



**Yuxing InfoTech Investment Holdings Limited**

**裕興科技投資控股有限公司\***

*(Incorporated in Bermuda with limited liability)*  
Stock Code: 8005

**Annual Report**  
**2020**

\* for identification purposes only



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# CONTENTS

Corporate Profile	1
Chairman's Statement	2
Corporate Information	3
Financial Highlights and Calendar	4
Group Financial Summary	5
Management Discussion and Analysis	6
Biographical Details of Directors and Senior Management	12
Directors' Report	14
Corporate Governance Report	23
Environmental, Social and Governance Report	31
Independent Auditor's Report	51
Consolidated Income Statement	58
Consolidated Statement of Comprehensive Income	59
Consolidated Statement of Financial Position	60
Consolidated Statement of Changes in Equity	61
Consolidated Statement of Cash Flows	62
Notes to the Consolidated Financial Statements	64
Particulars of Properties	148

## CORPORATE PROFILE

Yuxing InfoTech Investment Holdings Limited and its subsidiaries (collectively the “Group”) are currently mainly engaged in information home appliances (“IHA”), internet data centre (“IDC”), investing and leasing. The Company was incorporated in Bermuda as an exempted company on 6th October 1999 and was listed on GEM of the Stock Exchange on 31st January 2000.

The Group is a conglomerate which combines commercial enterprise with investments. In terms of commercial business, the Group places the broadband internet digital audio and video products as leading products and focuses on exploring markets for the two businesses of IHA and digital electronic consumable products, while accommodating comprehensive capabilities, including software and hardware development, marketing and customer service capabilities, etc.. On a global stage, the Group is an outstanding solutions provider and customized product manufacturer in the field of broadband digital audio and video technological products. With respect to IDC business, the establishment of a large IDC in the United States is an important step towards expanding the global IDC business of the Group and show the determination of the Group to vigorously develop its IDC business. Meanwhile, the Group also concentrates its efforts on providing renowned domestic and foreign enterprises with reliable data centre facilities services and evolve itself into an internationally recognised leading cloud computing enterprise in the era of big data. In terms of investment business, the Group follows the principle of value investment, and persists with the characteristics of sound investment and team work to achieve stable increase in asset value on the basis of retaining value through methods such as financial innovation.

# CHAIRMAN'S STATEMENT

2020 was an extraordinary year, during which Coronavirus disease 2019 ("COVID-19") suddenly broke out, the global economy experienced severe recession, the international trade recorded sharp decline, and the external environment was turbulent. With the faith of "It is the hardship that mirrors our courage", our staff faced the challenges and strived to be the best, and we managed to steadily promote the business development of the Group during the year, reflecting the effectiveness of our strategies.

In respect of our IDC business, we achieved a steady growth of revenue in 2020. During the year, the Group completed a sale and leaseback arrangement with a lessee, which contributed to increase revenue from the IDC business. Due to the adverse impact of COVID-19, the construction progress of our IDC project in San Jose, the United States was behind our original schedule. The phase one of the project will be ready for operation in the first half of 2021 and will contribute to the continuous improvement of revenue from IDC business.

With the robust development of digital economy and the continuous implementation of 5G commercialisation, due to a concentrated burst of demand for online office, online education and live broadcasting, high-traffic scenarios such as ultra-high-definition videos and virtual reality ("VR")/augmented reality ("AR") continue to increase. The surge of data traffic brings new challenges to IDC service providers on network transmission rate, rapid deployment and computing capability, but it also provides new opportunities for the development of IDC industry at the same time. In future, the Group will proactively build the intelligentized IDC with characteristics of high performance, easy maintenance, and flexible expansion in core cities and regions, and will improve the competitiveness of the Group's IDC business through green and refined operation and maintenance, to help our customers achieve digital transformation and commercial success.

As for our IHA business, the Group strived to become the world's leading terminal technology solution provider in respect of broadband audio-visual multimedia. Leveraging on our technology know-how and independent research and development ("R&D") capabilities accumulated over the years, we realised customisation of multifunctional product forms based on customers' needs. Despite the fierce market competition, customer purchase orders of the Group resumed gradually in the second half of 2020. In future, the Group will maintain its strong market competitiveness through consistent investment in technology and R&D innovation and will continue to improve the profitability of our IHA business.

We believe that if we persevere, there will be a promising future. Looking forward to 2021, uncertainty on market prospect remains. Our people will remain true to their original aspiration and forge ahead, begin with the end in mind and acquire knowledge through practice, so as to create long-term value for our customers, staff, shareholders, partners and the society.

**Li Qiang**  
*Chairman*

Hong Kong, 19th March 2021

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Li Qiang (*Chairman*)  
Mr. Gao Fei (*Chief Executive Officer*)  
Mr. Shi Guangrong  
Mr. Zhu Jiang  
Mr. Cong Yu  
Mr. Chen Biao

### Independent Non-Executive Directors

Ms. Shen Yan  
Ms. Dong Hairong  
Ms. Huo Qiwei

## COMPANY SECRETARY

Dr. Liu Wei, Solicitor

## COMPLIANCE OFFICER

Mr. Shi Guangrong

## AUTHORISED REPRESENTATIVES

Mr. Gao Fei  
Mr. Shi Guangrong

## AUDIT COMMITTEE

Ms. Shen Yan (*Chairlady*)  
Ms. Dong Hairong  
Ms. Huo Qiwei

## REMUNERATION COMMITTEE

Ms. Shen Yan (*Chairlady*)  
Mr. Zhu Jiang  
Ms. Dong Hairong  
Ms. Huo Qiwei

## NOMINATION COMMITTEE

Mr. Li Qiang (*Chairman*)  
Ms. Shen Yan  
Ms. Dong Hairong  
Ms. Huo Qiwei

## AUDITOR

Mazars CPA Limited  
*Certified Public Accountants*

## PRINCIPAL BANKERS

East West Bank  
Industrial and Commercial Bank of China Limited  
Shanghai Commercial Bank Limited  
UBS AG

## REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM 11, Bermuda

## PLACES OF BUSINESS

*Hong Kong*  
Unit 5-6, 9/F, Enterprise Square Three  
No. 39 Wang Chiu Road, Kowloon Bay  
Kowloon

*The PRC*  
7th Floor, Block B, Tiancheng Technology Building  
No. 2, Xinfeng Street, De Shen Men Wai, Xicheng District  
Beijing

Yuxing Industrial Park  
Yanjiang Road East  
Torch Hi-Tech Industrial Development Zone  
Zhongshan

## SHARE REGISTRARS AND TRANSFER OFFICES

*Principal*  
Conyers Corporate Services (Bermuda) Limited  
Clarendon House, 2 Church Street  
Hamilton HM 11, Bermuda

*Branch*  
Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor, Hopewell Centre  
183 Queen's Road East, Wan Chai, Hong Kong

## STOCK CODE

8005

## WEBSITE ADDRESS

[www.yuxing.com.cn](http://www.yuxing.com.cn)



