relation to the Placing, please refer to the announcements of the Company dated 28 April 2020 and 13 May 2020.

Details of changes in the Company's share capital are set out in Note 25 to the consolidated financial statements of the Group in the report. Other than the Placing completed on 13 May 2020, there has been no changes in the share capital structure of the Company during 2020.

As at 31 December 2020, the Company's issued share capital was HK\$8,500,000 and the number of its issued ordinary Shares was 850,000,000 of HK\$0.01 each.

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDEND

No dividend in respect of the year ended 31 December 2020 (31 December 2019: nil) were declared by the Directors.

COMMITMENTS

As at 31 December 2020, the Group did not have any significant capital commitments (31 December 2019: nil).

SEGMENTAL INFORMATION

Segmental information is presented for the Group as disclosed on note 7 to the consolidated financial statements of this report.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the prospectus of the Company dated 30 June 2017 (the “**Prospectus**”) and in this report, the Group did not have any plan for material investments or capital assets as of 31 December 2020.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

On 24 April 2020, 新達科技(惠州)有限公司 (Reach New Technology (Huizhou) Company Limited*) (“**Reach New Technology**”), a wholly-owned subsidiary of the Company incorporated in the PRC, entered into a cooperation agreement with 廣州半城信息科技有限公司 (Guangzhou Bancheng Information Technology Co. Ltd.*) (“**Guangzhou Bancheng**”), whereby Guangzhou Banchengyun Information Technology Co. Ltd.* (廣州半城雲信息科技有限公司) (“**Guangzhou Banchengyun**”), a new company established in the PRC, in which Reach New Technology would hold 51% equity interest and Guangzhou Bancheng would hold 49% equity interest, was established for the Group to tap into the information technology industry.

On 22 September 2020, an investment agreement (the “**Investment Agreement**”) was entered into among Reach New Technology, Mr. Yan Yiming* (晏藝銘) (“**Mr. Yan**”) and Ningbo Meishan Free Trade Port Zone Yunsilu Equity Investment Fund Partnership (Limited Partnership)* (寧波梅山保稅港區雲絲路股權投資基金合夥企業(有限合夥)) (the “**Investor**”) in relation to the investment in equity interest in Guangzhou Banchengyun Information Technology Co. Ltd.

Under the Investment Agreement, Mr. Yan (who acquired the interest held by Guangzhou Bancheng), agreed to further contribute additional capital of approximately RMB1.29 million to Guangzhou Banchengyun and the Investor subscribed for 10% of the equity interest in Guangzhou Banchengyun in the consideration of RMB3 million, while Reach New Technology also agreed to capitalise its shareholders’ loan of approximately RMB2.49 million to the capital account of Guangzhou Banchengyun (the “**Capital Increase**”). Upon completion of the Capital Increase, Guangzhou Banchengyun was owned as to 63%, 27% and 10% by Mr. Yan, Reach New Technology and the Investor. As a result of the Capital Increase, the Group’s interest in Guangzhou Banchengyun decreased from 51% to 27% and constituted a deemed disposal in the equity interest in Guangzhou Banchengyun under Rule 19.29 of the GEM Listing Rules and Guangzhou Banchengyun ceased to be a subsidiary of the Company.

For further details as to the investment in Guangzhou Banchengyun, please refer to the announcements of the Company dated 24 April 2020, 22 September 2020 and 28 December 2020. Save as disclosed above, the Group did not have any material acquisitions or disposal of subsidiaries, associates or joint ventures during the year ended 31 December 2020.

* unofficial translation for reference only

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

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

EMPLOYMENTS AND REMUNERATION POLICIES

As at 31 December 2020, the Group employed a total of 219 employees (2019: 254 employees) in mainland China and Hong Kong. The staff costs, including Directors' emoluments, of the Group were approximately RMB25.1 million for the year ended 31 December 2020 (2019: approximately RMB25.6 million). Directors' emoluments for the year ended 31 December 2020 amounted to approximately RMB2.6 million (2019: approximately RMB3.3 million) which included emoluments of the independent non-executive Directors for a total amount of approximately RMB0.5 million (2019: approximately RMB0.5 million).

The Group promotes individuals based on their performance and development potential in the positions held. In order to attract and retain high quality staff, competitive remuneration package is offered to employees (with reference to prevailing market salary level and individual employees' performance, qualification and experience). On top of basic salaries, discretionary bonuses may be paid with reference to the Group's performance as well as individual's performance. Other staff benefits include provision of retirement benefits, medical benefits and sponsorship of training courses. Share options may also be granted to eligible employees by reference to the Group's performance as well as individual contribution.

SIGNIFICANT INVESTMENTS HELD

The Group did not hold any significant investments during the year ended 31 December 2020.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's key risk exposure are summarised as follows:

- (i) The Group's business may be seriously affected by the Pandemic or other public health incident, which may come lock-down, travel restrictions and suspension of work in the PRC and other locations;
- (ii) The Group has not entered into long-term contracts with the customers of the Group and it is difficult for the Group to forecast future order quantities;
- (iii) Increases in the prices of raw materials may materially and adversely affect the Group's business, financial condition and results of operations;
- (iv) The Group may experience a shortage of labour or our labour costs may continue to increase;
- (v) The Group faces intense competition in the garment accessories industry in the PRC;
- (vi) The Group may lose its customers if its customers move their factories from the PRC;
- (vii) The Group may be exposed to environmental liabilities;
- (viii) The Group may be subject to potential labour disputes and labour strikes.

MANAGEMENT DISCUSSION AND ANALYSIS

For other risks and uncertainties facing the Group, please refer to the section headed “Risk Factors” in the Prospectus.

KEY PERFORMANCE INDICATORS

The key financial performance indicators of the Group for the year ended 31 December 2020 is set out in the section headed “Five Years’ Financial Summary” of the annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group’s operations are subject to certain environment requirements pursuant to the laws in the PRC, including primarily those in relation to prevention and reduction of pollution, water pollution control and waste disposal control.

The Group recognises its responsibility to protect the environment from its business activities. The Group continually seeks to identify and manage environmental impacts attributable to its operational activities in order to minimise these impacts if possible. The Group aims to promote efficient use of resources and adopting green technologies for emission reduction. For instance, the Group seeks to replace the equipment by the environmental friendly machines in order to minimise overall exhaust emission.

For further information in relation to the environmental policies and performance of the Group, please refer to the section headed “ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT” of the annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

To the best of the Director’s 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 ended 31 December 2020.

KEY RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

To the best knowledge and belief of the Directors, the Group maintains good relationship with its customers. The sales personnel and merchandisers make regular phone calls to the customers and visit them overseas periodically. If there is any complaint from customers, it will be reported to the management and immediate remedial action will be taken to address the complaint made by the customer.

To the best knowledge and belief of the Directors, the Group also maintains a good relationship with its suppliers. During the year ended 31 December 2020, no material complaint was received from the suppliers and there was no disputed debts or unsettled debts.

During the year ended 31 December 2020, there was no dispute on salary payments and all accrued remunerations were settled on or before their respective due dates, as stipulated under individual employee’s employment contract. The Group also ensures that all the employees are reasonably remunerated by regular review the policies on salary increment, promotion, bonus, allowances and all other related benefits with reference to the individual performance, work experience and prevailing salary levels in the market.

In view of the above and as at the date of the annual report, there is no circumstance or any event which will have a significant impact on the Group’s business and operation.

MANAGEMENT DISCUSSION AND ANALYSIS

EVENTS AFTER THE REPORTING PERIOD

The outburst of COVID-19 has brought additional uncertainties in the global macroeconomic situation which may affect the Group's financial performance. However, since the outburst is a fluid and challenging situation facing all the industries globally, the degree of impact could not be reasonably estimated at this stage. The Group will closely monitor the development of the outburst and assess its impact on the financial position and operating results of the Group. The Group does not have other significant subsequent events.

USE OF PROCEEDS FROM THE LISTING AND BUSINESS OBJECTIVES

The net proceeds from the Listing, after deducting listing-related expenses, were approximately HK\$37.6 million (equivalent to approximately RMB32.7 million) (the "**Net Proceeds**"). After the Listing, part of these proceeds have been applied for the purposes in accordance with the future plans and use of proceeds as set out in the Prospectus.

As per the Company's announcement entitled "Placing of New Shares under General Mandate and Change in Use of Proceeds from the Listing" dated 28 April 2020 (the "**Change in UOP Announcement**"), the Board, having considered the business environment and development of the Group, resolved to change the use of the unutilised Net Proceeds.

As disclosed in the Prospectus, the Group intended to purchase two four-colour offset printing machines with inline UV coating capabilities and two production lines of heat transfer printing by using parts of the Net Proceeds. Instead of purchasing new machines, the Group purchased a preowned four-colour offset printing machines with inline UV coating capabilities at a substantial discount to the purchase price of new machine, while the machine was in good working order and carried similar specifications and production capacity comparing with those of the new machines. After purchasing the preowned four-colour offset printing machine, there is approximately HK\$15.2 million Net Proceeds remaining, which is previously allocated for upgrading the production facilities and digital printing technology. Out of the HK\$15.2 million Net Proceeds, the Directors consider HK\$9.1 million can be reallocated to other items while the remaining HK\$6.1 million will continue to be allocated for upgrading the production facilities and digital printing technology.

As at the date of the Change in UOP Announcement, the Group utilised HK\$4.1 million for purchasing one heat transfer printing production line and hiring additional staff to operate the production line. However, the demand for heat transfer printing was reduced due to the escalating trade frictions between the PRC and the USA, which adversely affected the international trade of garment and further worsened after the outbreak of COVID-19 pandemic, which caused a negative impact to the garment industry in the PRC. The Directors considered that is more beneficial and effective for the Group to reallocate HK\$1.9 million to facilitate alternative business needs of the Group.

The Directors consider that as the Group is positioned as a one-stop garment accessories manufacturer and supplier, the commencement of the PRC domestic garment trading business as a downstream expansion of the Group would create a value chain advantage for the Group, which is expected to drive the sustainable business growth and carry synergistic effect to its core business segments. The Group may also continue to utilise its connections with customers and suppliers in the PRC. The commencement of garment trading business is

MANAGEMENT DISCUSSION AND ANALYSIS

expected to utilise HK\$8.0 million from the Unutilised Net Proceeds. The commencement of the garment trading business can also diversify the income stream of the Group, which will be in the interest of the Company and the Shareholders as a whole. In addition, as affected by the outbreak of the Pandemic and the trade frictions between the PRC and the US, the Board considered it would be in the interest of the Company and its shareholders to diversify its business and look for new business opportunities, including the tapping into the information technology business by re-allocating HK\$3.0 million to it from the unutilised Net Proceeds. For further information and the reasons for the change in the use of the Net Proceeds, please refer to the Change in UOP Announcement.

An analysis of the utilisation of the Net Proceeds after the change in use of proceeds as at 31 December 2020 is set out below:

Intended Use of Net Proceeds	Revised planned application of the Net Proceeds HK\$'million	Utilised Net Proceeds as at 31 December 2020 HK\$'million	Unutilised balance as at 31 December 2020 HK\$'million	Expected timeline for the intended use
Upgrading the production facilities and digital printing technology of the Group	7.9	2.5	5.4	December 2021
Developing the capability of applying RFID technology to the products of the Group	3.0	0.5	2.5	December 2021
Enhancing the heat transfer printing production facilities of the Group	4.1	4.1	–	–
Upgrading the information technology systems of the Group	5.3	2.7	2.6	December 2022
Expansion of the sales and marketing department of the Group	3.0	1.4	1.6	December 2021
General working capital	3.3	3.3	–	–
Developing garment trading business	8.0	0.8	7.2	December 2022
Developing the internet and information technology business	3.0	3.0	–	–
Total	37.6	18.3	19.3	

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

All the unutilised balance of the net proceeds have been placed in licenced banks in Hong Kong or the PRC as at 31 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF NET PROCEEDS FROM THE PLACING

As per the Company's announcements dated 28 April 2020 and 13 May 2020, 50,000,000 Shares (the "Placing Shares") were successfully placed to nine independent placees at the placing price of HK\$0.113 per Placing Share under general mandate (the "Placing"). The gross proceeds and the net proceeds (after deducting the placing fee and other related expenses incurred in the Placing) from the Placing are HK\$5.65 million and approximately HK\$5.41 million, respectively (the "Placing Proceeds"). It is expected that approximately HK\$5.41 million, representing the entire amount of the Placing Proceeds, would be used for the working capital in Guangzhou Banchengyun, an associated corporation of the Group, in connection with the Group's development in the information technology business. The 50,000,000 Placing Shares represent (i) 6.25% of the issued share capital of the Company immediately before the Placing and (ii) approximately 5.88% of the issued share capital of the Company as enlarged by the Placing. Despite the Capital Increase constituted a deemed disposal of the Guangzhou Banchengyun, after which Guangzhou Banchengyun became an associated corporation of the Group, the Directors were of the view that the Placing Proceeds would still be applied to Guangzhou Banchengyun according to the planned use of proceeds in its future rounds of funding as and when appropriate.

An analysis of the unutilisation of the net proceeds from the Placing as at 31 December 2020 is set out below:

Intended use of the net proceeds from the Placing	Total planned amount HK\$'million	Utilised net proceeds from the Placing as at 31 December 2020	Unutilised net proceeds from the Placing as at 31 December 2020	Expected timeline for the intended use
		HK\$'million	HK\$'million	
Working capital in Guangzhou Banchengyun in connection with the Group's development in the information technology industry	5.41	0.3	5.11	December 2021

MANAGEMENT DISCUSSION AND ANALYSIS

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the Prospectus and revised by the announcement dated 28 April 2020 “Placing of new shares under general mandate change in use of proceeds from the Listing” against the Group’s actual business progress up to 31 December 2020 is set out below:

Business objectives	Actual business progress up to 31 December 2020
Upgrading production facilities and digital printing technology	The Group will upgrade the production, facilities and digital printing technology according to the implementation plan as set out in the announcement.
Developing the capability of applying RFID technology to the products of the Group	The Group will develop the capability of applying RFID technology to the products of the Group according to the implementation plan as set out in the announcement.
Enhancing the heat transfer printing production facilities	The Group has enhanced its heat transfer printing production facilities by acquiring certain relevant machines and hiring additional staff for heat transfer printing production.
Upgrading the information technology system	The Group will upgrade the information technology system according to the implementation plan as set out in the announcement.
Expanding the sales and marketing department	The Group will expand the sales and marketing departments according to the implementation plan as set out in the announcement.
Developing garment trading business	The Group will develop the garment trading business according to the implementation plan set out in the announcement.
Developing the internet and information technology business	The Group will develop the internet and information technology business according to the implementation plan set out in the announcement.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Chairman and non-executive Director

Mr. Lam Cheung Chuen (林長泉先生), aged 67

Mr. Lam is a founder of STL Garment Accessories and Reach New Technology. He is one of the Controlling Shareholders of the Company. He is the father of Mr. Gabi Lam and Mr. Jeffrey Lam, the executive Directors. He was appointed as the Director on 22 January 2016 and was re-designated as the non-executive Director on 26 January 2017. He also serves as the chairman of the Board. He is responsible for overseeing the overall corporate development and strategic planning of the Group.

Mr. Lam completed his primary school education in the PRC in July 1966 and was conferred Honorary University Fellowship of Hong Kong Baptist University in September 2015. Mr. Lam has over 27 years of experience in the garment accessories manufacturing industry. Since the establishment of STL Garment Accessories in December 2001 and until Mr. Gabi Lam joined in March 2006 and took up the management of the Group in August 2006, Mr. Lam had overseen the day-to-day management of STL Garment Accessories. Mr. Lam currently serves as a director of all of the subsidiaries of Company, namely New Forest, Smart Trend, STL Garment Accessories and Reach New Technology.

Mr. Lam has been an independent non-executive director of Ten Pao Group Holdings Limited (Stock code: 1979) since November 2015. Mr. Lam was a special committee member of the 11th session of and is a member of the 12th session of Huizhou City Committee of Guangdong Province of the Chinese People's Political Consultative Conference (中國人民政治協商會議廣東省惠州市委員會).

Mr. Lam holds a number of social titles including the president of the 6th council of Huizhou City Huicheng District Foreign Investment Enterprise Association (惠州市惠城區外商投資企業協會), the vice president of the 6th council of Huizhou City Foreign Investment Enterprise Association (惠州市外商投資企業協會), a chairman of the Huizhou Division of the Federation of Hong Kong Industries of Pearl River Delta Council* (香港工業總會珠三角工業協會), the director of the Hong Kong Shine Tak Foundation (香港善德基金會) and the permanent honorary chairman of Hong Kong Baptist University Foundation (香港浸會大學基金).

Executive Directors

Mr. Lam Kai Yuen (林啟源先生), aged 37

Mr. Gabi Lam was appointed as the Director on 22 January 2016 and was re-designated as the executive Director on 26 January 2017. He is responsible for overseeing the overall strategic planning, business development and day-to-day management of the Group's operations.

Mr. Gabi Lam obtained a bachelor's degree of business in management with distinction from the Queensland University of Technology in October 2004. He then obtained a master's degree of business in entrepreneurship from the University of Queensland in December 2005. Mr. Gabi Lam has over 13 years of experience in the garment accessories manufacturing industry since he joined the Group in March 2006. He was then appointed as the general manager of STL Garment Accessories and Reach New Technology in August 2006, being responsible for overseeing the factory operations of these companies, and gradually took up the management of the Group from Mr. Lam.

Mr. Gabi Lam currently serves as a director of all of the subsidiaries of the Company, namely New Forest, Smart Trend, STL Garment Accessories and Reach New Technology. He is also the chief executive officer of the Group. Mr. Gabi Lam is the son of Mr. Lam and the elder brother of Mr. Jeffrey Lam.