# FINANCIAL HIGHLIGHTS AND CALENDAR

## FINANCIAL HIGHLIGHTS

	2020 HK\$'000	2019 HK\$'000
<b>Revenue</b>		
Revenue	<b>307,378</b>	325,312
<b>Profitability</b>		
Profit from operations	<b>30,359</b>	61,052
Profit attributable to owners of the Company	<b>21,914</b>	41,484
<b>Net worth</b>		
Total equity attributable to owners of the Company	<b>2,173,679</b>	2,106,628
	<b>HK\$</b>	<b>HK\$</b>
<b>Per share</b>		
Earnings per share – Basic	<b>0.01</b>	0.02
Net assets attributable to owners of the Company per share	<b>1.05</b>	1.02

## REVENUE

HK\$ million



## NET ASSETS ATTRIBUTABLE TO OWNERS OF THE COMPANY PER SHARE

HK\$



## FINANCIAL CALENDAR

<b>Results for the year</b>	Announcement on 19th March 2021
<b>Annual report</b>	Despatched to shareholders in late March 2021
<b>Annual general meeting</b>	28th June 2021

# GROUP FINANCIAL SUMMARY

## CONSOLIDATED RESULTS

For the year ended 31st December

	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Revenue	<b>307,378</b>	325,312	400,843	602,872	687,878
Profit/(Loss) before tax	<b>27,230</b>	54,627	(404,095)	93,740	52,642
Income tax (expenses)/credit	<b>(5,808)</b>	(13,941)	6,199	452	1,337
Profit/(Loss) for the year	<b>21,422</b>	40,686	(397,896)	94,192	53,979
Non-controlling interests	<b>492</b>	798	–	–	37
Profit/(Loss) attributable to owners of the Company	<b>21,914</b>	41,484	(397,896)	94,192	54,016

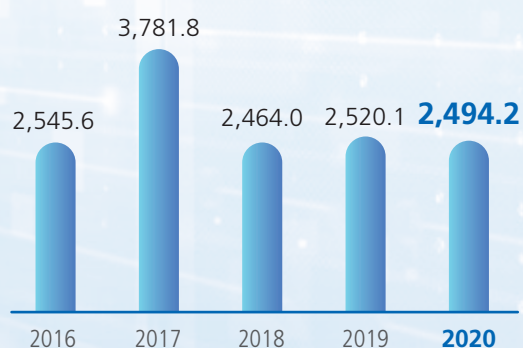
## CONSOLIDATED ASSETS AND LIABILITIES

As at 31st December

	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Total assets	<b>2,494,242</b>	2,520,072	2,464,004	3,781,765	2,545,585
Total liabilities	<b>(321,878)</b>	(414,267)	(476,072)	(1,366,186)	(585,712)
Non-controlling interests	<b>1,315</b>	823	–	–	(1,036)
Total equity attributable to owners of the Company	<b>2,173,679</b>	2,106,628	1,987,932	2,415,579	1,958,837

### TOTAL ASSETS

HK\$ million



### TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY

HK\$ million





# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue and Gross Profit

The Group is principally engaged in the businesses of IHA, IDC, investing and leasing.

In order to be in line with the Group's business development strategy, management has decided that revenue generated from (i) the IHA business; and (ii) the IDC business would be classified as revenue in the consolidated financial statements with effect from 1st January 2020. Therefore, the Group derives revenue mainly from (i) sale and distribution of IHA and complementary products (including set-top boxes ("STB") and raw materials); and (ii) rental income from leasing of properties used as IDC and facilities used in IDC and service income from provision of IDC facilities for customers' use.

During the year under review, the Group's revenue from IHA business amounted to approximately HK\$271.4 million for the year ended 31st December 2020 (the "Year"), representing a decrease of 16.6% as compared with last year. Meanwhile, the gross profit of IHA business slashed by 40.5% to approximately HK\$21.1 million for the Year as compared with last year. For IDC business, the Group recorded revenue of approximately HK\$36.0 million for the Year (2019: approximately HK\$27.3 million of rental income from IDC business which was recorded as other revenue and net income). As a result, the Group's overall revenue only dropped by 5.5% to approximately HK\$307.4 million while the Group's overall gross profit increased significantly by 44.4% to approximately HK\$51.3 million for the Year as compared with last year.

### Operating Results

#### *Other Revenue and Net Income*

The Group's other revenue and net income decreased significantly to approximately HK\$67.5 million for the Year (2019: approximately HK\$132.9 million), mainly because the Group recorded net gains on financial assets/liabilities at fair value through profit or loss of approximately HK\$32.0 million for the Year (2019: approximately HK\$70.3 million) and rental income from the IDC business was reclassified to revenue during the Year. Nevertheless, the Group recorded net gains on financial assets/liabilities at fair value through profit or loss of approximately HK\$68.3 million for the three months ended 31st December 2020 due to the rebound of the stock market in the fourth quarter. This was also one of the main reasons that the Group turned from a loss up to the third quarter to a profit attributable to owners of the Company for the full year in 2020.

#### *Changes in Fair Value of Investment Properties*

The Group recognised net revaluation losses of approximately HK\$4.4 million on its investment properties for the Year (2019: approximately HK\$0.9 million).

#### *Operating Expenses*

Despite a decrease in the Group's revenue from IHA business, the Group's distribution and selling expenses increased by 17.0% to approximately HK\$9.1 million for the Year (2019: approximately HK\$7.8 million). At the same time, the Group's general and administrative expenses decreased by 22.1% to approximately HK\$72.1 million for the Year (2019: approximately HK\$92.5 million) as there were no non-cash expenses arising from the grant of share options by the Company to eligible participants during the Year (2019: approximately HK\$10.5 million).

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW *(Continued)*

### Operating Results *(Continued)*

#### *Other Operating Expenses*

Other operating expenses of the Group also decreased to approximately HK\$2.9 million for the Year (2019: approximately HK\$6.2 million). This decrease was mainly due to the reduction of miscellaneous costs and a gain on the disposal of a subsidiary of approximately HK\$1.0 million recorded as other revenue and net income for the Year (2019: loss on the disposal of a subsidiary of approximately HK\$1.2 million).

#### *Finance Costs*

The finance costs of the Group decreased by 51.3% to approximately HK\$3.1 million for the Year. The decrease was mainly due to the decrease in loan interest rate as compared with last year.

#### *Profit for the Year*

As a result of the foregoing, the Group recorded a profit attributable to owners of the Company of approximately HK\$21.9 million for the Year (2019: approximately HK\$41.5 million).

## Liquidity and Financial Resources

As at 31st December 2020, the Group had net current assets of approximately HK\$507.2 million. The Group had cash and bank balances and pledged bank deposits of approximately HK\$122.8 million and HK\$58.0 million respectively. The Group's financial resources were funded mainly by bank loans and its shareholders' funds. As at 31st December 2020, the Group's current ratio, as calculated by dividing current assets by current liabilities, was 2.8 times and the gearing ratio, as measured by total liabilities divided by total equity, was 14.8%. Hence, as at 31st December 2020, the overall financial and liquidity positions of the Group remained at a stable and healthy level.