* for identification purpose only

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lam Kai Cheong (林啟昌先生), aged 31

Mr. Jeffrey Lam was appointed as the Director on 22 January 2016 and was re-designated as the executive Director on 26 January 2017. He is responsible for overseeing the overall strategic planning, business development and day-to-day management of the Group's operations.

Mr. Jeffrey Lam graduated from the University of Bath with a bachelor's degree of science in accounting and finance in June 2012. Mr. Jeffrey Lam has around 7 years of experience in the garment accessories manufacturing industry. He was appointed as director of Reach New Technology in April 2007 and joined STL Garment Accessories in August 2012 as general manager assistant, assisting Mr. Gabi Lam in overseeing the factory operations of these companies.

Mr. Jeffrey Lam currently serves as a director of three subsidiaries of the Company, namely Smart Trend, STL Garment Accessories and Reach New Technology. He is also the accounting manager of Smart Trend. He is the son of Mr. Lam and the younger brother of Mr. Gabi Lam.

Independent non-executive Directors

Mr. Moy Yee Wo, Matthew (梅以和先生), aged 42

Mr. Moy Yee Wo, Matthew was appointed as the independent non-executive Director on 24 June 2017. He is the chairman of the nomination committee and a member of the audit committee and remuneration committee.

Mr. Moy graduated from the Hong Kong University of Science and Technology with a bachelor's degree of business administration in accounting in November 2001 and a master's degree of business administration in April 2008. He has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants since July 2005.

Mr. Moy has over 13 years of experience in various sections of the finance industry including audit, corporate finance and asset management. Prior to joining the Group, Mr. Moy worked for Deloitte Touche Tohmatsu from September 2001 to July 2006, and his last position held was senior accountant in the audit department. He then worked for UBS Securities Co. Limited as an associate from June 2008 to October 2008, and participated in a telecommunication restructuring project. From October 2008 to April 2009, he worked for Business Development Asia (HK) Limited as an associate and participated in various merger and acquisition transactions. He also worked as a type 9 (asset management) licensed representative in VL Asset Management Limited from July 2011 to August 2012, managing an equity portfolio. From August 2012 to January 2019, he served as the chief financial officer and company secretary of China Silver Group Limited, a company listed on the Stock Exchange (stock code: 815). Since 12 February 2019, he has been the chief financial officer and company secretary of WE Solutions Limited, a company listed on the Stock Exchange (stock code: 860). Since 22 February 2017, Mr. Moy has also been an independent non-executive director of Chi Ho Development Holdings Limited, a company listed on the Stock Exchange (stock code: 8423) since March 2017.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mrs. So Chan Wai Hang (蘇陳偉香女士), also known as **Ms. Chan Wai Hang (陳偉香女士)**, BBS, aged 71

Mrs. So Chan Wai Hang was appointed as the independent non-executive Director on 24 June 2017. She is the chairlady of the remuneration committee and a member of the audit committee and nomination committee.

Mrs. So completed her secondary education in Hong Kong in July 1967 and was conferred Honorary University Fellowship of Hong Kong Baptist University in September 2016. She has extensive experience in the manufacturing industry and has been engaged in such business for over 39 years. She has been the managing director of Yue Wing Cheong Manufactory Limited, which principally engages in the business of manufacturing handbags, since November 1980, during which she has been responsible for the overall management and strategic development of the company. She has also been the vice chairlady of Winnie Sanitary Product Limited since February 2013 which principally engage in the business of manufacturing sanitary products and she has been responsible for the overall management and strategic development of the company. Mrs. So was awarded Bronze Bauhinia Star by the Government of Hong Kong on 1 July 2015.

Mr. Ho Yuk Hay (何旭晞先生), aged 41

Mr. Ho Yuk Hay was appointed as the independent non-executive Director on 24 June 2017. He is the chairman of the audit committee and a member of the remuneration committee and nomination committee.

Mr. Ho graduated from the Hong Kong Polytechnic University with a bachelor's degree of arts in accountancy in November 2001 and a master's degree in corporate governance in October 2012. He has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants since January 2005. He has also been associate member of both the Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as the Institute of Chartered Secretaries and Administrators) since February 2013.

Mr. Ho has over 18 years of experience in auditing and accounting. He worked for Deloitte Touche Tohmatsu from September 2001 to April 2011, and his last position held was senior manager in the audit department. He then worked for Sino Splendid Holdings Limited (formerly known as HONGKONG.COM CORPORATION and China.com Inc.), a company listed on the Stock Exchange (stock code: 8006), as financial controller from April 2011 to September 2012 and as the chief financial officer from September 2012 to October 2015. He also worked for Sinoref Holdings Limited (now known as Cybernaut International Holdings Company Limited), a company listed on the Stock Exchange (stock code: 1020), as executive director from October 2013 to October 2014 and as company secretary from February 2014 to January 2015. He has been the company secretary and capital management director of GCL New Energy Holdings Limited, a company listed on the Stock Exchange (stock code: 451), since October 2015.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Mr. Chan Fei Fei (陳非非先生) ("Mr. Chan"), aged 39, is the financial controller of the Group and is primarily responsible for overseeing the financial management of the Group. Mr. Chan joined the Group on 1 September 2016. He graduated from the Hong Kong Polytechnic University with a bachelor's degree of arts in accountancy in December 2005. He passed the third level in accounting examined by London Chamber of Commerce and Industry Examinations Board with credit in 2001. He has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants since February 2009.

Mr. Chan has over 12 years of experience in auditing, accounting and financial management. Prior to joining the Group, he worked for Deloitte Touche Tohmatsu from August 2005 to December 2010, and his last position held was senior in the audit department. During the period between December 2010 and May 2011, he joined Casablanca International Limited as finance manager. From May 2011 to July 2012, he worked as financial controller of Interior Contract International Limited. He then worked as financial control director of Toneluck Industrial Limited from August 2012 to September 2014. From January 2015 to June 2015, he worked as finance manager of Sin Tin Lun (H.K.) Garment Accessories Company Limited. Since 27 September 2019, Mr. Chan has also been an independent non-executive director of Janco Holdings Limited, a company listed on the Stock Exchange (stock code: 8035).

Save as the above, each of the senior management has not held directorships in the last three years in other public companies the securities of which are listed on any securities market in Hong Kong or overseas.

CORPORATE GOVERNANCE REPORT

Pursuant to Rule 18.44(2) of the GEM Listing Rules, the Board is pleased to present the corporate governance report of the Company for the year ended 31 December 2020.

CORPORATE GOVERNANCE CODE

The Directors and the management of the Group recognise the importance of sound corporate governance to the long-term success and continuing development of the Group. Therefore, the Board is committed to upholding good corporate standards and procedures, so as to improve the accountability system and transparency of the Group, protect the interests and create value for shareholders of the Company.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 15 of the GEM Listing Rules. During the year ended 31 December 2020, to the best knowledge of the Board, the Company has complied with the applicable code provisions of the CG Code.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Lam is the chairman of the Board and Mr. Gabi Lam is the chief executive officer of the Group during the year ended 31 December 2020.

BOARD OF DIRECTORS

The key responsibilities of the Board include formulation of the Group's overall strategies, the setting of management targets and supervision of management performance. The management is delegated with the authority and responsibility by the Board for the management and administration of the Group. In addition, the Board has also delegated various responsibilities to the board committees of the Company (the "**Board Committees**"). Further details of the Board Committees are set out below in this annual report.

Corporate Governance Functions

The Board is responsible for performing the corporate governance duties as set out in paragraph D.3.1 of the CG 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 CG Code and disclosure in the corporate governance report of the Company.

CORPORATE GOVERNANCE REPORT

Composition of the Board

Up to the date of this annual report, the Board comprises six Directors, including one non-executive Director, two executive Directors and three independent non-executive Directors (the “INED”). The composition of the Board is set out as follow:

Non-executive Director

Mr. Lam Cheung Chuen

Executive Directors

Mr. Lam Kai Yuen

Mr. Lam Kai Cheong

Independent non-executive Directors

Mr. Moy Yee Wo, Matthew

Mrs. So Chan Wai Hang

Mr. Ho Yuk Hay

In compliance with rules 5.05(1) and 5.05(2) of the GEM Listing Rules, the Board consisted of three INEDs during the year ended 31 December 2020, with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise. During the Year and as of the date of this report, the number of INEDs represents more than one-third of the Board as required under rule 5.05A of the GEM Listing Rules. As such, there is a strong independent element in the Board to provide independent judgement.

In accordance with code provision A.4.1 of the CG Code, the Company has entered into a letter of appointment with each of the INEDs under which each INED is appointed for a fixed term (subject to re-election). Each of the letter of appointment is for a fixed term of one year initially commencing from the Listing Date and renewable automatically for successive term of one year unless terminated by either party in accordance with the terms thereof. Specific enquiry has been made by the Company of each of the INEDs to confirm their independence pursuant to rule 5.09 of the GEM Listing Rules. In this connection, the Company has received confirmations from all of the three INEDs as to their independence. Based on the confirmations received, the Company considers all the INEDs to be independent under the GEM Listing Rules.

Pursuant to Article 84 of the articles of association of the Company (the “Articles”), one-third of the Directors shall retire from office by rotation at each annual general meeting and every Director shall be subject to retirement by rotation at least once every 3 years. However, a retiring Director shall be eligible for re-election.

Saved as disclosed below and in the section “Biographical Details of Directors and Senior Management” in this annual report, there is no financial, business, family or other material or relevant relationship among members of the Board and senior management.

CORPORATE GOVERNANCE REPORT

Board Diversity Policy

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making. Pursuant to the CG Code, the Board has adopted a board diversity policy (the “**Board Diversity Policy**”). The Company recognises and benefits from the diversity of Board members. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company’s competitive advantage. The Company believes that greater diversity of directors is good for corporate governance and is committed:

- To attract and retain candidate(s) for Board with a combination of competencies from the widest possible pool of available talents;
- To maintain a Board with diversity perspectives at all levels, in particular, those are aligning with the Company’s strategy and objectives;
- To assess regularly the diversity profile of the Board and, where applicable, senior management prepared for the Board positions under the succession planning of the Company and the progress on achieving diversity objectives, if any;
- To ensure that the selection and nomination of Board positions are appropriately structured so that a diverse range of candidates can be considered;
- To set up appropriate procedures for development of a broader and more diverse pool of skilled and experienced senior management that would be prepared for Board positions; and
- To ensure that changes to the Board’s composition can be managed without undue disruption.

While appointments of all members of the Board will continue to be made on a merit basis, the Company will ensure that the Board diversity has been considered from a wide range of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skill, knowledge and length of service, and any other factors that the Board may consider relevant and applicable from time to time. The goal of the Board diversity is to ensure that a balanced composition of skill, experience and expertise offered by different Directors in the Board can provide a wider range of prospective, insights and solutions to the Company and enable the Board to discharge its duties effectively and support the sustainable growth of the Company in the long run.

The Board will take opportunities to increase the proportion of female members over time when selecting and making recommendation on suitable candidates for Board appointments. The Board would ensure that appropriate balance of gender diversity is achieved with reference to stakeholders’ expectation and international and local recommended best practices, with the ultimate goal of bringing the Board to gender parity. The Board also aspires to having an appropriate proportion of directors who have direct experience in the Group’s core markets, with different ethnic backgrounds, and reflecting the Group’s strategy.

CORPORATE GOVERNANCE REPORT

Board and General Meetings

During the Year, four Board meetings were held. The annual general meeting of the Company will be held on 3 May 2021 (the “**2021 AGM**”).

The attendance record of each Director at the Board meeting for the Year is set out in the table below:

	Number of Attendance/ number of Board Meetings
Executive Directors	
Mr. Lam Kai Yuen	10/10
Mr. Lam Kai Cheong	10/10
Non-executive Director	
Mr. Lam Cheung Chuen	10/10
Independent non-executive Directors	
Mr. Moy Yee Wo, Matthew	10/10
Mrs. So Chan Wai Hang	10/10
Mr. Ho Yuk Hay	10/10

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted a code of conduct regarding securities transactions by the Directors as the required standard of dealings set out in Rules 5.46 to 5.67 of the GEM Listing Rules (the “**Model Code**”). The Company has made specific enquiry to each of the Directors as to the compliance of the Model Code and each of the Director confirmed that they have fully complied with the Model Code during the year ended 31 December 2020. The Company was not aware of any non-compliance with the Model Code by the Directors during the year ended 31 December 2020.

Corporate Governance Functions and Conduct of Meetings

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions as set out in provision D.3.1 of the Code, such as developing and reviewing the Company’s policies and practices on corporate governance, reviewing and monitoring the training and continuous professional development of the Directors and senior management, and reviewing and monitoring the Company’s policies and practices on compliance with legal and regulatory requirements, etc.

Provision A.1.3 of the Code stipulates that at least 14 days’ notice should be given for a regular Board meeting. For other Board and committee meetings, reasonable notices are required to be given. An agenda and accompanying board papers are sent to all Directors at least three days before each Board meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. All the Directors are given an opportunity to include matters in the agenda for regular Board meetings. The Directors also have separate independent professional advice at the Company’s expense to assist them in performing their duties to the Company if necessary. Minutes of all Board meetings recording sufficient details of matters considered and decisions made are duly kept by the secretary of the meetings and open for inspection on reasonable notice by the Directors.

CORPORATE GOVERNANCE REPORT

DIRECTORS' CONTINUING PROFESSIONAL DEVELOPMENT PROGRAMME

The Group acknowledges the importance of continuing professional development for the Directors for a sound and effective internal control system and corporate governance. In this regard, the Group has always encouraged the Directors to attend relevant training courses to receive the latest news and knowledge regarding corporate governance.

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

The Company has maintained the training record in respect of each Director. There are also arrangements in place for providing continuing briefing and professional development to Directors by the Company whenever necessary.

BOARD COMMITTEES

The Board has established a number of functional committees in compliance with the relevant GEM Listing Rules and to assist the Board to discharge its duties. Currently, three committees have been established. An audit committee (the "**Audit Committee**") has been established on 24 June 2017 with its terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules, and paragraphs C3.3 and C3.7 of the CG Code; a remuneration committee (the "**Remuneration Committee**") has been established on 24 June 2017 with its terms of reference in compliance with paragraph B1.2 of the CG Code; and a nomination committee (the "**Nomination Committee**") has been established on 24 June 2017 with its terms of reference in compliance with paragraph A5.2 of the CG Code. The functions and responsibilities of these committees have been set out in the relevant terms of reference which are of no less stringent than that stated in the CG Code. The relevant terms of reference of each of the three committees can be found on the Group's website (www.sthl.com.hk) and the website of the Stock Exchange.

All committees have been provided with sufficient resources and support from the Group to discharge their duties.

AUDIT COMMITTEE

The Company has established an audit committee (the "**Audit Committee**") on 24 June 2017 with its written terms of reference in compliance with paragraphs C3.3 and C3.7 of the CG Code. The Audit Committee consists of three members, namely Mr. Ho Yuk Hay, Mr. Moy Yee Wo, Matthew and Mrs. So Chan Wai Hang, all being independent non-executive Directors. Mr. Ho Yuk Hay currently serves as the chairman of the Audit Committee, who has appropriate professional qualifications and experience in accounting matters. The members of the Audit Committee shall comprise non-executive Directors and shall be appointed or removed by the Board. If any member of the Audit Committee ceases to be a Director, he/she will cease to be a member of the Audit Committee automatically. The Audit committee has reviewed the consolidated financial statements for the year ended 31 December 2020.

The Audit Committee must comprise a minimum of three members, at least one of whom is an INED with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 5.28 of the GEM Listing Rules. In addition, the majority of the Audit Committee shall be INEDs.

CORPORATE GOVERNANCE REPORT

With reference to the terms of reference, the primary responsibilities of the Audit Committee are, among others, the following (for the complete terms of reference, please refer to the Group's website at www.sthl.com.hk or the website of the Stock Exchange):

1. to make recommendations to the Board on the appointment, re-appointment and removal of the Company's external auditor, and approve the remuneration and terms of engagement of the Company's external auditor;
2. to review and monitor the Company's external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
3. to develop and implement policy on engaging the Company's external auditor to supply non-audit services, if any;
4. to monitor integrity of the Company's financial statements, annual report and accounts, half-year report and quarterly report and review significant financial reporting judgments contained in them;
5. to discuss with the Company's external auditors questions and doubts arising in the audit of annual accounts;
6. to review the statement about the Company's internal control system as included in the Company's annual report prior to submission for the Board's approval;
7. to review the Company's financial reporting, financial controls, and unless expressly addressed by a separate board risk committee, or by the board itself, to review the Company's risk management and internal control systems;
8. to discuss the risk management and internal control systems with the Company's management to ensure that management has performed its duty to have effective systems;
9. to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
10. to review the financial and accounting policies and practices of the Group;
11. to review the external auditor's management letter, any material queries raised by the auditor to the management in respect of accounting records, financial accounts or systems of control and management's response;
12. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
13. to report to the Board on that matters pursuant to the terms of reference of the Audit Committee and consider other topics as defined by the Board; and
14. to review arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters.

The Board is of the view that the Audit Committee has properly discharged its duties and responsibilities during the Year and up to the date of this report.

CORPORATE GOVERNANCE REPORT

The members of the Audit Committee should meet at least twice a year. During the Year, four Audit Committee meetings were held.

The attendance records of the members of the Audit Committee are summarised below:

Members of the Audit Committee	Number of attendance
Mr. Ho Yuk Hay (Chairman)	4/4
Mr. Moy Yee Wo, Matthew	4/4
Mrs. So Chan Wai Hang	4/4

The following is a summary of the works performed by the Audit Committee during the Year:

- (a) reviewed the Group's consolidated financial result for the year ended 31 December 2020, for the three months ended 31 March 2020 for the six months ended 30 June 2020 and the nine months ended 30 September 2020 before submission to the Board, with a focus on compliance with accounting standards, the GEM Listing Rules and other requirements in relation to financial reporting of the Audit Committee;
- (b) discussed the effectiveness of the internal controls system throughout the Group, including financial, operational and compliance controls, and risk management; and
- (c) reviewed the accounting principles and practices adopted by the Group and other financial reporting matters.

There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditor. The Audit Committee has reviewed with the management and the Company's auditor the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the audited financial statements for the Year.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members, namely Mrs. So Chan Wai Hang (Chairlady), Mr. Moy Yee Wo, Matthew and Mr. Ho Yuk Hay, all being independent non-executive Directors of the Company.

With reference to the terms of reference of the Remuneration Committee, the primary responsibilities of the Remuneration Committee include, among other things, the following (for the complete terms of references, please refer to the Group's website at www.sthl.com.hk or the website of the Stock Exchange):

1. to consult the chairman of the Board and/of chief executive about their remuneration proposals for other executive Directors;
2. to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
3. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
4. to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management;
5. to make recommendations to the Board on the remuneration of non-executive Directors;

CORPORATE GOVERNANCE REPORT

6. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
7. to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
8. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and
9. to ensure that no Directors or any of his associates is involved in deciding his own remuneration.

The members of the Remuneration Committee should meet at least once a year. During the Year, a meeting of the Remuneration Committee was held and has, inter alia, reviewed the remuneration packages for individual executive Directors and senior management and making recommendations to the Board.

The attendance records of the members of the Remuneration Committee are summarised below:

Members of the Remuneration Committee	Number of attendance
Mrs. So Chan Wai Hang (Chairlady)	1/1
Mr. Moy Yee Wo, Matthew	1/1
Mr. Ho Yuk Hay	1/1

The emolument payable to the Directors depends on their respective contractual terms under the service contracts or the appointment letters (as the case may be), and as recommended by the Remuneration Committee. Details of the Directors' emoluments are set out in note 11 to the consolidated financial statements.

NOMINATION COMMITTEE

The Nomination Committee comprises three members, namely Mr. Moy Yee Wo, Matthew (Chairman), Mrs. So Chan Wai Hang and Mr. Ho Yuk Hay, all being independent non-executive Directors of the Company.

With reference to the terms of reference of the Nomination Committee, the primary responsibilities of the Nomination Committee include, among other things, the following (for the complete terms of reference please refer to the Group's website at www.sthl.com.hk or the website of the Stock Exchange):

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on proposed changes, if any, to the Board to complement the Company's corporate strategy;
2. to review the Company's board diversity policy and the progress on achieving the objectives set for implementing the said policy;
3. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
4. to assess the independence of INEDs; and
5. to make recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for the Directors, in particular the chairman and the chief executive.

CORPORATE GOVERNANCE REPORT

The members of the Nomination Committee should meet at least once a year. During the year, a meeting of the Nomination Meeting was held and has, inter alia, reviewed the structure, size and composition of the Board, assessed the independence of the INEDs and considered the Directors to retire and re-appoint at the 2021 AGM.

The attendance records of the members of the Nomination Committee are summarised below:

Members of the Nomination Committee	Number of attendance
Mr. Moy Yee Wo, Matthew (Chairman)	1/1
Mr. Ho Yuk Hay	1/1
Mrs. So Chan Wai Hang	1/1

Nomination policy

The Board has adopted a nomination policy, which establishes written guidelines to the Nomination Committee to identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorships with reference to the formulated criteria. The Board is ultimately responsible for selection and appointment of new Directors.

The Board, through the delegation of its authority to the Nomination Committee, has used its best efforts to ensure that Directors appointed to the Board possess the relevant background, experience and knowledge in business, finance and management skills critical to the Group's business to enable the Board to make sound and well considered decisions. Collectively, they have competencies in areas which are relevant and valuable to the Group.

Nomination Criteria

In evaluating and selecting any candidate for the directorship, the following criteria should be considered:

- (i) the candidate's character and integrity;
- (ii) the candidate's qualifications including professional qualifications, skills, knowledge and experience, and diversity aspects under the Board Diversity Policy (as defined below) that are relevant to the Company's business and corporate strategy;
- (iii) any measurable objectives adopted for achieving diversity on the Board;
- (iv) for independent non-executive Directors, whether the candidate would be considered independent with reference to the independence guidelines set out in the GEM Listing Rules;
- (v) any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- (vi) willingness and ability of the candidate to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and
- (vii) such other perspectives that are appropriate to the Company's business and succession plan and where applicable may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

CORPORATE GOVERNANCE REPORT

Nomination Procedures

The Company has put in place the following director nomination procedures:

Appointment of New and Replacement Directors

- (i) If the Board determines that an additional or replacement Director is required, it will deploy multiple channels for identifying suitable director candidates, including referral from Directors, shareholders, management, advisors of the Company and external executive search firms.
- (ii) Upon compilation and interview of the list of potential candidates, the relevant Nomination Committee will shortlist candidates for consideration by the Nomination Committee/Board based on the selection criteria and such other factors that it considers appropriate. The Board has the final authority on determining suitable director candidate for appointment.

Re-election of Directors and Nomination from Shareholders

- (i) Where a retiring Director, being eligible, offers himself for re-election, the Board shall consider and, if consider appropriate, recommend such retiring Director to stand for re-election at a general meeting. A circular containing the requisite information on such retiring Director will be sent to shareholders prior to a general meeting in accordance with the GEM Listing Rules.
- (ii) Any shareholder of the Company who wishes to nominate a person to stand for election as a Director at a general meeting must lodge with the company secretary of the Company within the lodgement period specified in the relevant shareholder circular (a) a written nomination of the candidate, (b) written confirmation from such nominated candidate of his willingness to stand for election, and (c) biographical details of such nominated candidate as required under the GEM Listing Rules. Particulars of the candidate so proposed will be sent to all shareholders for information by a supplementary circular.

DIVIDEND POLICY

The Board has adopted a dividend policy (the “**Dividend Policy**”) in compliance with E.1.5 of the CG Code, which establishes an appropriate procedure on declaring and recommending the dividend payment of the Company. Summary of the Dividend Policy is set out below:

- (i) In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, among other things of the Group:
 - a. operating and financial results;
 - b. cash flow situation;
 - c. business conditions and strategies;
 - d. future operations and earnings;
 - e. taxation consideration;
 - f. interim dividend paid, if any;

CORPORATE GOVERNANCE REPORT

- g. capital requirement and expenditure plans;
 - h. interests of shareholders;
 - i. statutory and regulatory restrictions;
 - j. any restrictions on payment of dividends; and
 - k. any other factors that the Board may consider relevant.
- (ii) The payment of the dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands and the Articles. Any final dividends declared by the Company must be approved by an ordinary resolution of the shareholders at an annual general meeting and must not exceed the amount recommended by the Board. The Board may from time to time pay to the shareholders such interim and/or special dividends as it considers to be justified by the profits of the Group.
- (iii) The Board endeavours to strike a balance between the shareholders' interests and prudent capital management with a sustainable Dividend Policy. The Board will review the Dividend Policy from time to time and may exercise at its sole and absolute discretion to update, amend and/or modify the policy at any time as it deems fit and necessary.

The Company will review the Dividend Policy from time to time and there can be no assurance that a dividend will be proposed or declared in any specific periods.

AUDITORS' REMUNERATION

The amount of fees charged by the external auditor generally depends on the scope and volume of the external auditor's work performed.

For the year ended 31 December 2020, the remuneration paid or payable to the external auditor of the Company in respect of the statutory audit services and non-audit services for the Group are as follows:

	Fees paid/payable for the services rendered	
	2020	2019
	HK\$'000	HK\$'000
Statutory audit services	738	700
Non-audit services	nil	nil

COMPANY SECRETARY

Mr. Chan Fei Fei was appointed as the company secretary of the Company on 26 January 2017. Please refer to the section "Biographical details of Directors and Senior Management" for his biographical information.

All Directors have access to the advice and services of the company secretary. The company secretary reports to the Chairman of the Board and are responsible for ensuring that board procedures are followed, and for facilitating communications among Directors as well as with shareholders of the Company and management. During the year ended 31 December 2020, the company secretary has taken no less than 15 hours of relevant professional training.

CORPORATE GOVERNANCE REPORT

COMPLIANCE OFFICER

Mr. Gabi Lam, an executive Director, is the compliance officer of the Group. Please refer to the section “Biographical details of Directors and Senior Management” for her biographical information.

INTERNAL CONTROL AND RISK MANAGEMENT

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.

The Group recognises that good risk management is essential for the long-term development on the Group’s business. The management is responsible to establish, implement, review and evaluate effectiveness of the internal control system underpinning the risk management framework. Upon taking into full account of the new requirements effective from 1 January 2016 under the GEM Listing Rules brought by the Stock Exchange relating to risk management and internal control, the management has formulated the risk management and control framework. All employees are committed to implementing the risk management framework into the daily operation.

OBJECTIVES OF RISK MANAGEMENT AND INTERNAL CONTROL

The Group has adopted a three-tier risk management approach to identify, assess, mitigate and handle risks. At the first line of defence, business units are responsible for identifying, assessing and monitoring risks associated with each business or deal. The management, as the second line of defence, defines rule sets and models, provides technical support, develops new systems and oversees portfolio management. It ensures that risks are within the acceptable range and that the first line of defence is effective. As the final line of defence, the audit committee of the Company, with the professional advices and opinions from the external professional company by whom internal audit work of the Group was conducted on annual basis, ensures that the first and second lines of defence are effective through constant inspection and monitoring.

DIRECTORS’ AND AUDITORS’ RESPONSIBILITY FOR CONSOLIDATED 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 state of affairs, results and cash flows of the Group and are in compliance with the relevant accounting standards and principles, applicable laws and disclosure provisions required under 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 is 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.

CORPORATE GOVERNANCE REPORT

Statement of the Company's external auditors' responsibilities in respect of the consolidated financial statements is set out in the Independent Auditors' Report of this annual report.

GENERAL MEETINGS WITH SHAREHOLDERS

The annual general meeting ("**AGM**") is a forum in which the Board and the shareholders communicate directly and exchange views concerning the affairs and overall performance of the Group, and its future developments, etc.

At the AGM, the shareholders will be given the opportunity to raise questions to the Directors (including the INEDs). The external auditor of the Company is also invited to be present at the AGM to address the queries of the shareholders concerning the audit procedures and the auditor's report.

The forthcoming AGM of the Company (the "**2021 AGM**") will be held on 3 May 2021, the notice of which shall be sent to the shareholders of the Company in accordance with the Articles, the GEM Listing Rules and other applicable laws and regulations.

SHAREHOLDERS' RIGHTS

Procedures for convening an extraordinary general meeting upon shareholders' requisition

The shareholders shall be entitled to convene an extraordinary general meeting (the "**EGM**") on requisition by shareholders pursuant to Article 64 of the Articles that the Board may, whenever it thinks fit, convene an EGM on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within 2 months after the deposit of such requisition. If, within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionists themselves may convene a meeting in accordance with the Articles and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisition(s) by the Company.

Procedures for Shareholders' Nomination of Directors

Pursuant to Article 113 of the Articles, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director (signed by a member duly qualified to attend and vote at the meeting), notice in writing by that person of his willingness to be elected and the biographical details of that person as required under Rule 17.50(2) of the GEM Listing Rules for publication by the Company shall have been lodged at the head office or at the registration office of the Company, provided that the minimum length of the period during which such notices to the Company may be given shall be at least 7 days and that (if such notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of the notices required under this Article will commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.

Procedures for directing shareholders' enquiries to the Board

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's Hong Kong share registrar (details of which are set out in the section headed "Corporate Information" of this annual report).

Should there be any enquiries and concerns from shareholders, they may send in written enquiries addressed to the head office and principal place of business of the Company in Hong Kong at Room 203, 2nd Floor, K83, 83 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong by post for the attention of the Board and/or the Company Secretary.

CORPORATE GOVERNANCE REPORT

Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company.

INVESTOR RELATIONS

The Company has established a range of communication channels between itself and its shareholders, and investors. These include answering questions through the annual general meeting, the publication of annual, interim and quarterly reports, notices, announcements and circulars, the Company's website at www.sthl.com.hk and meetings with investors and shareholders. News update of the Group's business development and operation are also available on the Company's website.

CONSTITUTIONAL DOCUMENTS

Pursuant to special resolutions of the then sole shareholder passed on 24 June 2017, the Articles were adopted by the Company with effect from the Listing Date. Since the Listing Date and up to the date of this annual report, no change has been made to the Articles.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THIS REPORT

Reach New Holdings Limited (the “**Company**”) is pleased to present our Environmental, Social and Governance (“**ESG**”) Report (“**ESG Report**”) for the financial year ended 31 December 2020. The report involves environmental and social impacts, policies and initiatives of the Company and our subsidiaries (“**the Group**”) to demonstrate our continuous commitment to sustainability.

The present scope of ESG reporting covers the operating core activities of the Group’s headquarters and subsidiaries, which include labelling solution management and garment accessories production. This report highlights our sustainability activities spanning over the period from 1 January 2020 to 31 December 2020.

The ESG Report is prepared in accordance with the “Environmental, Social and Governance Reporting Guide” (the “**ESG Reporting Guide**”) under Appendix 20 of the GEM Listing Rules. Those aspects and key performance indicators (“**KPI**”) defined in the ESG Reporting Guide which are considered to be relevant and material to the Group’s businesses and operations will be presented under the four subject areas, namely: Environmental Protection, Employment and Labour Practices, Operating Practices and Community Investment. A complete list of index in compliance with the ESG Reporting Guide is also available at the end of this report for reference.

In order to define what are relevant and material to our business in relation to sustainability, the Group has to understand what issues our stakeholders are most concerned with. We define our stakeholders as people who affect our business and people who are affected by our business. Our stakeholders include the shareholders, employees, suppliers, customers and community. In our daily business, we actively exchange information with our stakeholders through our transparent platform while we are devoted to continuous improvement of our communication system. We are committed to maintain long-term partnerships with our stakeholders and are actively engaged in addressing their concerns with follow-up actions.

If you, as one of our stakeholders, have any questions about the content of the ESG Report or comments on the Group’s sustainability issues, please contact us via info@sth.com.hk.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. ENVIRONMENTAL PROTECTION

2.1 Corporate Environmental Policy

Being the foundation of a sustainable economy, a sustainable environment is crucial to the well-being of human beings. In accordance with our environmental vision, the Group is committed to upholding high environmental standards to fulfil relevant requirements under applicable laws or ordinances during the operation of the business, including all necessary requirements under the Environmental Protection Law of the People's Republic of China ("PRC"). As at 31 December 2020, the Group was in compliance with the applicable regulations and rules governing air and greenhouse gas emission, discharges into water and land, and generation of hazardous and non-hazardous waste. We have received FSC certification for our products which meet the requirements of chain-of custody by purchasing FSC certified mixed and recycled paper, production and sales of FSC certified mixed and recycled printed paper products. We have also achieved Oeko-Tex standard 100 Confidence in Textiles which certified that our woven labels made of white & dyed polyester yarn (with disperse dyestuffs) and woven badges made of white and dyed polyester yarn (with disperse dyestuffs) and polyester interlining in black and white meet the human ecological requirements of the Oeko-Tex Standard 100.

2.2 Energy Efficiency Management

Electricity consumption of our plant is the major contribution to our greenhouse gas emission and energy footprints. In 2020, the Group adopted a number of energy-saving initiatives and efficiency practices to enhance our employee's awareness for greenhouse gas emission reduction and energy saving, including:

- electrical machinery improvement;
- encouraging digital printing to reduce the utilisation of water, electricity, screen films and other resources;
- encouraging the employees to turn off IT devices when not in use;
- setting office machines such as copiers and TV monitors to turn off automatically after office hours;
- maintaining an indoor temperature at an optimal level for comfort; and
- putting up signage emphasizing the importance of energy saving.

By adopting the above practices, our employee's awareness for greenhouse gas emission reduction and energy saving is enhanced.

2.3 Non-Hazardous Waste Management

Believing that every small step will make a difference, the Group is as committed as ever to conserving precious resources by taking eco-friendly measures to reduce disposal of non-hazardous waste throughout our operation.

We encourage paperless solution for as documents storage, material sharing or internal administrative documents. When using paper, employees are encouraged to use double-sided paper, black and white or recycled papers when printing or photocopying documents. It considerably improves operational efficiency while helping create a paperless operation system. Most of the used paper can be recycled and such materials were collected by waste collector.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2.4 Environmental Performance

The Group considers environmental stewardship an essential component of our corporate responsibility and are therefore exceptionally committed to promoting environmental protection activities in harmony with economic development.

In accordance with the ESG Reporting Guide, our environmental performance of “Energy Use and Emissions” and “Use of Resources” during the reporting period are presented as below.

Table 1 — Energy Use and Emissions

Energy Use and Emissions	Unit	2020
Electricity Consumption	kWh	2,274.734
Electricity Consumption Intensity	kWh/revenue (in RMB)	0.038
Greenhouse Gas Emissions	CO ₂ e (tonne)	1,998
Nitrogen Oxides	kg	73.2
Sulphur Oxides	kg	119.9
Particulate Matter	kg	61.0

Table 2 — Use of Resources

Use of Resources	Unit	2020
Paper	tonne	472

In the future, the Group will continue to raise employees’ awareness in environmental protection on an ongoing basis and perform our business with an environmentally conscious approach.

3. EMPLOYMENT AND LABOUR PRACTICES

3.1 Employment and Labour

Human capital has always been considered by the Group as the most important asset for our long-term operation and business development, thus the Group is committed to upholding an open, fair, just and reasonable human resource policy.