## Charges on Group Assets

Details of charges on the Group assets are set out in note 32 to the consolidated financial statements.

## Capital Structure

The shares of the Company ("Share(s)") has been listed on GEM of the Stock Exchange since 31st January 2000. The changes in the capital structure of the Company for the Year are set out in note 28 to the consolidated financial statements.

## Significant Investments/Material Acquisitions and Disposals

On 29th April 2020, the Group entered into a sale and leaseback agreement with a lessee, pursuant to which the lessee agreed to (i) sell the leased assets to the Group at a consideration of HK\$60 million and (ii) leaseback the leased assets from the Group for a term of 5 years. Details of the sale and leaseback arrangement are set out in the announcements of the Company dated 29th April 2020 and 5th May 2020 respectively. Save as disclosed in this report, the Group had no significant investment and no material acquisition or disposal of subsidiaries, associates and joint ventures during the Year. A breakdown of the significant investments of the Group is set out in note 21 to the consolidated financial statements.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW *(Continued)*

### Segment Information

The Group is principally engaged in the businesses of IHA, IDC, investing and leasing. As a result of the outbreak of the COVID-19 in the first half of 2020, the Group's businesses were severely affected. With the COVID-19 under effective control and economic activities recovered gradually, the performance of the Group's businesses has improved in the second half of 2020 but the profit attributable to owners of the Company for the full year still decreased as compared with last year.

As far as IHA business is concerned, although there was an increase in customer purchase orders as compared with the first half of 2020, the Group's revenue from the IHA business decreased by 16.6% to approximately HK\$271.4 million for the Year as compared with last year, accounting for 88.3% of the total revenue of the Group. Meanwhile, the gross profit of the IHA business also decreased by 40.5% to approximately HK\$21.1 million for the Year as compared with the last year. Consequently, the IHA segment recorded a loss of approximately HK\$9.6 million for the Year (2019: a profit of approximately HK\$5.0 million).

For IDC business, the Group completed a sale and leaseback arrangement with a lessee during the Year, which resulted in increased revenue from the IDC business. Therefore, the Group recorded revenue of approximately HK\$36.0 million for the Year, accounting for 11.7% of the total revenue of the Group (2019: approximately HK\$27.3 million of rental income from IDC business which was recorded as other revenue and net income). As a result, this segment recorded a profit of approximately HK\$14.0 million for the Year (2019: approximately HK\$22.2 million). As this segment is still at the investing stage, the Group will continue to deploy resources in this segment.

The Group's investing segment is principally engaged in trading of securities and investing in financial instruments. This segment recorded a profit of approximately HK\$25.6 million for the Year (2019: approximately HK\$70.8 million). The decrease in profit was because the Group recorded net gains on financial assets/liabilities at fair value through profit or loss of approximately HK\$32.0 million (2019: approximately HK\$70.3 million) and an increase in allocating resources to this segment during the Year.

The leasing segment of the Group comprises leasing out of properties. This segment recorded a loss of approximately HK\$0.5 million for the Year (2019: approximately HK\$1.6 million) as the Group recognised net revaluation losses of approximately HK\$3.8 million for the Year (2019: approximately HK\$3.6 million). The other operations segment of the Group comprises trading of miscellaneous materials. This segment recorded a profit of approximately HK\$1.1 million for the Year (2019: approximately HK\$0.1 million) because the Group recognised a gain on disposal of a subsidiary of approximately HK\$1.0 million.

The Group mainly operates the businesses in the People's Republic of China (the "PRC"), Hong Kong, Australia and other overseas markets during the Year. The revenue in the Mainland market increased by 35.1% to approximately HK\$118.3 million for the Year as compared with last year mainly because the Group reclassified the rental income from the IDC business to revenue. However, due to the global recession, the revenue in the Australian market and other overseas markets decreased by 9.7% and 37.2% to approximately HK\$125.5 million and HK\$33.4 million, respectively, which caused the overall revenue in the overseas markets to drop by 17.3% to approximately HK\$158.9 million as compared with last year. In respect of the Hong Kong market, despite the increase in revenue generated by the Group's IDC business, the overall revenue in the Hong Kong market still decreased by 33.8% to approximately HK\$30.2 million as compared with last year. As such, the overall revenue of the Group decreased by 5.5% to approximately HK\$307.4 million for the Year as compared with last year.



# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW *(Continued)*

### Exposure to Fluctuations in Exchange Rates

Most of the trading transactions of the Group were denominated in Renminbi (“RMB”) and in United States dollars (“USD”). The assets of the Group were mainly denominated in RMB and the remaining portions were denominated in USD and Hong Kong dollars (“HKD”). The exchange rates for USD to HKD have been relatively stable for the Year. Therefore, the Group is only exposed to foreign exchange risk arising from RMB exposures, primarily with respect to the HKD and USD. During the Year, the Group recorded net exchange losses of approximately HK\$1.9 million (2019: approximately HK\$2.1 million). As at 31st December 2020, the Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure. However, the Group will constantly monitor and manage its exposure to foreign exchange risk.

### Human Resources and Relations with the Employees

As at 31st December 2020, the Group had over 160 (2019: over 160) full time employees, of which 23 (2019: 20) were based in Hong Kong and the rest were in the PRC and the United States. Staff costs of the Group amounted to approximately HK\$51.1 million for the Year (2019: approximately HK\$65.7 million) as no non-cash expenses arising from the grant of share options by the Company to its Directors and employees during the Year (2019: approximately HK\$8.4 million). The employees of the Company’s subsidiaries are employed and promoted based on their suitability for the positions offered. The salary and benefit levels of the Group’s employees are in line with the market rates. Employees are rewarded on a performance-related basis within the general framework of the Group’s remuneration system which is reviewed annually. In addition to basic salaries, staff benefits also include medical scheme, various insurance schemes and share option scheme.

## BUSINESS REVIEW

The Group’s IHA business is principally engaged in sales and distribution of IHA and complementary products. Products launched by the Group in the markets include high digital STB, hybrid dual mode STB, Over-the-top (“OTT”)/Internet Protocol Television (“IPTV”) STB, STB equipped with an Android system, etc.. The Group has extensive experience in the design and manufacture of networked audio and video products, from hardware to software, from operating systems to business integration, covering a wide range of vertical applications. During the Year, the Group’s revenue from IHA business amounted to approximately HK\$271.4 million, representing a decrease of 16.6% as compared with last year.

With respect to the IDC business, the Group concentrates its efforts on providing renowned domestic and foreign enterprises with reliable data centre facilities services. During the Year, the Group completed a sale and leaseback arrangement with a lessee, which resulted in increased revenue from the IDC business. As a result, the Group’s revenue generated from leasing of properties used as IDC and facilities used in IDC was approximately HK\$36.0 million (2019: approximately HK\$27.3 million). In respect of the Group’s project on construction of its first IDC in the United States, the project is currently entering into the construction stage. Due to the shelter-in-place order handed down by the United States government in response to the COVID-19 during the Year, the progress of the IDC construction of the Group has been adversely affected. As a result, phase one of the project will be ready for operation in the first half of 2021. As the IDC business is still at the investing stage, the Group will continue to deploy resources in this business.

With respect to investment business, the Group made some investments in the secondary market and private investment funds during the Year. Based on the value investing strategy, the Group only selected investment products in the secondary market by taking risk control and maintaining reasonable earning expectation as the investment goals. Maintenance and appreciation of asset value are the long-term investment commitments of the Group. Meanwhile, the Group also constantly reviews and manages its investment portfolios. During the Year, the Group recorded net gains on financial assets/liabilities at fair value through profit or loss of approximately HK\$32.0 million in spite of fluctuation of the stock markets during the Year (2019: approximately HK\$70.3 million).

# MANAGEMENT DISCUSSION AND ANALYSIS

## **BUSINESS REVIEW** *(Continued)*

### **Key Risks and Uncertainties**

During the Year, the Group endeavoured to improve the risk management system on different aspects of company strategies, businesses operation and finance. A number of risks and uncertainties may affect the financial results and business operations of the Group. For the IHA business, factors such as fierce market competition in the Mainland and overseas markets, rapid iteration of technological products, RMB exchange rate fluctuation, drop in selling price of products and increase in production cost may bring uncertainties to the development of the IHA business of the Group. For the IDC business, factors such as whether the construction and layout of the project can be completed as scheduled, and whether the service contracts signed with customers and service income can meet the expectation may affect the progress of the IDC business of the Group. For the investing business, the frequent changes of market policies and regulations relating to the Mainland stock market and the unclear global economic environment would be two key risk factors. In future business operations, the Group will be highly aware of the aforesaid risks and uncertainties and will proactively adopt effective measures to tackle such risks and uncertainties.

### **Environmental Policies and Performance**

The Group is committed to building an environmentally-friendly corporation and always takes the environmental protection issues into consideration during daily operation. The Group does not produce material waste nor emit material quantities of air pollutants. The Group also strives to minimise the adverse environmental impacts by encouraging the employees to recycle office supplies and other materials and to save electricity.

### **Compliance with Laws and Regulations**

The Company has been listed on GEM of the Stock Exchange since 2000. The operations of the Group are mainly carried out by the Company's subsidiaries in the PRC, Hong Kong and the United States. As such, the Group's operations shall comply with relevant laws and regulations in the PRC, Hong Kong and the United States accordingly. During the Year, the Group has complied with all applicable laws and regulations in the PRC, Hong Kong and the United States in all material respects. The Group shall continue to keep itself updated with the requirements of the relevant laws and regulations in the PRC, Hong Kong and the United States and adhere to them to ensure compliance.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS PROSPECT

2020 was an extraordinary year, during which COVID-19 suddenly broke out, the global economy experienced severe recession, the international trade recorded sharp decline, and the external environment was turbulent. The future is full of unknowns with potential and challenges coexisting. We managed to steadily promote the business development of the Group during the year, reflecting the effectiveness of our strategies.

In respect of our IDC business, we achieved a steady growth of revenue in 2020. During the year, the Group completed a sale and leaseback arrangement with a lessee, which contributed to increase revenue from the IDC business. Due to the adverse impact of COVID-19, the construction progress of our IDC project in San Jose, the United States was behind our original schedule. The phase one of the project will be ready for operation in the first half of 2021 and will contribute to the continuous improvement of revenue from IDC business. The Group will start a feasibility study for a second data centre in the United States thereafter. With the robust development of digital economy and the continuous implementation of 5G commercialisation, due to a concentrated burst of demand for online office, online education and live broadcasting, high-traffic scenarios such as ultra-high-definition videos and VR/AR continue to increase. The surge of data traffic brings new challenges to IDC service providers on network transmission rate, rapid deployment and computing capability, but it also provides new opportunities for the development of IDC industry at the same time. To take advantage of its business network and industry credibility in the Greater China region as well as the international market, the Group aims to provide safe and reliable data centre facilities and services for renowned domestic and overseas enterprises. In future, under the trend of large-scale, intensive and green development in the IDC industry, the Group will proactively build the intelligentized IDC with characteristics of high performance, easy maintenance, and flexible expansion in core cities and regions, and will improve the competitiveness of the Group's IDC business through green and refined operation and maintenance, to help our customers achieve digital transformation and commercial success.

As for our IHA business, the Group strived to become the world's leading terminal technology solution provider in respect of broadband audio-visual multimedia. Leveraging on our technology know-how and independent R&D capabilities accumulated over the years, we realised customisation of multifunctional product forms based on customers' needs. Despite the fierce market competition, customer purchase orders of the Group resumed gradually in the second half of 2020. In future, the Group will maintain its strong market competitiveness through consistent investment in technology and R&D innovation and will continue to improve the profitability of our IHA business. We look forward to the continued growth and success for our IHA business.

Looking forward to 2021, uncertainty on market prospect remains. Our management and all our staff will begin with the end in mind and acquire knowledge through practice, continuously provide high-quality services with wisdom, hard work and perseverance, so as to create long-term value for our customers, staff, shareholders, partners and the society.



# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. Li Qiang**, aged 52, graduated with a master's degree in business administration from Nanyang Technological University, Singapore. Mr. Li is the chairman and the legal representative of Trunkbow Asia Pacific (Shandong) Co., Ltd.. Mr. Li had been the president of Beijing Daily Technologies Co., Ltd.\* (北京德利迅達科技有限公司) since March 2011 and a director of Trunkbow International Holdings Ltd., the shares of which were delisted from The NASDAQ (National Association of Securities Dealers Automated Quotation) Stock Market in 2014. He is also a director of certain subsidiaries of the Company. Mr. Li was appointed to the board of Directors (the "Board") as an executive Director and the co-chairman on 10th June 2016 and re-designated as the chairman on 8th March 2017.

**Mr. Gao Fei**, aged 41, graduated with a master's degree in business administration from The Hong Kong University of Science and Technology. He has been the general manager of Shanghai Sino Crown Investment LLP\* (上海毓鼎企業管理合夥企業(有限合夥)), formerly known as 上海毓華投資合夥企業(有限合夥) since May 2014. Mr. Gao Fei had been a director of Lontrue Co., Ltd., the shares of which are listed on the Shenzhen Stock Exchange, stock code: 300175). He is also a director of certain subsidiaries of the Company. Mr. Gao was appointed to the Board as an executive Director on 20th June 2016 and appointed as the chief executive officer on 15th December 2017.

**Mr. Shi Guangrong**, aged 60, graduated with a bachelor's degree in engineering from Department of Industrial Automation of Beijing University of Technology. Mr. Shi has been with the Group since 1996, responsible primarily for marketing and investment management functions of the Group. Mr. Shi is currently the compliance officer of the Group and the executive president of the listing platform of the Group, possessing over 14 years of regulatory and compliance experience. He is also a director of certain subsidiaries of the Company. He is currently a non-executive director of Global Token Limited (formerly known as Global Energy Resources International Group Limited), a company listed on GEM of the Stock Exchange. Mr. Shi was appointed to the Board as an executive Director on 7th October 1999.