Equality and diversity is highly respected in our corporate philosophy during the process of employment, remuneration, promotion and termination. According to our employee inclusion policy, we strictly follow the relevant laws and regulations and our employment policies to select candidates based on skillsets, experience and expertise and offer equal employment opportunities to different genders, age groups and nationalities. It is the Group’s policy to prohibit the use of child and forced labour and our human resource department is responsible to closely monitor the practical situation in order to comply with the applicable regulations related to child labour and forced labour.

The Group safeguards the rights of our employees by strictly complying with the requirements under the employment-related legislations in Hong Kong and the Labour Law of the PRC and offers a competitive remuneration package, including internal promotion opportunities and performance-based bonus, to recruit and retain our experienced employees.

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Employees hired by the Group are mainly located in Hong Kong and China. In Hong Kong, the Group safeguards the rights of our employees by strictly complying with relevant employment laws and regulations, including the Mandatory Provident Fund Schemes Ordinance by participating in the Mandatory Provident Fund retirement benefit scheme for our eligible employees, the Minimum Wage Ordinance, Employment Ordinance and the Employees' Compensation Ordinance by offering competitive wages, medical insurance, disability and invalidity coverage, maternity leave and other compensation to our employees. In China, we have participated in welfare schemes concerning pension insurance, unemployment insurance, maternity insurance, occupational injury insurance and medical insurance in accordance with the local regulations including the Regulations on the Administration of Housing Provident Funds and the Social Insurance Law of the PRC.

The Group also reviews the corporate policy of employment and labour regularly to ensure that the Group has fully complied with the local labour legislations and regulations.

As at 31 December 2020, the Group was in compliance with the relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare and relating to preventing child and forced labour in all material respects.

In accordance with the ESG Reporting Guide, the details of the workforce of the Group during the reporting period of 2020 are tabulated as well as presented in graphs below.

Summary of employment performance indicators:

	2020
Total Number of Employees	219
By Gender	
Female	118 (53.9%)
Male	101 (46.1%)
By Age	
18 or below	–
19 to 40	123
41 to 60	92
Over 60	4

Diversity

Number of Employees by Employee Category	2020					
	Gender		Age Group			
	Female	Male	18 or Below	19 to 40	41 to 60	Over 60
Senior level	12	24	–	14	19	3
Ordinary level	106	77	–	109	73	1

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Turnover Rate

	2020
Number and Rate (%) of Employee Turnover	117/219 (53.4%)
By Gender	
Female	79/118 (66.9%)
Male	38/101 (37.6%)

3.2 Training and Development

Believing that the competence, work experience and skill-sets of our staff, including sales and marketing staff, procurement staff, production staff and quality control staff, plays an important role in maintaining our operation efficiency. We ensure that our professional training and development programs continuously evolve to keep pace with the industry latest standards and create a listening culture through support and coaching.

Every new joiner will be provided proper orientation training and mentoring in order to help them adapt to the new working environment affirmatively and quickly. Continuous trainings are also committed by the Group in different ways including on-the-job training, comprehensive training for specific skill development, and professional training for relevant employees.

In 2020, we organized an internal training for our management in different departments and in different management level for the updated management skill in the aspect of customer management, supplier management, effectiveness and efficiency of communication skill, key performance index for assessment of staff performance and efficiency of daily operation flow. Throughout the training, we also updated our management in relation to the Group's internal control procedures and delivered the importance of cost effectiveness in different processes of operation.

Through a variety of on-the-job learning sessions, we are able to nurture and retain excellent talents and strengthen the competitiveness of the Group.

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In accordance with the ESG Reporting Guide, the details of the of training and development programs provided by the Group during the reporting period of 2020 are presented as below.

Table 4 — Training and Development

Employee Training	Unit	2020
Average hours of training received per employees	hours	3.4
Average hours of training per employee by gender		
Female	hours	4.1
Male	hours	2.4
Average hours of training per employee by ranking		
Senior level	hours	6.3
Ordinary level	hours	2.8
Percentage of training by gender		
Female	%	75.5
Male	%	77.8
Percentage of training by ranking		
Senior level	%	100
Ordinary level	%	75.6

3.3 Health and Work Safety

It is important for the Group as a production-driven enterprise to ensure the occupational health and safety of our employees. In compliance with the industry standards and the statutory requirements under the Production Safety Law of the People's Republic of China (《中華人民共和國安全生產法》), the Group is committed to providing our employees with a healthy and safe workplace in the course of its business. On the one hand, the Group has offered our employees with personal protective equipment based on their various positions. For example, the staff at production line will be provided with dust-proof masks and earplugs. On the other hand, the Group has organised regular safety education programs for our employees to raise their safety awareness over the course of production activities. In addition, the plant sites will organise fire drills and fire safety training each year to enhance the fire safety awareness of our employees.

The Group cares about the physical and mental health of our employees and provides our employees with regular health checks. By providing a full-range health service platform for our employees, the Group maintains the health level of our employees with precautions against the spread of diseases, thus ensuring the healthy conditions of our employees. The Group offers our employees an extensive range of fringe benefits, including lucky money or festive gifts to our employees on Chinese New Year, Mid-autumn Festival, Women's Days, and other statutory holidays.

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The outbreak of the novel coronavirus (2019-nCoV) during the year has become the latest challenge for the health of our staffs both in Hong Kong and China. The Group has several policy to protect its staff:

- All public area would be performed disinfection on timely basis;
- Provide mask and disinfection supplies to all staff;
- Request each staff to report their health status every day; and
- Request each Department Head to monitor the health status of its staff on timely basis.

As at 31 December 2020, the Group has complied with all applicable laws and regulations in relation to providing a safe working environment and protecting employees from occupational hazards in all material respects.

4. OPERATING PRACTICES

The Group has developed a series of management systems and procedures to be aligned with the Corporate Governance required by HKEX.

4.1 Supply Chain Management

Over the course of selecting potential suppliers, our procurement department is required to analyse their competitiveness, and identified suppliers will be further approved by the production department of the plant sites and other related departments following their consensus. In this case, they will qualify as a member on the qualified supplier list of the Group. As at 31 December 2020, the Group has over 300 suppliers which are all located in the PRC.

In accordance with the requirements under the ISO 9001:2008 quality management system, the Group has established a set of selection and assessment standards, and would investigate into the operating conditions, the quality management system, production capacities, services and delivery capabilities of the potential suppliers, such findings will serve as bases for selecting strategic suppliers. By introducing a regular assessment scheme, we conduct regular reviews and inspections over the performance of our suppliers in various aspects. Our regular assessment indicators cover quality, pricing, delivery schedule, services, etc. for the purposes of achieving risk control over the supply chain. We would also inspect suppliers' qualification certificates such as FSC certificate and Oeko-Tex certificate. Persisting in our stringent approval system for all strategic suppliers, the Group will promote the quality management of our suppliers of raw materials and green management, while timely disqualifying unfit suppliers.

4.2 Quality Management System

We have implemented and maintained a quality management system of high standard. We maintain the quality by achieving ISO 9001:2008 certification continuously to demonstrate that we have ability to consistently provide services that meet our customers' needs and fulfill applicable statutory and regulatory requirements.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4.3 Intellectual Property Rights

The Group is committed to complying with the relevant intellectual property right (“**IP rights**”) laws by maintaining effective control over production management. As at 31 December 2020, the Group had registered five trademarks which are material to the Group’s business. The Group values and protects its intellectual properties through periodic trademark renewals.

In order to ensure that the customer’s IP rights are properly protected during the outsourcing processes to subcontractors, a confidentiality agreement regarding IP rights must be signed before business engagement. Internally, we enter into standard employment contracts with our employees which contain provisions on IP rights and confidentiality. Each employee of the Group has signed a written confirmation to (i) confirm that all IP rights created or made during their employment with the Group shall belong to us; and (ii) agree not to use or disclose the confidential information relating to the product designs without authorisation of the Group. When the products designs are provided by the customers to the Group for product development, IP rights of such designs belongs to the customers. IP rights also belong to customers when the Group provides design inputs or polish the original product design from customer.

Due to the nature of our business, the Group may be subject to risks in relations to the IP rights of the garment brand companies and the Group may be exposed to claims in respect of the infringement of third party IP rights. Therefore, to ensure that the trademarks or the designs and specifications provided by our customers do not infringe third party’s IP rights during the course of business, we have implemented the following internal control measures:

- (i) obtain the relevant certificates, licences or authorisations to check if our customers have the right to authorise us to manufacture products with the relevant trademarks, designs or specifications;
- (ii) our sales and marketing department check the trademarks, designs or specifications through online databases maintained by IP rights registries in various countries to ascertain the name of the owners of the IP rights; external legal counsel will be consulted, if necessary; and
- (iii) incorporate terms in agreements with our customers and require them to, among others, (a) undertake that it is the registered owner/authorised licensee of the registered owner of the trademarks, designs or specifications; (b) hold us harmless from and against any and all third party claims and any associated cost, including legal costs, arising from the use of the products sold by our customers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4.4 Anti-Corruption

The Group is committed to upholding a high standard of business ethics and to standards to prohibit bribery and corrupt practices. The Group has developed a series of company policies on anti-fraud, anti-bribery, anti-extortion and anti-money laundering with reference to the Prevention of Bribery Ordinance (Cap 201 of the laws of Hong Kong). These policies apply to all members of the Group, and we also encourage all of our business partners to abide by the principles of the policies. The Group conducts periodic and systematic fraud risk assessments and will effectively communicate its anti-fraud policy and procedures to all levels of employees. The Group continues to monitor the effectiveness of its control related to mitigating fraud risk and remedy any deficiencies identified internally and by any external parties in a timely manner. During the reporting period, we were in compliance with the applicable rules and regulations relating to bribery, extortion, fraud and money laundering in all material respects. No legal case concerned with corrupt practices was brought against the Group or any of our employees in 2020.

With principles of “Commitment, Assurance of High Quality, Fair Deals and Faithfulness”, all employees perform their duties with utmost level of good faith, determination and professionalism, and ensure that the reputation of the Group will not be tarnished because of misconduct and corruption behavior.

4.5 Whistle-Blowing Policy

In order to encourage our employees to report illegality, irregularity, malpractice, unethical acts or behaviours, inappropriate conducts or actions, the Group has set up a new whistle-blowing policy and procedures during the reporting period, by provoking disclosure of relevant information via a confidential reporting channel available to all employees. The policy aims to encourage our employees to report behaviour that is not in line with the principles of ethics and the Group’s policy such as events that are non-compliant with the Group’s policy, laws, rules, regulations, general practice of financial reporting and internal control.

The Group is committed to handling the reports with due care and conducting a detailed investigation seriously for each reasonably established report. Additionally, the Group is fully aware that we are obligated to refer the matter to the legal enforcement parties or regulators if the Group considers necessary.

The Group has addressed the “whistle-blowers” concerns in a fair and reasonable manner. All “whistle-blowers” who report in good faith are reasonably protected from retaliation or adverse consequence of their employment regardless of whether the allegation is substantiated.

The policy of “Whistle-Blowing” and its procedures, which apply to all levels of the members of the Group, have been documented in the employee handbook and have been circulated among employees for their reference.

5. COMMUNITY INVESTMENT

The Group adopts people-oriented management policy. Besides providing fringe benefits and packages to our employees, the Group will conduct an investigation into employees with difficulties on a regular basis each year, and those employees who suffer severe health issues or experience family-related misfortunes will receive specific assistance.

In 2020, continuing our objections as in the past, the Group donated to non-profit and charitable organizations of RMB122,000.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6. THE STOCK EXCHANGE ESG REPORTING GUIDE CONTENT INDEX

Aspects, General Disclosures and KPIs	Description	Relevant Section in the ESG Report	Remarks
A. Environmental			
Aspect A1: Emissions			
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	Environmental Protection: 2.1, 2.2 & 2.3	
KPI A1.1	Types of emissions and respective emissions data	Environmental Protection: 2.4	
KPI A1.2	Greenhouse gas emissions in total and, where appropriate, intensity	Environmental Protection: 2.4	
KPI A1.3	Total hazardous waste produced and, where appropriate, intensity	–	The Group has not identified any hazardous waste that was produced by our core business
KPI A1.4	Total non-hazardous waste produced and, where appropriate, intensity	–	No significant non-hazardous waste was produced by our core business

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects, General Disclosures and KPIs	Description	Relevant Section in the ESG Report	Remarks
KPI A1.5	Description of measures to mitigate emissions and results achieved	Environmental Protection: 2.2	
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Environmental Protection: 2.3	
Aspect A2: Use of Resources			
General Disclosure	Policies on the efficient use of resources including energy, water and other raw materials	Environmental Protection: 2.1, 2.2 & 2.3	
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity	Environmental Protection: 2.4	
KPI A2.2	Water consumption in total and intensity	–	The Group believes that our water consumption is mainly used for commercial purpose and is not identified as material aspect in the Group's business
KPI A2.3	Description of energy use efficiency initiatives and results achieved	Environmental Protection: 2.2	

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects, General Disclosures and KPIs	Description	Relevant Section in the ESG Report	Remarks
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose water efficiency initiatives and results achieved	–	The Group believes that our water consumption is mainly for commercial use and is not identified as material aspect in the Group's business
KPI A2.5	Total packaging material used for finished products, and if applicable, with reference to per unit produced	–	Use of packaging material is not applicable to our core business and is not identified as material aspect in the Group's business

Aspect A3: The Environment and Natural Resources

General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources	Environmental Protection: 2.1 & 2.4
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them	Environmental Protection: 2.2 & 2.3

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects, General Disclosures and KPIs	Description	Relevant Section in the ESG Report	Remarks
B. Social			
Aspect B1: Employment			
General Disclosure	<p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare</p>	Employment and Labour Practices: 3.1	
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	Employment and Labour Practices: 3.1	
KPI B1.2	Employee turnover rate by gender, age group and geographical region	Employment and Labour Practices: 3.1	

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects, General Disclosures and KPIs	Description	Relevant Section in the ESG Report	Remarks
Aspect B2: Health and Safety			
General Disclosure	<p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to providing a safe working environment and protecting employees from occupational hazards</p>	Employment and Labour Practices: 3.3	
KPI B2.1	Number and rate of work-related fatalities	–	No work-related fatalities were recorded during the reporting period.
KPI B2.2	Lost days due to work injury	–	No lost days due to work injury were recorded during the reporting period
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Employment and Labour Practices: 3.3	
Aspect B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	Employment and Labour Practices: 3.2	
KPI B3.1	The percentage of employees trained by gender and employee category	Employment and Labour Practices: 3.2	

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects, General Disclosures and KPIs	Description	Relevant Section in the ESG Report	Remarks
KPI B3.2	The average training hours completed per employee by gender and employee category	Employment and Labour Practices: 3.2	
Aspect B4: Labour Standards			
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 labour	Employment and Labour Practices: 3.1	
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour	Employment and Labour Practices: 3.1	
KPI B4.2	Description of steps taken to eliminate child and forced labour practices when discovered	–	No such incidents were reported during the reporting period.
Aspect B5: Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain	Operating Practices: 4.1	
KPI B5.1	Number of suppliers by geographical region	Operating Practices: 4.1	

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects, General Disclosures and KPIs	Description	Relevant Section in the ESG Report	Remarks
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	Operating Practices: 4.1	
Aspect B6: Product Responsibility			
General Disclosure	Information on: <ul style="list-style-type: none"> (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	–	No applicable regulations have been identified for the Group's operation and compliance purpose
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	–	No incidents were reported during the reporting period.
KPI B6.2	Number of products and service related complaints received and how they are dealt with	–	No complaints were reported during the reporting period.
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights	Operating Practices: 4.3	
KPI B6.4	Description of quality assurance process and recall procedures	–	No recall procedures are required throughout the Group's operation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects, General Disclosures and KPIs	Description	Relevant Section in the ESG Report	Remarks
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Operating Practices: 4.3	
Aspect B7: Anti-corruption			
General Disclosure	<p>Information on:</p> <ul style="list-style-type: none"> (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer <p>relating to bribery, extortion, fraud and money laundering</p>	Operating Practices: 4.4	
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	Operating Practices: 4.4	
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Operating Practices: 4.5	

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects, General Disclosures and KPIs	Description	Relevant Section in the ESG Report	Remarks
Aspect B8: Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities takes communities' interests into consideration	Community Investment: 5	
KPI B8.1	Focus areas of contribution	Community Investment: 5	
KPI B8.2	Resources contributed to the focus areas	Community Investment: 5	

REPORT OF THE DIRECTORS

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

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2020, there had been no significant changes in the memorandum of association and Articles of the Company.

CORPORATE REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 22 January 2016.

In preparing for the listing of the shares on GEM on the Listing Date, the Group underwent the Corporate Reorganisation and the Company became the holding company of the companies comprising the Group upon the completion of the Corporate Reorganisation on 30 November 2016.

Details of the Corporate Reorganisation are set out in the section headed "History, Development and Reorganisation" in the Prospectus. The Shares of the Company have been listed on GEM since 21 July 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is an established labelling solution provider and a one-stop garment accessories manufacturer and supplier based in the PRC. We mainly engage in the production of three types of products, which are (i) printed products (e.g. hangtags, price tags and stickers), (ii) woven labels (e.g. woven brand labels, woven size labels and badges) and (iii) printed labels (e.g. printed brand labels, printed size labels and care content labels). We also source and sell other garment accessories, such as tapes, hanging tablets, string locks, leather badge, buttons and metal products, to the customers of the Group in the PRC. The customers of the Group include (i) garment brand companies, (ii) sourcing companies designated by the garment brand companies and (iii) garment manufacturers in the PRC.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the "**Companies Ordinance**"), including a discussion of the principal risks and uncertainties facing the Group, key performance indicators, environmental policies of the Group, compliance with laws and regulations by the Group, its relationship with customers, suppliers, subcontractors and employees and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 4 to 14 of this annual report. This discussion forms part of this directors' report.

SEGMENT INFORMATION

An analysis of the Group's performance for the Year by operating segment is set out in note 7 to the consolidated financial statements.

REPORT OF THE DIRECTORS

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on page 69 of this annual report.

The Board did not recommend payment of a final dividend for the year ended 31 December 2020.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on page 70 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement during the Year in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements of this annual report.

SHARE CAPITAL

Details of the movements during the Year in the share capital of the Company are set out in note 25 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2020, the Company has no 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.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 24 June 2017 (the “**Scheme**”). The terms of the Scheme are in accordance with the provision of Chapter 23 of the GEM Listing Rules.

Details of the share options movements during the year ended 31 December 2020 under the Share Option Scheme are set out in note 30 to the consolidated financial statements.

The following is a summary of the principal terms of the Scheme but it does not form part of, nor was it intended to be part of the Scheme nor should it be taken as affecting the interpretation of the rules of the Scheme:

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to enable our Group to grant options to the eligible participants as incentives or rewards for their contribution to our Group and/or to enable our Group to recruit and retain high-calibre employees and attract human resources that are valuable to our Group or any entity in which any member of our Group holds any equity interest (the “**Invested Entity**”). As at the Latest Practicable Date, there was no Invested Entity other than members of our Group, and our Group has not identified any potential Invested Entity for investment.

REPORT OF THE DIRECTORS

(b) The Participants of the Scheme

Our Directors shall, in accordance with the provisions of the Share Option Scheme and the GEM Listing Rules, be entitled but shall not be bound at any time within a period of 10 years commencing from the date of the adoption of the Share Option Scheme to make an offer to any of the following classes:

- (i) any employee (whether full time or part time, including the directors (including any non-executive Director and independent non-executive Director)) of our Company, any of our subsidiaries (within the meaning of the Companies Ordinance) or any Invested Entity (an “**eligible employee**”);
- (ii) any supplier of goods or services to any member of our Group or any Invested Entity;
- (iii) any customer of any member of our Group or any Invested Entity;
- (iv) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;
- (v) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (vi) any adviser (professional or otherwise), consultant, individual or entity who in the opinion of our Directors has contributed or will contribute to the growth and development of our Group; and
- (vii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group,

and, for the purpose of the Share Option Scheme, the offer for the grant of an option may be made to any company wholly owned by one or more eligible participants.

For the avoidance of doubt, the grant of any option by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of eligible participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the eligible participants to an offer under the Share Option Scheme shall be determined by our Directors from time to time on the basis of our Directors’ opinion as to his contribution to the development and growth of our Group.

REPORT OF THE DIRECTORS

(c) Maximum number of Shares

- (i) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by our Group shall not exceed 30% of the share capital of our Company in issue from time to time.
- (ii) The total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the total number of Shares in issue at the time dealings in the Shares first commence on the Stock Exchange, being 85,000,000 Shares (the “**General Scheme Limit**”).
- (iii) Subject to (i) above and without prejudice to (iv) below, our Company may seek approval of our Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Group shall not exceed 10% of the Shares in issue as at the date of the approval of the limit and for the purpose of calculating the limit, options (including options outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option schemes of our Group will not be counted.
- (iv) Subject to (i) above and without prejudice to (iii) above, our Company may seek separate shareholders’ approval in general meeting to grant options under the Share Option Scheme beyond the General Scheme Limit, or if applicable, the extended limit referred to in (iii) above to eligible participants specifically identified by our Company before such approval is sought.

(d) Maximum entitlement of each eligible participant

Subject to (e) below, the total number of Shares issued and which may fall to be issued upon exercise of the options under the Share Option Scheme and the options granted under any other share option scheme of our Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being. Where any further grant of options under the Share Option Scheme to a grantee would result in the Shares issued and to be issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the Share Option Scheme and any other share option scheme of our Group 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 our Shareholders in general meeting with such grantees and his close associates (or his associates if the participant is a connected person) abstaining from voting.

REPORT OF THE DIRECTORS

(e) Time of acceptance and exercise of an option

An offer under the Share Option Scheme may remain open for acceptance by the eligible participants concerned (and by no other person) for a period of up to 21 days from the date, which must be a business day, on which the offer is made.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to the grantee thereof, and in the absence of such determination, from the date of acceptance of the offer of such option to the earlier of (i) the date on which such option lapses under the relevant provisions of the Share Option Scheme; and (ii) the date falling 10 years from the offer date of that option.

An offer shall have been accepted by an eligible participant in respect of all Shares which are offered to such eligible participant when the duplicate letter comprising acceptance of the offer duly signed by the eligible participant together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof is received by our Company within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.

Any offer may be accepted by an eligible participant in respect of less than the number of Shares which are offered provided that it is accepted in respect of a board lot for dealings in the Shares on GEM or an integral multiple thereof and such number is clearly stated in the duplicate letter comprising acceptance of the offer duly signed by such eligible participant and received by our Company together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.

(f) Subscription price for Shares

The subscription price in respect of any option shall, subject to any adjustments made pursuant to paragraph(s) below, be at the discretion of our Directors, provided that it shall not be less than the highest of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the offer date;
- (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and
- (iii) the nominal value of a Share.

(g) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

REPORT OF THE DIRECTORS

DISCLOSURES OF INTERESTS

A. Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares or Debentures

As at 31 December 2020, the interests and short positions of the Directors and chief executive of the Company in the shares, the underlying shares or debentures of the Company or any of its associated corporations (within the meanings of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such director or chief executive was taken or deemed to have under such provision of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to standard of dealings by Directors as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Interests in the company

Name of Director	Capacity/nature of interest	Number of Shares	Percentage of interest in the Company
Mr. Lam	Interest in controlled corporation (Note)	600,000,000 (Long position)	70.6%

Note: The 600,000,000 Shares are held by Neo Concept Holdings Limited ("Neo Concept"), which is wholly and beneficially owned by Mr. Lam. By virtue of the SFO, Mr. Lam is deemed to be interested in all the Shares held by Neo Concept.

Interests in associated corporations of the Company

Name of Director	Name of associated corporation	Nature of interest	Number of shares in associated corporation	Percentage of shareholding in associated corporation
Mr. Lam	Neo Concept	Beneficial owner	100 (Long position)	100%

Save as disclosed above, as at the date of this report, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, required to be notified to the Company and the Stock Exchange.

REPORT OF THE DIRECTORS

B. Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares, Underlying Shares and Debentures

So far as the Directors are aware, as at 31 December 2020, the following persons (other than the Directors and chief executive of the Company) had or deemed or taken to have an interest or short position in the Shares or underlying Shares which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the GEM Listing Rules.

Name	Capacity/nature of interest	Number of shares	Percentage of interest in the Company
Neo Concept	Beneficial owner	600,000,000 (Long position)	70.6%
Ms. Wong Ching Yuk	Interest of spouse (Note)	600,000,000 (Long position)	70.6%

Note: Ms. Wong Ching Yuk is the spouse of Mr. Lam. Under the SFO, Ms. Wong Ching Yuk is deemed to be interested in the same number of Shares in which Mr. Lam is interested.

Save as disclosed above, as at 31 December 2020, no person, other than the Directors and chief executive of the Company whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in the Shares, the Underlying Shares or Debentures" above, had notified the Company of an interest or short position in the Shares, underlying Shares or debentures of the Company that was required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

MAJOR CUSTOMERS

During the Year, the Group's five largest customers accounted for approximately 35.6% (2019: 32.2%) of the total revenue of the Group and the largest customer of the Group accounted for approximately 25.9% (2019: 20.5%) of the total revenue.

To the best of the 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.

MAJOR SUPPLIERS AND SUBCONTRACTORS

During the Year, the Group's five largest suppliers (including the subcontractors) accounted for approximately 33.2% (2019: 43.5%) of the total purchases of the Group and the largest supplier of the Group accounted for approximately 11.7% (2019: 19.4%) of the total purchases.

To the best of the 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.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the Year and up to the date of this annual report were:

Non-executive Director

Mr. Lam Cheung Chuen (*Chairman*)

Executive Directors

Mr. Lam Kai Yuen

Mr. Lam Kai Cheong

Independent non-executive Directors

Mr. Moy Yee Wo, Matthew

Mrs. So Chan Wai Hang

Mr. Ho Yuk Hay

Information regarding directors' emoluments is set out in note 11 to the consolidated financial statements.

An annual confirmation of independence pursuant to the requirements under Rule 5.09 of the GEM Listing Rules has been received from each of the INEDs. The Nomination Committee was satisfied that each of the INEDs was independent within the meaning of Rule 5.09 of the GEM Listing Rules.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors are set out on pages from 15 to 17 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date and renewable automatically for successive terms of one year until terminated by the Director or the Company in accordance with the terms of the agreement. Each independent non-executive Directors was appointed under a letter of appointment for a fixed term of one year initially commencing from the Listing Date and renewable automatically for successive term of one year unless terminated by either party in accordance with the terms thereof.

Save as disclosed above, none of the Directors proposed for election at the forthcoming AGM has or is proposed to have a service contracts with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment compensation, other than the statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' RETIREMENT AND RE-ELECTION

Pursuant to Article 108 of the Articles, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting of the Company, provided that every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires. The Directors to retire by rotation every year shall include (so far as necessary to ascertain the number of Directors to retire by rotation) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. Any Director appointed by the Board pursuant to Article 112 shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

Pursuant to Article 112 of the Articles, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members of the Company after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

In accordance with Articles 108 and 112 of the Articles, Mrs. So Chan Wai Hang and Mr. Moy Yee Wo, Matthew will retire at the forthcoming AGM and, being eligible, offer themselves for re-election at the forthcoming AGM.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in the Prospectus and elsewhere in this annual report, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which the Director or an entity connected to the Director had a material interest, whether directly or indirectly, subsisted at any time during the Year.

CONTROLLING SHAREHOLDERS' INTEREST

Save as disclosed in this annual report, there were no contracts of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries or any contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries.

EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 11, to the consolidated financial statements in this annual report.

EMOLUMENT POLICY

The Remuneration Committee will review and determine the remuneration and compensation packages of the Directors and senior management with reference to their responsibilities, workload, time devoted to the Group and the performance of the Group. The Directors and other employees who have made valuable contribution to the Group may also receive options to be granted under the Scheme.

REPORT OF THE DIRECTORS

COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors nor the controlling shareholder of the Company nor any of their respective close associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the year ended 31 December 2020.

DEED OF NON-COMPETITION

The deed of non-competition dated 29 June 2017 has been entered into by Mr. Lam Cheung Chuen and Neo Concept Holdings Limited, being the controlling shareholders of the Company within the meaning of the GEM Listing Rules (collectively the “**Controlling Shareholders**”) in favour of the Company and its subsidiaries regarding certain non-competition undertakings. The details of the deed of non-competition have been disclosed in the section headed “Relationship with the Controlling Shareholders” of the Prospectus.

The Company has received an annual declaration from each of the Controlling Shareholders confirming that he/she/it has complied with the non-competition undertakings provided to the Company under the said deed of non-competition during the Year. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-competition undertakings and confirmed that all the undertakings thereunder have been complied for the Year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the Year.

PERMITTED INDEMNITY PROVISIONS

At no time during the Year was there any permitted indemnity provisions (whether made by the Company or otherwise) being in force for the benefit of any Directors of the Company, or of its associated company.

RELATED PARTY TRANSACTIONS

The related party transactions entered into by the Group with 史威特服飾(惠州)有限公司 Sweater Garment (Huizhou) Company Limited* (“**Sweater Garment (Huizhou)**”) and Good Wealthy Properties Limited (“**Good Wealthy**”) during the Year as set out in note 28 to the consolidated financial statements are connected transactions which are subject to the reporting and announcement requirements but are exempt from the independent shareholders’ approval requirements pursuant to Chapter 20 of the GEM Listing Rules. Further details of these connected transactions are set out in the Company’s announcement dated 29 November 2019 entitled “Connected Transactions — Leases”.

The related party transactions in relation to the key management personnel remuneration as disclosed in note 28 to the audited consolidated financial statements are connected transactions exempt from the reporting, annual review, announcement, circular and independent shareholders’ approval requirements pursuant to the GEM Listing Rules.

Save as disclosed above, the Directors consider that those related party transactions disclosed in note 28 to the consolidated financial statements did not fall under the definition of “connected transactions” or “continuing connected transactions” (as the case may be) in Chapter 20 of the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders’ approval requirements under the GEM Listing Rules.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

Tenancy Agreements entered into between Sweater Garment Huizhou, STL Garment Accessories and Reach New Technology

On 29 November 2019, Sweater Garment (Huizhou) entered into tenancy agreements with 新天倫服裝配料(惠州)有限公司 (Sun Tin Lun Garment Accessories (Huizhou) Company Limited*) (“**STL Garment Accessories**”) and 新達科技(惠州)有限公司 Reach New Technology (Huizhou) Company Limited* (“**Reach New Technology**”), respectively (collectively, the “**Current Tenancy Agreements**”), pursuant to which Sweater Garment (Huizhou) agreed to lease the following properties to the Group for a three-year term commencing on 1 January 2020 and ending on 31 December 2022, details as follows:

Address	Tenant	Use of the property	Gross floor area under the Current Tenancy Agreements (sq.m.)
1st, 2nd, 3rd and portion of the 5th Floor, No. 6 Taihao Road, Sandong Digital Industrial Park, Sandong Town, Huizhou City, Guangdong Province, PRC (“ Property 1 ”)	STL Garment Accessories	Factory and office	16,301 approximately
Portion of the 5th Floor, No. 6 Taihao Road, Sandong Digital Industrial Park, Sandong Town, Huizhou City, Guangdong Province, PRC (“ Property 2 ”)	Reach New Technology	Office	500 approximately

Sweater Garment (Huizhou), which is owned as to 100% by Sweater Garment (HK) Limited and is beneficially owned as to 60% by Mr. Lam Cheung Chuen, the non-executive Director and controlling shareholder of the Company. Therefore, Sweater Garment (Huizhou) is a subsidiary of a majority-controlled company (as defined under the GEM Listing Rules) of Mr. Lam Cheung Chuen and the connected person of the Group under Rule 20.07(4) of the GEM Listing Rules. Mr. Huang Yasan and Mr. Huang Qingzi, being the brother and cousin of the spouse of Mr. Lam Cheung Chuen, respectively, are also our connected persons. Each of them holds 20% of the issued share capital of Sweater Garment (HK) Limited, respectively.

The Group adopted HKFRS 16 in the preparation of the financial statements of the Group for the year ended 31 December 2020, pursuant to which, at the commencement date of the Current Tenancy Agreements, the Group as lessee shall recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Accordingly, the lease transactions under the Current Tenancy Agreements would be regarded as acquisitions of assets by the tenants for the purpose of the GEM Listing Rules and therefore constituted connected transactions under Chapter 20 of the GEM Listing Rules. As at the date of the Current Tenancy Agreements, the value of the right-of-use asset recognised thereunder was approximately RMB8,072,000.

Since the highest applicable percentage ratio relating to the value of the right-of-use asset under the Current Tenancy Agreements was less than 25% and the total consideration is less than HK\$10,000,000 (by using the then exchange rate between RMB and Hong Kong Dollar), the transactions contemplated thereunder were subject to the reporting and announcement requirements but exempt from the circular (including independent financial advice) and independent shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules.

* For identification purpose only

REPORT OF THE DIRECTORS

Tenancy Agreements entered into between Good Wealthy Properties Limited (“Good Wealthy”) and Smart Trend Enterprises Company Limited (“Smart Trend”)

On 29 November 2019, Good Wealthy entered into a tenancy agreement (“Office Tenancy Agreement”) with Smart Trend, pursuant to which Good Wealthy agreed to lease the following properties to the Group for a three-year term commencing on 1 January 2020 and ending on 31 December 2022, details as follows:

Address	Tenant	Use of the property	Gross floor area under the Tenancy Agreements (sq.ft.)
Portions of Room 203, 2nd floors, K83, 83 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong	Smart Trend	Office	approximately 270

Good Wealthy is indirectly owned as to 60% by Mr. Lam Cheung Chuen, the non-executive Director and controlling shareholder of the Company. Therefore, Good Wealthy is a subsidiary of a majority-controlled company (as defined under the GEM Listing Rules) of Mr. Lam Cheung Chuen and the connected person of the Group under Rule 20.07(4) of the GEM Listing Rules. Mr. Huang Yasan and Mr. Huang Qingzi, being the brother and cousin of the spouse of Mr. Lam Cheung Chuen, respectively, are also our connected persons. Each of them indirectly holds 20% of the issued share capital of Good Wealthy.

As at the date of the Office Tenancy Agreement, the value of the right-of-use asset recognised thereunder was approximately HK\$268,000. Since the highest applicable percentage ratio relating to the value of the right-of-use asset under the Office Tenancy Agreement was less than 25% and the total consideration is less than HK\$10,000,000, the transactions contemplated thereunder were subject to the reporting and announcement requirements but exempt from the circular (including independent financial advice) and independent shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

To the best knowledge of the Directors and based on information that is publicly available to the Company, at least 25% of the Company’s issued share capital were held by the public as at the date of this report.

AUDITOR

On 1 November 2019, the Board announced that Deloitte Touche Tohmatsu resigned as the auditor of the Company with effect from 1 November 2019 and the Board further announced that it appointed McMillan Woods (Hong Kong) CPA Limited as the new auditor to fill the casual vacancy following the resignation of Deloitte Touche Tohmatsu.