**Mr. Zhu Jiang**, aged 63, graduated from Beijing University of Technology majoring in mechatronic engineering. Mr. Zhu has over 24 years of research experience in computer engineering, extensive experience in digital-to-analog circuits and high-level assembly languages programming and over 14 years of management experience. Mr. Zhu is a director and the legal representative of certain subsidiaries of the Company. Mr. Zhu was appointed to the Board as an executive Director on 24th July 2013.

**Mr. Cong Yu**, aged 51, graduated from the The People's Liberation Army (Navy) Command College\* (中國人民解放軍陸軍指揮學院) majoring in National Defense Mobilization and National Defense Education. He has extensive experience in business development and investment projects. Mr. Cong has been an executive director of Heijinghe Fund Management Co., Ltd. since December 2013. Mr. Cong had also been the chairman of Ocean Interactive (Beijing) Technology Co., Ltd.. He is a director of certain subsidiaries of the Company. Mr. Cong was appointed to the Board as an executive Director on 21st January 2021.

**Mr. Chen Biao**, aged 53, graduated from the Department of Mechanical Engineering of Information Engineering University\* (信息工程大學). He has extensive experience in business development and management in China and Europe. Mr. Chen joined the Group in December 2019 as the position of a deputy general manager of Yuxin Asset Management Company Limited, an indirect non-wholly owned subsidiary of the Company. He was acting as the business consultant for China Machinery Industry International Cooperation Co., Ltd. on acquisition and mergers projects in Europe since 2014. Mr. Chen is currently an executive director of Global Token Limited (formerly known as Global Energy Resources International Group Limited), a company listed on GEM of the Stock Exchange. Mr. Chen was appointed to the Board as an executive Director on 21st January 2021.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Ms. Shen Yan**, aged 57, holds a bachelor's degree in accounting and has over 25 years of accounting experience and 22 years of auditing experience. Ms. Shen worked with Beijing Zhonggongxin Certified Public Accountants\* (北京中公信會計師事務所), where she presided over audit works for local and international renowned enterprises in manufacturing, professional affairs and services and has accumulated solid experience in corporate finance management and auditing. Ms. Shen has successively held key positions in numerous corporations in the PRC and possesses good expertise in financial accounting, budgetary control and financial management. She also took part in the researches, editing and publication of books on financial management subjects. Ms. Shen had also been a staff of Beijing University of Technology. Currently, Ms. Shen is the financial controller of a PRC firm. Ms. Shen was appointed to the Board as an independent non-executive Director on 12th January 2005.

**Ms. Dong Hairong**, aged 46, is a deputy director of National Engineering Research Center of Rail Transportation Operation and Control System of Beijing Jiaotong University, a professor and PhD student tutor of State Key Laboratory of Rail Traffic Control and Safety of Beijing Jiaotong University. Ms. Dong graduated from Peking University with a doctorate degree in Science. Ms. Dong was appointed to the Board as an independent non-executive Director on 6th June 2018.

**Ms. Huo Qiwei**, aged 49, is currently the chief financial officer of Beijing Zhongjin Guorong Culture Media Co., Ltd. She possesses over 13 years of experience in corporate finance and accounting, and over 16 years of experience in audit consulting. Ms. Huo possesses the professional qualifications of certified public accountant, certified tax agent and senior accountant in the PRC. Ms. Huo graduated from the Chinese University of Hong Kong with a master's degree in professional accountancy and graduated from Henan University of Science and Technology majoring in accountancy. Ms. Huo was appointed to the Board as an independent non-executive Director on 5th September 2019.

## COMPANY SECRETARY

**Dr. Liu Wei**, aged 63, has PRC lawyer qualification and is a solicitor qualified to practice law in Hong Kong and in England. He graduated from the Northwest University of China, the Chinese University of Political Science and Law and the University of Cambridge with a bachelor's degree in Chinese literature, a master's degree in law, a Ph.D. in Law respectively. He also completed his Common Professional Examination (CPE) with Manchester University in England, as well as a Postgraduate Certificate in Laws (PCLL) with the University of Hong Kong. Dr. Liu has extensive experience in corporate finance and corporate governance of listed companies and is a partner of DLA Piper. Dr. Liu is the company secretary of the Company (the "Company Secretary") since 3rd July 2007.

## SENIOR MANAGEMENT

**Mr. Xue Guo**, aged 47, is the chief operating officer of the Group. He joined the Group as vice president of a subsidiary of the Group in May 2017 and was responsible for taking charge of the acquisition of the entire issued share capital of Indeed Holdings Limited by the Company, which completed on 7th September 2017. He graduated from the Department of Precision Instrument of Tsinghua University with a bachelor degree in engineering, and obtained a master degree in business administration from the School of Management of Shandong University. He has also obtained the certificates of practitioner issued by the Securities Association of China, the China Futures Association and Asset Management Association of China. Mr. Xue has relevant experience in the operation and management of telecommunications, media and technology (TMT) businesses and in investment business. Prior to joining the Group, he was the investment director of an investment company. He is also a director of certain subsidiaries of the Company. Mr. Xue was appointed as the chief operating officer of the Group on 15th September 2017.

**Ms. Wang Yuxiao**, aged 48, is the chief investment officer of the Group. She joined the Group in 2007. As the chief investment officer of a wholly owned subsidiary of the Company, she is responsible for investment and corporate mergers and acquisitions. She is also the general manager of a non-wholly owned subsidiary of the Company, responsible for its management and business operations. Ms. Wang graduated from Peking University with a master's degree in the department of information management. She possesses the qualification of fund practitioners of the Asset Management Association of China. She has accumulated extensive experience in investment and fund management businesses. Ms. Wang was appointed as the chief investment officer of the Group on 1st August 2020.

\* The English translation of certain Chinese entities which are marked with "\*" is for identification purpose only under the section headed "Biographical Details of Directors and Senior Management" of this annual report.

# DIRECTORS' REPORT

The Board is pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31st December 2020.

## BUSINESS REVIEW

The business review of the Group for the year ended 31st December 2020 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this report.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 36 to the consolidated financial statements.

Analysis of the performance by the Group for the year ended 31st December 2020 by business and geographical segments is set out in note 8 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in the share capital of the Company during the Year are set out in note 28 to the consolidated financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December 2020 are set out in the consolidated income statement on page 58 of this report.

The Board does not recommend the payment of a final dividend for the year ended 31st December 2020 (2019: Nil).

## DIVIDEND POLICY

The declaration, form, frequency and amount of any dividend payout of the Company must be in accordance with relevant laws, rules and regulations and subject to the bye-laws of the Company (the "Bye-laws"). Subject to compliance with applicable laws, rules, regulations and the Bye-laws, in deciding whether to propose any dividend payout, the Board will take into account the Group's financial results, the earnings and distributable reserves, the operations and liquidity requirements, the debt ratio and possible effects on the credit lines, and the development plans of the Company.

## CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company (the "AGM") is scheduled to be held on Monday, 28th June 2021. For the purpose of ascertaining the entitlement of the shareholders of the Company (the "Shareholder(s)") to attend and vote at the 2021 AGM, the register of members of the Company will be closed from Wednesday, 23rd June 2021 to Monday, 28th June 2021 (both dates inclusive), during which period no transfer of Shares will be registered. In order for a Shareholder to be eligible to attend and vote at the 2021 AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 22nd June 2021.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years is set out on page 5 of this report.



# DIRECTORS' REPORT

## SHARE OPTIONS

Details of the Company's share option scheme adopted by the Shareholders on 14th January 2015 (the "Share Option Scheme") and the movement in the Company's share options held by the Directors during the Year are set out in note 33 to the consolidated financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws and there is no restriction against such rights under the laws of Bermuda.

## PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

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

## RESERVES

Movements in reserves of the Group and the Company during the Year are set out in the consolidated statement of changes in equity on page 61 of this report and notes 29 and 31(a) to the consolidated financial statements respectively.

## INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the investment properties and property, plant and equipment of the Group during the Year are set out in notes 17 and 18 to the consolidated financial statements respectively.

## PROPERTIES

Particulars of properties held by the Group as at 31st December 2020 are set out on page 148 of this report.

## DIRECTORS

The Directors during the Year and up to the date of this report are as follows:

### Executive Directors

Mr. Li Qiang (*Chairman*)

Mr. Gao Fei (*Chief Executive Officer*)

Mr. Shi Guangrong

Mr. Zhu Jiang

Mr. Cong Yu (*appointed on 21st January 2021*)

Mr. Chen Biao (*appointed on 21st January 2021*)

### Independent Non-Executive Directors

Ms. Shen Yan

Ms. Dong Hairong

Ms. Huo Qiwei

# DIRECTORS' REPORT

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and senior management of the Group are set out on pages 12 and 13 of this report.

## DIRECTORS' SERVICE CONTRACTS AND APPOINTMENT LETTERS

Each of the executive Directors has entered into a service agreement with the Company for a term of three years which are automatically renewed for successive terms of one year each upon expiry of the then current term and shall be terminated by either party giving to the other not less than six months' notice in writing.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of two years.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## DIRECTOR'S INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save for the Directors' service contracts as disclosed in this report and the granting of share options to the Directors, details of which is set out in note 33 to the consolidated financial statements, no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

## DIRECTOR'S EMOLUMENTS AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the Directors' emoluments and the five highest paid individuals of the Group during the Year are set out in notes 11 and 12 to the consolidated financial statements respectively.

## EMOLUMENT POLICY

The Directors are paid fees in line with market practice. The Group adopted the following main principles in determining the remuneration of the Directors and other employees:

- No individual should determine his or her own remuneration;
- Remuneration should be broadly aligned with companies with whom the Group competes for human resources;
- Remuneration should reflect performance and responsibility with a view to motivating and retaining high performing individuals and enhancing the value of the Company to its Shareholders; and
- Share options grants to the senior management or staff as incentives for their contribution to the growth and development of the Group in the intermediate to longer time frame.

# DIRECTORS' REPORT

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

As at 31st December 2020, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying shares and/or debentures of the Company and/or any of its associated corporations (within the meanings of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

### (1) Long positions in the shares of the Company

Name of Directors	Nature of interests	Number of ordinary Shares	Capacity	Approximate percentage of the total issued share capital of the Company
Mr. Li Qiang	Personal	4,604,000	Beneficial owner	0.22%
Mr. Gao Fei	Personal	2,190,000	Beneficial owner	0.11%
Mr. Shi Guangrong	Personal	22,660,000	Beneficial owner	1.09%
Mr. Zhu Jiang	Personal	7,926,756	Beneficial owner	0.38%
Ms. Shen Yan	Personal	324,000	Beneficial owner	0.02%



# DIRECTORS' REPORT

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

### (2) Long positions in the underlying shares of the Company

Pursuant to the Share Option Scheme approved by the Shareholders on 14th January 2015, the Directors and chief executive of the Company in the capacity as beneficial owners were granted unlisted and physically settled share options to subscribe for the Shares, details of which as at 31st December 2020 were as follows:

Name of grantees	Date of grant	Exercise price per Share	Exercisable period	Number of Shares issuable under the share options				Outstanding as at 31st December 2020
				Outstanding as at 1st January 2020	Granted during the Year	Exercised during the Year	Lapsed during the Year	
<i>HK\$</i>								
<b>Directors</b>								
Mr. Li Qiang	30.08.2019	0.33	30.08.2019 – 29.08.2022	2,000,000	-	-	-	2,000,000
Mr. Gao Fei	30.08.2019	0.33	30.08.2019 – 29.08.2022	2,000,000	-	-	-	2,000,000
Mr. Shi Guangrong	16.01.2015	2.20	16.01.2015 – 15.01.2020	6,500,000	-	-	(6,500,000)	-
	30.08.2019	0.33	30.08.2019 – 29.08.2022	13,000,000	-	-	-	13,000,000
Mr. Zhu Jiang	16.01.2015	2.20	16.01.2015 – 15.01.2020	7,000,000	-	-	(7,000,000)	-
	30.08.2019	0.33	30.08.2019 – 29.08.2022	13,000,000	-	-	-	13,000,000
Ms. Shen Yan	16.01.2015	2.20	16.01.2015 – 15.01.2020	1,000,000	-	-	(1,000,000)	-
	30.08.2019	0.33	30.08.2019 – 29.08.2022	1,000,000	-	-	-	1,000,000
Ms. Dong Hairong	30.08.2019	0.33	30.08.2019 – 29.08.2022	2,000,000	-	-	-	2,000,000
				47,500,000	-	-	(14,500,000)	33,000,000

Further details regarding the Share Option Scheme are set out in note 33 to the consolidated financial statement.

Save as disclosed above, as at 31st December 2020, none of the Directors or chief executive of the Company had any interests or short positions in any Shares, underlying shares and/or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules.