The consolidated financial statements for the Year have been audited by McMillan Woods (Hong Kong) CPA Limited (“McMillan Woods”). McMillan Woods shall retire in the forthcoming AGM and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of McMillan Woods as auditor of the Company will be proposed at the 2021 AGM. The Company has not changed its external auditor during the year ended 31 December 2020 and up to the dated of this report.

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

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

Details of the corporate governance of the Company are set out in the section headed “Corporate Governance Report” on pages 19 to 32 of this report.

PRE-EMPTIVE RIGHTS

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the Year.

CHARITABLE DONATIONS

Charitable and other donations made by the Group during the Year amounted to approximately RMB122,000 (2019: RMB160,000).

EVENTS AFTER THE REPORTING PERIOD

The outburst of COVID-19 has brought additional uncertainties in the global macroeconomic situation which may affect the Group’s financial performance. However, since the outburst is a fluid and challenging situation facing all the industries globally, the degree of impact could not be reasonably estimated at this stage. The Group will closely monitor the development of the outburst and assess its impact on the financial position and operating results of the Group. The Group does not have other significant subsequent events.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain entitlements to attend and vote at the 2021 AGM, the register of members of the Company will be closed from Wednesday, 28 April 2021 to Monday, 3 May 2021, both days inclusive, during which period no transfer of the shares of the Company will be registered. Shareholder of the Company are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 27 April 2021.

On behalf of the Board
Reach New Holdings Limited
Lam Cheung Chuen
Chairman and Non-Executive Director

Hong Kong, 22 March 2021

INDEPENDENT AUDITOR'S REPORT



長青

TO THE SHAREHOLDERS OF REACH NEW HOLDINGS LIMITED

新達控股有限公司

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Reach New Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as “the **Group**”) set out on pages 69 to 119, 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, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

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. The key audit matters we identified are (i) allowance for credit losses; and (ii) impairment assessment of non-financial assets.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter

How our audit addressed the key audit matter

Allowance for credit losses

Refer to notes 6(b) and 18 to the consolidated financial statements

We identified the allowance for credit losses as a key audit matter due to the significance of the amount of trade receivables to the consolidated financial statements and the significant judgement and estimates involved by management in determining the allowance for credit losses.

As disclosed in notes 4(v) and 18 to the consolidated financial statements, in determining the allowance for credit losses, the Group takes into consideration the historical default rates and changes in forward-looking information. As at 31 December 2020, the carrying amount of the Group's trade receivables is approximately RMB14,636,000 (net of allowance for credit losses of approximately RMB1,276,000).

In connection with the assessment of appropriateness of the allowance for credit losses, we have performed the following procedures:

- (1) Obtaining an understanding of management's process of assessing the allowance for credit losses of trade receivables including the use of provision matrix;
- (2) Evaluating the appropriateness of groupings of trade receivables having similar loss patterns;
- (3) Evaluating the reasonableness of management's determination of the provision rates based on internal credit ratings;
- (4) Assessing the reasonableness of the historical default rates and taking into consideration of the forward-looking information; and
- (5) Testing the accuracy of management's calculation of the allowance for credit losses for trade receivables.

Impairment assessment of non-financial assets

Refer to notes 14, 15 and 16 to the consolidated financial statements

As at 31 December 2020, the carrying amount of the Group's property, plant and equipment, right-of-use assets and intangible assets attributable to the cash generating unit of the Group's labelling solution segment of approximately RMB11,534,000, RMB4,833,000 and RMB1,044,000 respectively net of accumulated impairment loss provision of approximately RMB1,650,000, RMB700,000 and RMB150,000 respectively.

In connection with the impairment assessment on non-financial assets, we have performed the following procedures:

- (1) Understanding, evaluating and validating the Group's internal controls over the impairment assessment of non-financial assets;
- (2) Understanding and evaluating the management's processes in identifying impairment indicators;
- (3) For those non-financial assets with impairment indicators, examining the management's discounted cash flow model as follows:
 - engaging experts to evaluate the reasonableness of the methodology and pre-tax discount rate adopted by management;

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
<p>The Group's property, plant and equipment, right-of-use assets and intangible assets directly held by a subsidiary of the Company were identified for impairment assessment by estimating the recoverable amounts using the higher of value-in-use calculation and fair value less costs of disposal.</p> <p>Management performed impairment assessment on the recoverable amounts using the value-in-use method, as which is higher than the fair value less costs of disposal. Key assumptions adopted in the discounted cash flows included the estimates of the growth rates of business volume, gross margin and the pre-tax discount rate.</p>	<ul style="list-style-type: none">• Assessing the reasonableness of the growth rates of business volume, gross margin and the pre-tax discount rate adopted in the discounted cash flows by comparing them with historical actual information and management's approved budget;• Comparing the expected growth rates of business volume and the gross margin to relevant market expectations such as industry information; and• Evaluating management's sensitivity analysis over key assumptions for growth rates of business volume, gross margin and pre-tax discount rate, to ascertain the extent to which adverse changes will affect the outcome of the impairment assessment of these non-financial assets.• Checking the mathematical accuracy of the discounted cash flow model and the underlying data used in the calculations.

OTHER INFORMATION

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

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

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

INDEPENDENT AUDITOR'S REPORT

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 Audit Committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

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

As part of an audit in accordance with HKSAs, we exercise professional 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.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee, 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.

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

McMillan Woods (Hong Kong) CPA Limited

Certified Public Accountants

Chan Chun Sing

Audit Engagement Director

Practising Certificate Number: P05537

3/F., Winbase Centre

208 Queen's Road Central, Hong Kong

Hong Kong, 22 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	7	60,560	76,118
Cost of sales		(46,803)	(54,457)
Gross profit		13,757	21,661
Other income, gains and losses	8	2,477	155
Impairment of non-financial assets	14	(2,500)	–
Allowance for credit losses on trade receivables		(461)	(77)
Distribution and selling expenses		(4,335)	(5,265)
Administrative expenses		(22,678)	(20,916)
Finance cost on lease liabilities		(384)	–
Loss before tax		(14,124)	(4,442)
Income tax expense	9	–	(704)
Loss and total comprehensive expense for the year	10	(14,124)	(5,146)
Loss and total comprehensive expense for the year attributable to:			
Owners of the Company		(13,601)	(5,145)
Non-controlling interests		(523)	(1)
		(14,124)	(5,146)
Loss per share	13	RMB cents	RMB cents
— Basic		(1.64)	(0.64)
— Diluted		N/A	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	11,534	14,770
Intangible assets	15	1,044	1,358
Right-of-use assets	16	4,833	–
Interest in an associate	20	–	–
		17,411	16,128
CURRENT ASSETS			
Inventories	17	3,401	2,970
Trade receivables	18	14,636	10,634
Prepayments and other receivables	18	5,757	3,254
Amount due from a related party	19	200	–
Amount due from an associate	20	832	–
Bank and cash balances	21	31,366	41,419
		56,192	58,277
CURRENT LIABILITIES			
Trade payables	22	5,251	3,478
Other payables	22	3,650	3,669
Contract liabilities		–	156
Leases liabilities	23	3,003	–
Tax payable		672	431
		12,576	7,734
NET CURRENT ASSETS		43,616	50,543
TOTAL ASSETS LESS CURRENT LIABILITIES		61,027	66,671
NON-CURRENT LIABILITIES			
Deferred tax liability	24	55	55
Leases liabilities	23	2,646	–
TOTAL NON-CURRENT LIABILITIES		2,701	55
NET ASSETS		58,326	66,616
CAPITAL AND RESERVES			
Share capital	25	7,321	6,890
Reserves		50,836	59,724
		58,157	66,614
Non-controlling interests		169	2
TOTAL EQUITY		58,326	66,616

The consolidated financial statements on pages 69 to 119 were approved and authorised for issue by the Board of Directors on 22 March 2021 and are signed on its behalf by:

Mr. Lam Cheung Chuen
DIRECTOR

Mr. Lam Kai Yuen
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to owners of the Company				Total	Non-controlling interests	Total equity
	Share capital	Share premium	Other reserve	Accumulated profits/(losses)			
	RMB'000	RMB'000	RMB'000 (Note)	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2018 and 1 January 2019	6,890	36,775	14,145	13,949	71,759	–	71,759
Incorporation of a subsidiary	–	–	–	–	–	3	3
Loss and total comprehensive expense for the year	–	–	–	(5,145)	(5,145)	(1)	(5,146)
At 31 December 2019 and 1 January 2020	6,890	36,775	14,145	8,804	66,614	2	66,616
Placing of new shares	431	4,713	–	–	5,144	–	5,144
Incorporation of subsidiaries	–	–	–	–	–	690	690
Loss and total comprehensive expense for the year	–	–	–	(13,601)	(13,601)	(523)	(14,124)
At 31 December 2020	7,321	41,488	14,145	(4,797)	58,157	169	58,326

Note: As part of the group reorganisation for the listing of the Company's shares on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), there were series of restructuring within the Group which mainly involved interspersing investment holding entities between the operating subsidiaries and investment holding companies. The difference between the Company's share capital and the combined paid-in capital of 新天倫服裝配料(惠州)有限公司 and Reach New Technology (Huizhou) Company Limited* (新達科技(惠州)有限公司) ("Reach New Technology") (formerly known as 新天倫服裝輔料(惠州)有限公司), the indirect wholly-owned subsidiaries of the Company established in the People's Republic of China (the "PRC"), was credited to other reserve on 30 November 2016.

* English name is for identification purpose.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
OPERATING ACTIVITIES			
Loss before tax		(14,124)	(4,442)
Adjustments for:			
Depreciation of property, plant and equipment		2,825	2,867
Impairment of non-financial assets		2,500	–
Amortisation of intangible assets		164	113
Allowance for credit losses on trade receivables		461	77
Gain on deemed disposal of a subsidiary		(1,537)	–
Depreciation of right-of-use assets		3,033	–
Finance cost on lease liabilities		384	–
Bank interest income		(116)	(178)
Loss on disposal of property, plant and equipment		458	328
Exchange loss/(gain), net		651	(224)
Operating loss before movements in working capital		(5,301)	(1,459)
(Increase) decrease in inventories		(431)	1,183
(Increase) decrease in trade receivables		(4,463)	3,396
Increase in prepayments and other receivables		(3,685)	(1,019)
Increase (decrease) in trade payables		1,773	(1,347)
Decrease in other payables		3,633	(1,465)
Decrease in contract liabilities		(156)	(80)
Cash used in from operations		(8,630)	(791)
Income tax refunded (paid)		241	(662)
Interest on lease liabilities		(384)	–
NET CASH USED IN OPERATING ACTIVITIES		(8,773)	(1,453)
INVESTING ACTIVITIES			
Net cash outflow arising on deemed disposal of a subsidiary	26	(2,043)	–
Purchase of property, plant and equipment		(1,750)	(515)
Repayment from an associate		168	–
Bank interest received		116	178
Proceeds on disposal of property, plant and equipment		53	1,269
Purchase of intangible assets		–	(10)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(3,456)	922

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
FINANCING ACTIVITIES			
Net proceeds from placing of new shares under general mandate		5,144	–
Contribution from non-controlling shareholders		490	3
Repayment of lease liabilities		(2,807)	–
NET CASH FROM FINANCING ACTIVITIES		2,827	3
NET DECREASE IN CASH AND CASH EQUIVALENTS		(9,402)	(528)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		41,419	41,723
Effect of foreign exchange rate changes		(651)	224
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		31,366	41,419
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances	21	31,366	41,419

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL

Reach New Holdings Limited (the “**Company**”) is a public limited company incorporated in the Cayman Islands as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 22 January 2016 and its shares are listed on GEM of Stock Exchange in July 2017. Its registered office is located at PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands. The address of its principal place of business is located at Sun Tin Lun Industrial Centre, No. 6 Taihao Road, Sandong Digital Industrial Park, Sandong Town, Huizhou City, Guangdong Province, the PRC. Its parent company is Neo Concept Holdings Limited, a private company incorporated in the British Virgin Islands (the “**BVI**”). Its ultimate controlling party is Mr. Lam Cheung Chuen (“**Mr. Lam**”), who is the chairman and also a non-executive director of the Company.

The Company is an investment holding company. The principal activities of its subsidiaries are principally engaged in (i) production and supply of garment accessories in the PRC; and (ii) development of applications and provision of information technology consultancy services.

The consolidated financial statements are presented in Renminbi (“**RMB**”), which is also the functional currency of the Company.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), which in collective term includes all applicable Hong Kong Financial Reporting Standards (“**HKFRS**”), Hong Kong Accounting Standards (“**HKASs**”) and Interpretations and accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are discussed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) Application of new and revised HKFRSs

The Group has applied the Amendments to Reference to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the 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	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

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 positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

(b) New and revised HKFRSs in issue but not yet effective

The Group has not applied any new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2020. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 17 Insurance Contracts and the related Amendments	1 January 2023
Amendments to HKFRS 16 Covid-19 Related Rent Concessions	1 June 2020
Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform — Phase 2	1 January 2021
Amendments to HKFRS 3 Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16 Property, plant and equipment: proceeds before intended use	1 January 2022
Amendments to HKAS 37 Onerous contracts — cost of fulfilling a contract	1 January 2022
Annual Improvements to HKFRSs 2018–2020 Cycle	1 January 2022
Amendments to HKAS 1 Classification of liabilities as current or non-current and related amendments to Hong Kong Interpretation 5 (2020)	1 January 2023

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below:

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December 2020. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated foreign currency translation reserve relating to that subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

All intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Consolidation *(Continued)*

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss.

(b) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill which is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

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

The Group's share of an associate's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's entire carrying amount of that associate (including goodwill) and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Property, plant and equipment

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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	10%
Machinery	10%–50%
Motor vehicles	20%
Office equipment	20%
Furniture and fixtures	20%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(e) Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group as a lessee

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Leases *(Continued)*

The Group as a lessee *(Continued)*

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

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses, except for the right-of-use assets that meet the definition of investment property are carried at fair value.

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.

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

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

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("**lease modification**") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16. In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any 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.

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.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(h) Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivables would also be recognised.

(i) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. 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.

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.

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, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Recognition and derecognition of financial instruments *(Continued)*

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(j) Financial assets

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 marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

(k) Trade and other receivables

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

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

(l) Cash and cash equivalents

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

(m) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(n) Trade and other payables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Equity instruments

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

(p) Revenue and other income

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

Revenue from the sale of goods is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are delivered to the wholesaler as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Interest income is recognised as it accrues using the effective interest method.

(q) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at the fair value (excluding the effect of non-market based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non-market based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

(s) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become 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.

(t) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items 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 differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint arrangements, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Taxation *(Continued)*

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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities 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.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

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 by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(u) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs. Recoverable amount is the higher of value-in-use and the fair value less costs of disposal of the individual asset or the CGU.

Value-in-use is the present value of the estimated future cash flows of the asset/CGU. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/CGU whose impairment is being measured.

Impairment losses for CGU are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the CGU. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Impairment of financial assets

The Group recognises a loss allowance for ECL on trade and other receivables, amount due from a related party and amount due from an associate. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument 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. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

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

- 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 for a particular financial instrument;
- 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;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Impairment of financial assets *(Continued)*

Significant increase in credit risk *(Continued)*

- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (i) The financial instrument has a low risk of default,
- (ii) The debtor 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 financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Impairment of financial assets *(Continued)*

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- 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 analysis, 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.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events 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 counterparty;
- a breach of contract, such as a default or past due event;
- the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Impairment of financial assets *(Continued)*

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

(w) Provisions and contingent liabilities

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

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

(x) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgement that has the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

Significant increase in credit risk

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. HKFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

Key sources of estimation uncertainty

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

(a) Impairment assessment of non-financial assets

Property, plant and equipment, intangible assets and right-of-use assets are reviewed for possible impairments whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is determined at the higher of value in use and the fair value less costs of disposal.

Determination as to whether and how much an asset is impaired involves management estimates and judgements such as growth rates of business volume, gross margin and the pre-tax discount rate for value in use and estimated selling price, estimated costs and selling expenses for fair value less costs of disposal. Judgement is required by the directors to determine key assumptions adopted and changes to key assumptions and estimates can significantly affect the results of the impairment reviews.

Details of the recoverable amount calculations are disclosed in Note 14.

The carrying amount of property, plant and equipment, intangible assets and right-of-use assets as at 31 December 2020 were approximately HK\$11,534,000 (2019: HK\$14,770,000), HK\$1,044,000 (2019: HK\$1,358,000) and HK\$4,833,000 (2019: Nil), respectively.

(b) Impairment of trade receivables

The management of the Group estimates the amount of impairment loss for ECL on trade receivables based on the credit risk of trade receivables. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As at 31 December 2020, the carrying amount of trade receivables was approximately RMB14,636,000 (net of allowance for doubtful debts of approximately RMB1,276,000) (2019: approximately RMB10,634,000 (net of allowance for doubtful debts of approximately RMB815,000)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer's taste and competitor's actions in response to severe industry cycles. The Group will reassess the estimates by the end of each reporting period.

No allowance for inventories due to the net realisable value below cost has been recognised for the year ended 31 December 2020 (2019: Nil).

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as some of its business transactions, assets and liabilities are principally denominated in currencies other than the functional currencies of the Group's entities including Hong Kong dollars ("HK\$"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

As at 31 December 2020, if RMB had weakened 5 per cent against the HK\$ with all other variables held constant, consolidated loss before tax for the year could have been approximately RMB387,000 (2019: RMB564,000) lower, arising mainly as a result of the foreign exchange gain on bank balances denominated in HK\$. If RMB had strengthened 5 per cent against HK\$ with all other variables held constant, consolidated loss before tax for the year would have been approximately RMB387,000 (2019: approximately RMB564,000) higher, arising mainly as a result of the foreign exchange loss on bank balances denominated in HK\$.

(b) Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks. The Group's exposure to credit risk arising from deposits with banks is limited because the counterparties are banks and financial institutions with high credit-rating assigned by international credit-rating agencies, for which the Group considers to have low credit risk.

Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Credit risk *(Continued)*

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables, as at 31 December 2020 and 2019:

	2020		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	–	10,333	–
1–90 days past due	5	4,220	211
91–181 days past due	10	221	22
181–365 days past due	50	190	95
More than 365 days past due	100	948	948
		15,912	1,276
	2019		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	–	9,403	–
1–90 days past due	5	1,135	57
91–181 days past due	10	133	13
181–365 days past due	50	65	32
More than 365 days past due	100	713	713
		11,449	815

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Credit risk *(Continued)*

Movement in the loss allowance for trade receivables during the year is as follows:

	2020 RMB'000	2019 RMB'000
At 1 January	815	738
Impairment losses recognised for the year	461	115
Reversals	–	(38)
At 31 December	1,276	815

Financial assets at amortised cost

Other than trade receivables, all of the Group's financial assets at amortised cost are considered to have low credit risk, and the loss allowance recognised during the year was therefore limited to 12-month expected losses. Other receivables, amount due from an associate and amount due from a related party are considered to be low credit risk when they have a low risk of default and the debtors has a strong capacity to meet its contractual cash flow obligations in the near term.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of each reporting period.

	Weighted average interest rate %	On demand or within one year RMB'000	More than one year but not exceeding two years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2020					
Trade payables	–	5,251	–	5,251	5,251
Other payables	–	3,650	–	3,650	3,650
Lease liabilities	4.35	3,010	3,010	6,020	5,649
Total		11,911	3,010	14,921	14,550

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Liquidity risk *(Continued)*

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of each reporting period. (Continued)

	Weighted average interest rate %	On demand or within one year RMB'000	More than one year but not exceeding two years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2019					
Trade payables	–	3,478	–	3,478	3,478
Other payables	–	3,669	–	3,669	3,669
Total		7,147	–	7,147	7,147

(d) Interest rate risk

The Group's exposure to interest-rate risk arises from its bank deposits. These deposits bear interests at variable rates that vary with the then prevailing market condition.

Except as stated above, the Group does not have other significant interest-bearing assets and liabilities at the end of reporting period, its income and operating cash flows are substantially independent of changes in market interest rates.

Sensitivity analysis on cash flow interest-rate risk has not been presented as the reasonably possible changes in market interest rate will not have significant impact on the Group's financial statements.

(e) Categories of financial instruments at 31 December

	2020 RMB'000	2019 RMB'000
Financial assets:		
Financial assets measured at amortised cost	49,617	53,203
Financial liabilities:		
Financial liabilities at amortised cost	8,901	7,147

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

7. REVENUE AND SEGMENT INFORMATION

Disaggregation of revenue from contracts with customers

	2020	2019
	RMB'000	RMB'000
Types of products — at point in time recognition:		
Sales of printed products	22,735	29,776
Sales of woven labels	12,441	15,791
Sales of printed labels	14,222	21,215
Others	10,505	9,336
Revenue from information technology business	657	—
	60,560	76,118

Types of customers

	2020	2019
	RMB'000	RMB'000
Garment brand companies	1,812	1,790
Sourcing companies designated by garment brand companies	15,497	15,572
Garment manufacturers	42,520	58,756
Customers of information technology business	657	—
Others	74	—
	60,560	76,118

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Disaggregation of revenue from contracts with customers *(Continued)*

The Group sells garment accessories directly to customers and revenue is recognised when control of the goods has transferred, being when the goods have been shipped from the warehouse (delivery). Following delivery, customers have full discretion over the manner of distribution and price to sell the goods, they also have the primary responsibility to sell and bear the risk of obsolescence and loss in relation to the goods. The normal credit term is 30 to 90 days upon delivery. The Group also provides information technology services to customers and revenue is recognised when it satisfies a performance obligation by transferring control over a product or service to a customer.

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operating decision maker (the “**CODM**”), being the executive Directors of the Company, for the purposes of allocating resources and assessment of segment performance focuses on types of goods or services delivered or provided.

Specifically, the Group’s reportable and operating segments under HKFRS 8 “Operating Segments” are as follows:

- (i) Labelling Solution – production and supply of garment accessories
- (ii) Information Technology – development of applications and provision of information technology consultancy services

The CODM makes decisions according to the operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results

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

For the year ended 31 December 2020

	Labelling Solution RMB'000	Information Technology RMB'000	Elimination RMB'000	Total RMB'000
Segment revenue				
External sales	59,903	657	–	60,560
Inter-segment sales	–	–	–	–
	59,903	657	–	60,560
Segment results	13,238	(1,289)	–	11,949
Other income, gains and losses				940
Distribution and selling expenses				(4,335)
Administrative expenses				(22,678)
Loss before taxation				(14,124)
Other Segment Information:				
Depreciation of property, plant and equipment	2,825	–	–	2,825
Depreciation of right-of-use assets	2,770	263	–	3,033
Impairment losses on non-financial assets	2,500	–	–	2,500
Allowance for credit losses on trade receivables	461	–	–	461
Loss on disposal of property, plant and equipment	458	–	–	458
Amortisation of intangible assets	164	–	–	164

For the year ended 31 December 2019

	Labelling Solution RMB'000	Information Technology RMB'000	Elimination RMB'000	Total RMB'000
Segment revenue				
External sales	76,118	–	–	76,118
Inter-segment sales	–	–	–	–
	76,118	–	–	76,118
Segment results	21,584	–	–	21,584
Other income, gains and losses				155
Distribution and selling expenses				(5,265)
Administrative expenses				(20,916)
Loss before taxation				(4,442)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment results mainly represent profit earned (loss incurred) by each segment without allocation of certain other income, other gains and losses, central administrative expenses, distribution and selling expenses and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Geographical information

The Group's revenue from operations are located in the PRC. Most of the Group's non-current assets and capital expenditure are located or utilised in the PRC.

Information about major customers

Revenue from a customer that individually contributing over 10% of the total sales are as follows:

	2020	2019
	RMB'000	RMB'000
Customer A	15,497	15,572

8. OTHER INCOME, GAINS AND LOSSES

	2020	2019
	RMB'000	RMB'000
Bank interest income	116	178
Loss on disposal of property, plant and equipment	(458)	(328)
Exchange gains, net	–	224
Government subsidy	1,234	–
Gain on deemed disposal of a subsidiary (note 26)	1,537	–
Others	48	81
	2,477	155

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

9. INCOME TAX EXPENSE

	2020	2019
	RMB'000	RMB'000
Current tax:		
Provision for the year	–	704

The Group is not subject to any income tax in the Cayman Islands and the BVI pursuant to the rules and regulations in those jurisdictions.

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits derived from or earned in Hong Kong for the year ended 31 December 2020 (2019: Nil).

The Group is subject to the PRC Enterprise Income Tax (the “**PRC EIT**”) at a rate of 25% (2019: 25%) and dividend withholding tax at a rate of 5% (2019: 5%) for the year ended 31 December 2020.

Current tax provision represents provision for the PRC EIT.

The reconciliation between the income tax expense and the product of loss before tax multiplied by the PRC EIT rate is as follows:

	2020	2019
	RMB'000	RMB'000
Loss before tax	(14,124)	(4,442)
Tax at the PRC EIT rate of 25% (2019: 25%)	(3,531)	(1,110)
Tax effect of income not taxable for tax purpose	(238)	(122)
Tax effect of expenses not deductible for tax purpose	740	1,850
Tax effect of tax losses not recognised	3,029	86
Tax expense for the year	–	704

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10. LOSS FOR THE YEAR

	2020 RMB'000	2019 RMB'000
Loss for the year has been arrived at after charging (crediting):		
Directors' emoluments (note 11)	2,551	3,261
Other staff costs		
— salaries and wages	21,395	19,986
— retirement benefits scheme contribution excluding directors	1,125	2,366
Total directors and other staff costs	25,071	25,613
Allowance for credit losses on trade receivables	461	77
Auditor's remuneration	657	645
Cost of inventories recognised as cost of sales	23,964	27,918
Depreciation on property, plant and equipment	2,825	2,867
Depreciation of right of use assets	3,033	–
Amortisation of intangible assets	164	113
Impairment of non-financial assets	2,500	–
Loss on disposal of property, plant and equipment	458	328
Exchange loss	651	–
Minimum lease payments under operating leases	–	2,801

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

11. DIRECTORS' EMOLUMENTS AND EMPLOYEES' REMUNERATION

Directors' emoluments

Details of the emoluments paid or payable to directors are as follows:

	Fee RMB'000	Salaries, allowance and benefits in kind RMB'000	Bonus RMB'000	Retirement benefits scheme contribution RMB'000	Total RMB'000
2020					
Executive directors					
Mr. Lam Kai Yuen	-	637	-	16	653
Mr. Lam Kai Cheong	-	637	-	16	653
	-	1,274	-	32	1,306

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

	Fee RMB'000	Salaries, allowance and benefits in kind RMB'000	Bonus RMB'000	Retirement benefits scheme contribution RMB'000	Total RMB'000
Non-executive director					
Mr. Lam	-	765	-	-	765

The non-executive director's emoluments shown above were for his service as director of the Company and its subsidiaries.

	Fee RMB'000	Salaries, allowance and benefits in kind RMB'000	Bonus RMB'000	Retirement benefits scheme contribution RMB'000	Total RMB'000
Independent Non-executive directors					
Mr. Ho Yuk Hay	160	-	-	-	160
Mr. May Yee Wo, Matthew	160	-	-	-	160
Mrs. So Chan Wai Hang	160	-	-	-	160
	480	-	-	-	480

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

11. DIRECTORS' EMOLUMENTS AND EMPLOYEES' REMUNERATION (Continued)

Directors' emoluments (Continued)

Executive directors and non-executive director of the Group are entitled to bonus payments which based on the Group's performance for the relevant year.

	Fee RMB'000	Salaries, allowance and benefits in kind RMB'000	Bonus RMB'000	Retirement benefits scheme contribution RMB'000	Total RMB'000
2019					
Executive directors					
Mr. Lam Kai Yuen	–	917	–	16	933
Mr. Lam Kai Cheong	–	917	–	16	933
	–	1,834	–	32	1,866

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

	Fee RMB'000	Salaries, allowance and benefits in kind RMB'000	Bonus RMB'000	Retirement benefits scheme contribution RMB'000	Total RMB'000
Non-executive director					
Mr. Lam	–	917	–	1	918

The non-executive director's emoluments shown above were for his service as director of the Company and its subsidiaries.

	Fee RMB'000	Salaries, allowance and benefits in kind RMB'000	Bonus RMB'000	Retirement benefits scheme contribution RMB'000	Total RMB'000
Independent Non-executive directors					
Mr. Ho Yuk Hay	159	–	–	–	159
Mr. May Yee Wo, Matthew	159	–	–	–	159
Mrs. So Chan Wai Hang	159	–	–	–	159
	477	–	–	–	477

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

11. DIRECTORS' EMOLUMENTS AND EMPLOYEES' REMUNERATION (Continued)

Directors' emoluments (Continued)

Employees' remuneration

The five highest paid employees of the Group during the year included three directors (2019: three directors), details of whose emoluments are set out above. Details of the remuneration for the year of the remaining two (2019: two) highest paid employees who are neither a director nor chief executive of the Group are as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Salaries and allowances	1,093	1,122
Retirement benefits scheme contribution	26	26
	1,119	1,148

Their emoluments fell within the following bands:

	2020	2019
	Number of employees	Number of employees
Nil to HK\$1,000,000 (Equivalent to Nil to RMB890,000)	2	2

During the years ended 31 December 2020 and 2019, no emoluments were paid by the Group to the directors of the Company or any of 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.

Directors material interests in transactions, arrangements or contracts

Save as disclosed in note 28 to the consolidated financial statements, no other significant transaction, arrangement and contract in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

12. DIVIDEND

No dividend in respect of the years ended 31 December 2020 and 2019 were declared and approved by the directors.

13. LOSS PER SHARE

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

	2020	2019
	RMB'000	RMB'000
Loss:		
Loss for the year attributable to owners of the Company for the purpose of calculating basic loss per share	(13,601)	(5,145)
	2020	2019
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	831,780,822	800,000,000

No diluted loss per share is presented for the years ended 31 December 2020 and 2019 as there were no potential ordinary share in issue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Furniture and fixtures RMB'000	Total RMB'000
COST						
At 1 January 2019	12,372	37,986	1,570	5,103	1,045	58,076
Additions	163	223	–	129	–	515
Disposal	–	(6,701)	–	–	–	(6,701)
At 31 December 2019 and 1 January 2020	12,535	31,508	1,570	5,232	1,045	51,890
Additions	–	1,267	227	241	15	1,750
Disposal	–	(4,567)	(511)	–	–	(5,078)
At 31 December 2020	12,535	28,208	1,286	5,473	1,060	48,562
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2019	7,082	25,881	1,036	4,469	889	39,357
Provided for the year	1,241	1,232	163	213	18	2,867
Eliminated on disposal	–	(5,104)	–	–	–	(5,104)
At 31 December 2019	8,323	22,009	1,199	4,682	907	37,120
Provided for the year	1,253	1,425	108	27	12	2,825
Impairment losses	–	1,650	–	–	–	1,650
Eliminated on disposal	–	(4,110)	(457)	–	–	(4,567)
At 31 December 2020	9,576	20,974	850	4,709	919	37,028
CARRYING AMOUNT						
At 31 December 2020	2,959	7,234	436	764	141	11,534
At 31 December 2019	4,212	9,499	371	550	138	14,770

Impairment assessment

Due to decline in revenue and gross profit of labelling solution segment, the management of the Group concluded there was indication for impairment and conducted impairment assessment on recoverable amounts of certain property, plant and equipment, right-of-use assets, and intangible assets with finite useful life with carrying amounts of HK\$11,534,000, HK\$4,833,000 and HK\$1,044,000 respectively attributable to the labelling solution segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Impairment assessment *(Continued)*

The recoverable amount of CGU has been determined based on a value-in-use calculation. That calculation used a cash flow projections based on financial budgets approved by the management of the respective subsidiary covering the next 5 years with a pre-tax discount rate of 15%. The annual growth rate used is 3%, which is based on the industry growth forecasts and does not exceed the long-term average growth rate for the relevant industry. The cash flow projection was further extrapolated without any growth. Another key assumption for the value-in-use calculation is the budgeted gross margin, which is determined based on the CGUs' past performance, management expectations for the market development and taking into consideration of estimation uncertainties in the current year due to uncertainty on how the Covid-19 pandemic may progress and evolve and volatility in financial markets including potential disruptions of the Group's operations.

Based on the result of the assessment, management of the Group determined that the recoverable amount of the CGU is lower than the carrying amount. The impairment amount has been allocated to each category of property, plant and equipment, right-of-use assets and intangible assets with finite useful lives such that the carrying amount of each category of asset is not reduced below the highest of its fair value less cost of disposal, its value-in-use and zero. Based on the value-in-use calculation and the allocation, an impairment of RMB1,650,000, RMB700,000 and RMB150,000, respectively, has been recognised against the carrying amounts of property, plant and equipment, right-of-use assets and intangible assets with finite useful lives.

15. INTANGIBLE ASSETS

	RMB'000
<hr/>	
COST	
At 1 January 2019	578
Addition	1,120
<hr/>	
At 31 December 2019 and 1 January 2020	1,698
Addition	–
<hr/>	
At 31 December 2020	1,698
<hr/>	
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 January 2019	227
Provided for the year	113
<hr/>	
At 31 December 2019 and 1 January 2020	340
Provided for the year	164
Impairment losses	150
<hr/>	
At 31 December 2020	654
<hr/>	
CARRYING AMOUNT	
At 31 December 2020	1,044
<hr/>	
At 31 December 2019	1,358
<hr/>	

The intangible assets represent computer softwares acquired from independent third parties, which have finite useful lives of 10 years and are amortised on a straight-line basis. These assets are used in the Group's labelling solution segment. Details of impairment of intangible assets are set out in note 14.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

16. RIGHT-OF-USE ASSETS

	Leased properties RMB'000
Carrying amount	
Additions to right-of-use assets	9,722
Depreciation charge	(3,033)
Deemed disposal of a subsidiary	(1,156)
Impairment losses	(700)
At 31 December 2020	4,833
	2020 RMB'000
Year ended 31 December:	
Depreciation of right-of-use assets	
— Buildings	3,033
Lease interests	384
Total cash outflow for leases	3,191

Lease liabilities of RMB5,649,000 (2019: Nil) are recognised with related right-of-use assets of RMB4,833,000 (2019: Nil) as at 31 December 2020. Lease contracts are entered into for fixed term of three years, but may have extension and termination options. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contracts are enforceable.

The lease arrangements do not impose any covenants other than the security interests in leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purpose.

Details of impairment of right-of-use assets are set out in note 14.

17. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	2,194	2,196
Work in progress	236	306
Finished goods	971	468
	3,401	2,970

At the end of the reporting period, the Group's inventories are stated at the lower of cost and net realisable value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

18. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2020 RMB'000	2019 RMB'000
Trade receivables	15,912	11,449
Less: allowance for credit losses	(1,276)	(815)
	14,636	10,634
Other receivables	2,583	1,150
Prepayments	3,174	2,104
	5,757	3,254

The Group allows credit periods ranging from 30 to 90 days to its trade customers. Before accepting any new customer, the Group makes enquiries to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customer are reviewed annually. The following is an aging analysis of trade receivables net of allowance for credit losses presented based on the invoice date at the end of the reporting period:

	2020 RMB'000	2019 RMB'000
Within 90 days	11,124	10,219
91–180 days	3,356	303
181–365 days	156	112
	14,636	10,634

Details of credit loss assessment of trade and other receivables for the years ended 31 December 2020 and 2019 are set out in note 6(b) to the consolidated financial statements.