Apart from the Share Option Scheme disclosed above, at no time during the Year was the Company or any of its subsidiaries a party to any arrangement which enables the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

# DIRECTORS' REPORT

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

Based on the information provided to the Company in notices filed, as at 31st December 2020, the entities and/or persons or corporations who had any interests or short positions in the Shares and/or underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or had otherwise notified to the Company were as follows:

### Long positions in the shares and underlying shares of the Company

Name of Shareholders	Nature of interests	Number of ordinary Shares	Capacity	Approximate percentage of the total issued share capital of the Company
Honbridge Holdings Limited (Stock Code: 8137) ("Honbridge") (Notes 1 & 2)	Corporate	450,357,200	Beneficial owner	21.72%
Hong Bridge Capital Limited ("Hong Bridge") (Notes 1 & 2)	Corporate	450,357,200	Interest of a controlled corporation	21.72%
Mr. He Xuechu (Notes 1 & 2)	Personal	450,357,200	Interest of a controlled corporation	21.72%
	Personal	300,000	Interest of spouse	0.01%
Ms. Foo Yatyan (Notes 1 & 2)	Personal	450,357,200	Interest of spouse	21.72%
	Personal	300,000	Beneficial owner	0.01%
Cedar Surplus Investments Limited ("Cedar Surplus") (Notes 3 & 4)	Corporate	200,000,000	Beneficial owner	9.65%
Mr. Cong Yu (Notes 3 & 4)	Personal	200,000,000	Interest of a controlled corporation	9.65%
Super Dragon Co., Ltd. ("Super Dragon") (Notes 5 & 7)	Corporate	121,533,800	Beneficial owner	5.86%
Mr. Zhu Weisha (Notes 5, 6 & 7)	Personal	121,533,800	Interest of a controlled corporation	5.86%
		30,824,000	Beneficial owner	1.49%

# DIRECTORS' REPORT

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

### Long positions in the shares and underlying shares of the Company *(Continued)*

Notes:

1. According to the disclosure forms filed by Honbridge, Hong Bridge, Mr. He Xuechu and Ms. Foo Yatian, Mr. He Xuechu and Hong Bridge were disclosed as having interest in 450,657,200 Shares and 450,357,200 Shares respectively. Ms. Foo Yatian is the spouse of Mr. He Xuechu. Accordingly, Ms. Foo Yatian is deemed to be interested in all the Shares in which Mr. He Xuechu is interested.
2. The Company noted the announcement published by Honbridge on 21st June 2020 on the website of the Stock Exchange, Honbridge, as seller, and Bronze Pony Investments Limited ("Bronze Pony"), as purchaser, entered into an agreement on 19th June 2020 in relation to the disposal of Shares and also noted the announcement published by Honbridge on 22nd February 2021, Honbridge entered into a supplemental agreement with Bronze Pony pursuant to which Honbridge agreed to transfer 98,490,000 Shares to Bronze Pony.
3. According to the disclosure forms filed by Cedar Surplus and Mr. Cong Yu, the 200,000,000 Shares are held by Cedar Surplus, which is wholly-owned by Mr. Cong Yu, the executive Director of the Company.
4. According to the disclosure forms filed by Cedar Surplus and Mr. Cong Yu, 250,016,000 Shares were allotted and issued to Cedar Surplus on 12th January 2021 pursuant to a subscription agreement.
5. According to the disclosure forms filed by Super Dragon and Mr. Zhu Weisha, Super Dragon was disclosed as having interest in 121,533,800 Shares, which is wholly-owned by Mr. Zhu Weisha.
6. The remaining interests in 30,824,000 Shares are beneficially owned by Mr. Zhu Weisha, representing 11,824,000 Shares and 19,000,000 underlying shares in respect of the share options granted by the Company on 30th August 2019.
7. According to the disclosure forms filed by Super Dragon and Mr. Zhu Weisha, the number of Shares that Super Dragon and Mr. Zhu Weisha were interested in increased for 6,000 Shares and 946,000 Shares respectively, and 164,600,000 Shares were allotted and issued to Mr. Zhu Weisha on 12th January 2021 pursuant to a subscription agreement. Super Dragon ceased to be a substantial Shareholder as a result of dilution in shareholding on 12th January 2021.
8. Based on a total of 2,073,088,800 issued Shares of the Company as at 31st December 2020.

Save as disclosed above, as at 31st December 2020, the Directors are not aware of any persons or corporations who had any interests or short positions in the Shares and/or underlying shares of the Company which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.



# DIRECTORS' REPORT

## PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Bye-laws, the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duties in their offices.

Such permitted indemnity provision has been in force throughout the year and is still in force. In addition, the Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group.

## MANAGEMENT CONTRACTS

No contract concerning the management or administration of the whole or any substantial part of the business of the Company was entered into or existed during the Year.

## MAJOR SUPPLIERS AND CUSTOMERS

The Group has developed close and long-term cooperation relationships with major suppliers and customers. During the Year, stable and good relationships between the Group and its major suppliers and customers have been maintained. The percentages of purchases and sales for the year ended 31st December 2020 attributable to the Group's major suppliers and customers are as follows:

### Purchases

– the largest supplier	64.7%
– five largest suppliers combined	87.5%

### Sales

– the largest customer	40.8%
– five largest customers combined	89.0%

None of the Directors, their close associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers and major customers noted above.

## RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the Year, which constitute exempted connected transactions or continuing connected transactions under the GEM Listing Rules, are set out in note 35 to the consolidated financial statements.

# DIRECTORS' REPORT

## COMPETING INTERESTS

None of the Directors or the controlling Shareholders and their respective associates (as defined in the GEM Listing Rules) has an interest in a business which competed or might compete with the business of the Group or has any other conflict of interest with the Group during the Year.

## PUBLIC FLOAT

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

## AUDITOR

The consolidated financial statements of the Company for the year ended 31st December 2020 have been audited by Mazars CPA Limited, *Certified Public Accountants*, who will retire and, being eligible, offer itself for re-appointment.

A resolution for the re-appointment of Mazars CPA Limited as the auditor of the Company will be proposed at the forthcoming AGM of the Company.

On behalf of the Board

**Yuxing InfoTech Investment Holdings Limited**

**Li Qiang**

*Chairman*

Hong Kong, 19th March 2021

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE

The Company is committed to achieving high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the continuing growth of the Group and for safeguarding and maximising Shareholders' interests.

The Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") set out in Appendix 15 of the GEM Listing Rules during the Year.

## SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings as set out in rules 5.48 to 5.67 (the "Required Standard of Dealings") of the GEM Listing Rules as the code of conduct regarding securities transactions by the Directors. Upon specific enquiries of all Directors, each of them confirmed that they have complied with the required standards set out in the Required Standard of Dealings for the year ended 31st December 2020 in relation to their securities dealings, if any.

## BOARD OF DIRECTORS

### Board composition

The Board is responsible for managing the Company on behalf of the Shareholders. The Board is of the view that it is the Directors' responsibility to create value for the Shareholders and safeguard the best interests of the Company and the Shareholders as a whole by discharging its duties in a dedicated, diligent and prudent manner on the principle of good faith.

The primary functions of the Board include:

- deciding on the overall strategies, overseeing operational and financial performance and formulating appropriate policies to manage risk exposure associated with realising the strategies and goals of the Group;
- monitoring and reviewing the Group's corporate governance practices on compliance with legal and regulatory requirements, and renewing the Company's compliance with the CG Code;
- being held accountable for the internal control system of the Group and responsible for reviewing its effectiveness;
- being ultimately responsible for preparing financial accounts and discussing the performance, financial conditions and prospects of the Group in a balanced, clear and comprehensible manner. These responsibilities are applicable to quarterly, interim and annual reports of the Company, other price sensitive announcements published according to the GEM Listing Rules and disclosure of other financial information, reports submitted to regulatory bodies and information discloseable under statutory requirements;
- executive Directors, who oversee the overall business of the Group, are responsible for the daily management of the Group, the Board is responsible for affairs involving the overall policies, finance and Shareholders of the Company, namely financial statements, dividend policy, significant changes to accounting policies, annual operating budgets, material contracts, major financing arrangements, principal investment and risk management strategy. Implementation and execution of such decisions is delegated to the management; and
- regularly reviewing its own functions and the powers conferred upon executive Directors to ensure appropriate arrangements are in place.