19. AMOUNT DUE FROM A RELATED PARTY

The amount due from a related party was capital contribution to our non-wholly owned subsidiary, which is unsecured, non-interest bearing and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

20. INTEREST IN AN ASSOCIATE

Details of the Group's associate at the end of the reporting period are as follows:

Name of entity	Country of registration	Principal place of business	Proportion of ownership interest held by the Group	Proportion of voting rights held by the Group	Principal activity
Guangzhou Banchengyun Information Technology Co. Ltd.* (廣州半城雲信息科技有限公司) ("Guangzhou Banchengyun")	PRC	PRC	27%	27%	Providing information technology services

Amount due from an associate was non-trade in nature, unsecured, non-interest bearing and repayable on demand.

As disclosed in note 26 to the consolidated financial statements, the Group owns 27% equity interests of Guangzhou Banchengyun immediately following the completion of Capital Restructuring and Investment Agreement (as defined and detailed in note 26), which constitutes to a deemed disposal of a subsidiary to the Group. At deemed disposal date, the management estimates the fair value of investment retained, which is the cost on initial recognition of interest in an associate, is nil. The unrecognized share of loss of an associate for the year amounted to approximately RMB1,245,000. Amount due from an associate was non trade in nature, unsecured, non-interest bearing and repayable on demand.

As at 31 December 2020, the bank and cash balances of the Group's associate in the PRC denominated in RMB amounted to approximately RMB603,000. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

21. BANK AND CASH BALANCES

The carrying amounts of the Group's bank and cash balances are denominated in the following currencies:

	2020 RMB'000	2019 RMB'000
US\$	1	1
HK\$	8,686	12,132
RMB	22,679	29,286
	31,366	41,419

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Central Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations. The Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

* English name is for identification purpose.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

22. TRADE AND OTHER PAYABLES

	2020	2019
	RMB'000	RMB'000
Trade payables	5,251	3,478
Other payables	2,894	2,184
Accrued expenses	756	1,485
	3,650	3,669

The credit period on trade payables ranging from 30 to 90 days. The aging analysis of the Group's trade payables below is presented based on the invoice date at the end of the reporting period:

	2020	2019
	RMB'000	RMB'000
Within 90 days	4,730	3,379
91-180 days	383	70
181-365 days	79	16
Over 1 year	59	13
	5,251	3,478

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

23. LEASE LIABILITIES

	Present value of minimum lease payments 2020 RMB\$'000
Lease liabilities payable:	
Within one year	3,003
Within a period of more than one year but not exceeding two years	2,646
	5,649
Less: Amount due for settlement within twelve months shown under current liabilities	(3,003)
	2,646

At 31 December 2020, the average incremental borrowing rate was 4.35%. Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

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

	Lease Liabilities
New leases entered	9,722
Repayment of principal of lease liabilities	(3,191)
Interest expenses	384
Deemed disposal of a subsidiary	(1,266)
At 31 December 2020	5,649

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

24. DEFERRED TAX LIABILITY

The following is the deferred tax liability recognised and movements thereon during the current and prior years:

	Withholding tax on distributable profits RMB'000
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	55

Under the Law of the PRC on Enterprise Income Tax, withholding tax ranged from 5% to 10% is proposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards.

As at 31 December 2020, deferred tax has not been provided for temporary differences attributable to the remaining accumulated undistributed profits of two PRC subsidiaries amounting to an aggregate amount of approximately RMB31,385,000 (2019: RMB29,458,000) as the directors of the Group do not expect to declare any additional dividends during the years ended 31 December 2020 and 2019 as mentioned above and the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

As at 31 December 2020, the Group has unused tax losses of approximately RMB890,000 (2019: RMB861,000), available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses of approximately RMB249,000, RMB343,000 and RMB298,000 will be expired in 2025, 2024 and 2023, respectively (2019: RMB343,000 and RMB298,000 will be expired in 2024 and 2023, respectively).

25. SHARE CAPITAL

	Number of shares	HK\$
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	2,000,000,000	20,000,000
Issued and fully paid:		
At 1 January 2019, 31 December 2019 and 1 January 2020	800,000,000	8,000,000
Placing of shares (Note)	50,000,000	500,000
At 31 December 2020	850,000,000	8,500,000
	2020	2019
	RMB'000	RMB'000
Shown in the consolidated financial statements as	7,321	6,890

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

25. SHARE CAPITAL *(Continued)*

Note:

On 13 May 2020, 50,000,000 Shares of HK\$0.01 each of the Company were issued at a price of HK\$0.113 per share by way of placing. The proceeds of HK\$500,000 (equivalent to RMB431,000) representing the par value of the shares of the Company were credited to the Company's share capital. The remaining proceeds of HK\$5,150,000 (equivalent to RMB5,144,000), before issuing expenses, were credited to share premium account. The new shares rank pari passu with the existing shares in all respects.

The Group's objective when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debt net of cash and cash equivalents and equity.

The management of the Group reviews the capital structure from time to time. As a part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, the issue of new shares, new debts or the redemption of existing debts.

The externally imposed capital requirements for the Group that in order to maintain its listing on the Stock Exchange is to have a public float of at least 25% of the shares of the Company throughout the year. Based on the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float of at least 25% throughout the year ended 31 December 2020.

26. DEEMED DISPOSAL OF A SUBSIDIARY

On 24 April 2020, Reach New Technology entered into a cooperation agreement with 廣州半城信息科技有限公司 (Guangzhou Bancheng Information Technology Co. Ltd.*), whereby Guangzhou Banchengyun, a new company established in the PRC, in which Reach New Technology would hold 51% equity interest and Guangzhou Bancheng would hold 49% equity interest, was established for the Group to tap into the information technology industry.

On 22 September 2020, an investment agreement (the "**Investment Agreement**") was entered into among Reach New Technology, Mr. Yan Yiming* (晏藝銘) ("**Mr. Yan**") and an investor in relation to the investment in equity interest in Guangzhou Banchengyun, a company established in the PRC with limited liability on 10 April 2020 and a non-wholly owned subsidiary of the Company immediately prior to the completion of the Investment Agreement.

Under the Investment Agreement, Mr. Yan agreed to further contribute additional capital of approximately RMB1.29 million to Guangzhou Banchengyun, while Reach New Technology also agreed to capitalise its shareholders' loan of approximately RMB2.49 million to the capital account of Guangzhou Banchengyun (the "**Capital Restructuring**") and the investor agreed to subscribe for 10% equity interest in Guangzhou Banchengyun in the consideration of RMB3 million (the "**Investment**"). Upon completion of the Capital Restructuring and the Investment, Guangzhou Banchengyun was owned as to 63%, 27% and 10% by Mr. Yan, Reach New Technology and the Investor respectively. The registered capital of Guangzhou Banchengyun was increased to approximately RMB2.83 million.

Immediately following the Completion of Capital Restructuring on 27 September 2020 and before the Completion of the Investment, Guangzhou Banchengyun was owned as 70% and 30% by Mr. Yan and Reach New Technology and the gain on deemed disposal of Guangzhou Banchengyun is approximately RMB1.5 million. Since then, Guangzhou Banchengyun ceased to be a subsidiary of the Company and its results will not be consolidated to the Group's financial statements thereafter. The Investment was also completed on 23 October 2020.

The deemed disposal of Guangzhou Banchengyun did not contribute significantly to the Group's cash flows or operating results. For further information as to the Capital Restructuring and the Investment, please refer to the announcement of the Company dated 22 September 2020.

* English names are for identification purpose.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

26. DEEMED DISPOSAL OF A SUBSIDIARY *(Continued)*

The major classes of assets and liabilities of Guangzhou Banchengyun as at the date of deemed disposal are as follow:

	RMB'000
Bank balances and cash	2,043
Right-of-use asset	1,156
Prepayments and other receivables	1,182
Trade and other payables	(3,652)
Amount due to a shareholder	(1,000)
Lease liability	(1,266)
Net liabilities disposed of	(1,537)
Gain on deemed disposal	1,537
Cash outflow arising on deemed disposal:	
Bank balances and cash disposed of	2,043

The deemed disposal of Guangzhou Banchengyun did not contribute significantly to the Group's cash flow or operating results.

27. EMPLOYEE BENEFITS

Hong Kong

The Group participated in Mandatory Provident Fund Scheme ("MPF Scheme") for all its qualifying employees from year 2017. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of an independent trustee. During the year ended 31 December 2020, the retirement benefits scheme contribution arising from the MPF Scheme charged to profit or loss was approximately RMB96,000 (2019: RMB92,000).

The PRC

In accordance with the relevant rules and regulations of the PRC, the Group's PRC subsidiaries are required to make contributions to the retirement fund administered by the PRC government at 13% of the total monthly basic salaries of the current employees.

In addition, the Group's PRC subsidiaries are required by law to contribute 13.5% to 21.5% of basic salaries of the employees for social insurance in relating to staff welfare, medical, work injury and unemployment.

During the year ended 31 December 2020, the costs charged under such arrangements for the Group's PRC subsidiaries amounted to approximately RMB1,061,000 (2019: approximately RMB2,307,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

28. RELATED PARTY TRANSACTION

Apart from details of the balances with related parties disclosed elsewhere in the consolidated financial statements, the Group also entered into the following transactions with related parties during the year ended 31 December 2020:

Name of related company/party	Nature of transactions	Year ended 31 December	
		2020 RMB'000	2019 RMB'000
史威特服飾(惠州)有限公司	Rental paid (note)	2,684	2,726
Good Wealthy properties Limited	Rental paid (note)	87	–

Note: Mr. Lam, the non-executive Director and the controlling shareholder of the Company, is the ultimate beneficial owner of 史威特服飾(惠州)有限公司 and Good Wealthy properties Limited.

Compensation of key management personnel

The remuneration of key management personnel during the year was approximately RMB3,670,000 (2019: RMB4,409,000) which is determined by reference to the performance of individuals and market trends.

No short-term employee benefits, post-employment benefits, other long term benefits and termination benefits are paid or payable to the key management personnel.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

29. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

The Company has direct and indirect equity interests in the following subsidiaries at the end of the reporting period:

Name of subsidiaries	Date of incorporation/ establishment	Place of incorporation/ establishment	Legal form	Issued and fully paid-up share capital/ registered capital	Equity interests attributable to the Company as at		Principal activities
					31 December 2020	2019	
<i>Direct</i>							
New Forest Company Limited	1 December 2015	BVI	Private enterprise with limited liability	US\$1 (2019: US\$1)	100%	100%	Investment holding
RN Crypto (BVI) Company Limited	4 September 2019	BVI	Private enterprise with limited liability	US\$1 (2019: Nil)	100%	100%	Investment holding
<i>Indirect</i>							
Smart Trend Enterprises Company Limited	15 April 2016	Hong Kong	Private enterprise with limited liability	HK\$1 (2019: HK\$1)	100%	100%	Investment holding
Reach New Technology 新達科技(惠州) 有限公司	29 April 2007	PRC	Foreign investment enterprise with limited liability	US\$1,000,000 (2019: US\$1,000,000)	100%	100%	Manufacturing and sale of garment accessories
新天倫服裝配料(惠州) 有限公司	31 December 2001	PRC	Foreign investment enterprise with limited liability	US\$2,400,000 (2019: US\$2,400,000)	100%	100%	Manufacturing and sale of garment accessories
RN Standard Kepler Company Limited	1 November 2019	Hong Kong	Private enterprise with limited liability	HK\$10,000 (2019: HK\$10,000)	70%	70%	Inactive
鵬力服飾(惠州) 有限公司	19 May 2020	PRC	Sino-Foreign Equity joint venture with limited liability	RMB1,000,000 (2019: Nil)	80%	–	Garment trading

None of the subsidiaries had issued any debt securities at the end of the year. As at 31 December 2020, the bank and cash balances of the Group' subsidiaries in the PRC denominated in RMB amounted to approximately RMB22,679,000 (2019: approximately RMB29,286,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

30. SHARE OPTION SCHEME

A share option scheme was adopted and approved by the then sole shareholder of the Company on 24 June 2017 (the “**Share Option Scheme**”) and will remain in force for 10 years after its adoption. The terms of the Share Option Scheme are in accordance with Chapter 23 of the GEM Listing Rules. The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company’s shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company’s shareholders. For other principal terms of the Share Option Scheme are summarised in the paragraph headed “D. Share Option Scheme” in Appendix IV to the Company’s Prospectus dated 30 June 2017. Details of the share options (the “**Option(s)**”) movements during the year ended 31 December 2020 under the Share Option Scheme are as follows:

Name of participants	Date of grant	Exercise price per Share (HK\$)	Number of Options granted	Validity period of the Options	Options	Options	Options	Options	
					outstanding as at 1 January 2020	granted during the year ended 31 December 2020	exercised during the year ended 31 December 2020	cancelled/lapsed during the year ended 31 December 2020	outstanding as at 31 December 2020
Employee									
An individual	18 May 2020	0.38	3,000,000	18 May 2020– 17 May 2030 (Note)	-	3,000,000	-	(3,000,000)	-
Total			3,000,000		-	3,000,000	-	(3,000,000)	-

Note: 50% of the Options will be vested on 18 May 2021; and the remaining 50% of the Options will be vested on 18 May 2022. Vested Options shall be exercisable until the expiry of the validity period. The grant of Options is not subject to the fulfilment of performance targets.

On 18 May 2020, the Company announced that a total of 80,000,000 Options under the Share Option Scheme were granted to an employee of the Group and conditionally granted to two Directors and one director of a subsidiary of the Group, and the Company proposed to refresh the share option scheme mandate. On 13 July 2020, the Company held an EGM and resolutions approving the grant of Options to two Directors and one director of a subsidiary and refreshment of the share option scheme mandate were not passed. As such, the proposed conditional grant of Options to two Directors and one director of a subsidiary of the Company was cancelled. The proposed refreshment of the share option scheme mandate was also cancelled.

For further information in relation to the Options granted on 18 May 2020, please refer to the announcement of the Company dated 18 May 2020, the circular of the Company dated 24 June 2020 and the EGM poll results announcement of the Company dated 13 July 2020.

In July 2020, the 3,000,000 Options granted to an employee of the Group was not accepted by the employee and as such, the 3,000,000 Options granted was cancelled.

Save as disclosed above, no Option under the Share Option Scheme has been granted, cancelled or lapsed during the year ended 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

31. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY

	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSET		
Investment in subsidiaries	48,429	48,429
CURRENT ASSETS		
Prepayments and other receivables	526	103
Amounts due from subsidiaries	6,409	14,604
Bank and cash balances	3,991	7,581
	10,926	22,288
CURRENT LIABILITIES		
Other payables	633	663
Amounts due to subsidiaries	1,834	1,947
	2,467	2,610
NET CURRENT ASSETS	8,459	19,678
NET ASSETS	56,888	68,107
CAPITAL AND RESERVES		
Share capital (note 25)	7,321	6,890
Reserves (note (a))	49,567	61,217
	56,888	68,107

Approved by the Board of Directors on 22 March 2021 and are signed on its behalf by:

Mr. Lam Cheung Chuen
DIRECTOR

Mr. Lam Kai Yuen
DIRECTOR

Note a:

	Share premium RMB'000	Accumulated losses RMB'000	Capital reserve RMB'000	Total RMB'000
At 1 January 2019	36,775	(22,414)	48,429	62,790
Loss and total comprehensive expense for the year	–	(1,573)	–	(1,573)
At 31 December 2019 and 1 January 2020	36,775	(23,987)	48,429	61,217
Loss and total comprehensive expense for the year	–	(16,363)	–	(16,363)
Placing of shares	4,713	–	–	4,713
At 31 December 2020	41,488	(40,350)	48,429	49,567

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

32. CONTINGENT LIABILITIES

At the end of the reporting period, the Group has no any significant contingent liabilities (2019: Nil).

33. CAPITAL COMMITMENTS

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

34. EVENT AFTER THE REPORTING PERIOD

The outburst of COVID-19 has brought additional uncertainties in the global macroeconomic situation which may affect the Group's financial performance. However, since the outburst is a fluid and challenging situation facing all the industries globally, the degree of impact could not be reasonably estimated at this stage. The Group will closely monitor the development of the outburst and assess its impact on the financial position and operating results of the Group. The Group does not have other significant subsequent events.

35. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 22 March 2021.

FIVE YEARS' FINANCIAL SUMMARY

The summary of the consolidated results of Reach New Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to the “**Group**”) for the year ended 31 December 2016 and of the assets and liabilities as at 31 December 2016 have been extracted from the Prospectus. The consolidated results of the Group for the years ended 31 December 2017, 2018, 2019 and 2020 and the consolidated assets and liabilities of the Group as at 31 December 2017, 2018, 2019 and 2020 are set out in the audited consolidated financial statements.

RESULTS

	Year ended 31 December				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
REVENUE	60,560	76,118	98,939	102,807	105,199
(LOSS) PROFIT BEFORE TAXATION	(14,124)	(4,442)	(923)	(3,006)	15,346
Income tax expense	–	(704)	(1,861)	(3,457)	(5,715)
(LOSS) PROFIT FOR THE YEAR	(14,124)	(5,146)	(2,784)	(6,463)	9,631

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
TOTAL ASSETS	73,603	74,405	82,398	89,935	67,390
TOTAL LIABILITIES	(15,277)	(7,789)	(10,639)	(15,392)	(22,912)
	58,326	66,616	71,759	74,543	44,478
EQUITY:					
Equity attributable to owners of the Company	58,157	66,614	71,759	74,543	44,478
Non-controlling interests	169	2	–	–	–
	58,326	66,616	71,759	74,543	44,478