# CORPORATE GOVERNANCE REPORT

## **BOARD OF DIRECTORS** *(Continued)*

### **Board composition** *(Continued)*

The Board has overall responsibility for the leadership, strategic direction, control and performance of the Group and for promoting the success of the Group by directing and supervising its affairs. The Board delegates the day-to-day management, administration and operation of the Group to management. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group.

The management is well informed of its powers and duties with clear guidelines and instructions, in particular regarding situations under which reporting to the Board is necessary and matters that require the approval of the Board before any decisions or commitments can be made on behalf of the Company.

The Board currently comprises nine Directors, with six executive Directors, namely, Mr. Li Qiang (Chairman), Mr. Gao Fei, Mr. Shi Guangrong, Mr. Zhu Jiang, Mr. Cong Yu and Mr. Chen Biao and three independent non-executive Directors, namely, Ms. Shen Yan, Ms. Dong Hairong and Ms. Huo Qiwei. The biographies of the Directors are set out in the section headed “Biographical Details of Directors and Senior Management” of this report. The Directors, with relevant and sufficient experience and qualifications, have given sufficient time and attention to the affairs of the Group and have exercised due care and fiduciary duties in relation to the significant issues of overall business planning, management and strategic development of the Group.

To the knowledge of the Directors, the Board members have no material financial, business, family or other relevant relationships with each other.

### **Independent Non-Executive Directors**

During the Year, the Board at all times complied with the requirement of the GEM Listing Rules of having at least three independent non-executive Directors sit on the Board (more than one-third of the Board members) and at least one of them having appropriate professional accounting or related financial management expertise. All the independent non-executive Directors are appointed for a two-year term, and subject to rotation and re-election pursuant to the Bye-laws. Details of their appointment are referred to the section “Directors’ Service Contracts and Appointment Letters” on page 16 of this report. The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules on the Stock Exchange and considers all the independent non-executive Directors to be independent.

### **Board practice and conduct of meetings**

The full Board meets at least four times a year, at approximately quarterly intervals, to review the financial performance, results of each period, material investments and other matters of the Group that require the resolution of the Board. Simultaneous communication methods may be used to improve attendance when individual Director cannot attend the meeting in person.

# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS *(Continued)*

### Board practice and conduct of meetings *(Continued)*

The attendance records of each Director and each member of the Board committees in 2020 are as follows:

Executive Directors	Number of meetings attended/eligible to attend				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Mr. Li Qiang	4/4	N/A	N/A	1/1	1/1
Mr. Gao Fei	4/4	N/A	N/A	N/A	1/1
Mr. Shi Guangrong	4/4	N/A	N/A	N/A	1/1
Mr. Zhu Jiang	4/4	N/A	1/1	N/A	1/1
Mr. Cong Yu <i>(appointed on 21st January 2021)</i>	N/A	N/A	N/A	N/A	N/A
Mr. Chen Biao <i>(appointed on 21st January 2021)</i>	N/A	N/A	N/A	N/A	N/A
<b>Independent Non-Executive Directors</b>					
Ms. Shen Yan	4/4	4/4	1/1	1/1	1/1
Ms. Dong Hairong	4/4	4/4	1/1	1/1	1/1
Ms. Huo Qiwei	4/4	4/4	1/1	1/1	1/1

Information of material issues, due notice of meetings and minutes of every meeting have been sent to all Directors for their information, comment and review.

### Appointment and Re-election of Directors

Each of the executive Directors has entered into a service agreement with the Company for a term of three years which are automatically renewed for successive terms of one year each upon expiry of the then current term and shall be terminated by either party giving to the other not less than six months' notice in writing.

Each of the independent non-executive Directors, has entered into a letter of appointment with the Company for a term of two years.

The Company has established formal, considered and transparent procedures for the appointment of new Directors. The procedures and process of appointment, re-election and removal of Directors are laid down in the Bye-laws. Pursuant to Article 87 of the Bye-laws, at each AGM one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation 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. Pursuant to Article 86(2) of the Bye-laws, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorization by the Shareholders in general meetings, as an addition to the existing Board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the Shareholders in general meetings. Any Director so appointed by the Board shall hold office only until the next following AGM of the Company and shall then be eligible for re-election at that meeting.

In compliance with the code provision A.4.3 of the CG Code, the further appointment of independent non-executive Directors who have served more than 9 years should be subject to a separate resolution to be approved by Shareholders and the papers to Shareholders accompanying that resolution should include the reasons why the Board believes the relevant Director is still independent and should be re-elected.

# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS *(Continued)*

### Directors' Training

Each newly appointed Director shall receive induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operation of the Group and that he/she is aware of his/her responsibilities and obligations under the GEM Listing Rules and relevant regulatory requirements.

During the Year, all existing Directors were provided with updates on the latest developments and changes in the GEM Listing Rules and other relevant legal and regulatory requirements from time to time to develop and refresh the Directors' duties and responsibilities. Continuing briefings to Directors are arranged whenever necessary.

### Board Diversity Policy

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board.

The Company recognises and embraces the benefits of diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills, knowledge and length of service. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

### Chairman and Chief Executive Officer

Pursuant to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual. During the Year, the positions of chairman and chief executive officer of the Company are held by different persons. Mr. Li Qiang acted as the chairman and Mr. Gao Fei acted as the chief executive officer of the Company.

## BOARD COMMITTEES

The Board has established three committees, namely audit committee (the "Audit Committee"), remuneration committee (the "Remuneration Committee") and nomination committee (the "Nomination Committee"), each overseeing and being responsible for affairs in different aspects of the Company. All Board committees of the Company are established with defined written terms of reference.

The written terms of reference for each Board committee are in compliance with the GEM Listing Rules and they are posted on the respective websites of the Stock Exchange and the Company.



# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES *(Continued)*

### Audit Committee

The Board has established the Audit Committee. It currently comprises three independent non-executive Directors, namely Ms. Shen Yan (Chairlady), Ms. Dong Hairong and Ms. Huo Qiwei. None of the members of the Audit Committee is a former partner of the auditor of the Company.

The principal duties of the Audit Committee are to assist the Board in reviewing the financial information, overseeing the Company's financial reporting system, risk management, internal control systems and relationship with external auditor, and arrangements to enable employees of the Company to raise concerns under the protection of confidentiality about possible improprieties in financial reporting, internal control or other matters of the Company.

Appropriate policies and controls have been designed and established to ensure that assets are safeguarded against improper use or disposal, relevant laws, regulations and rules are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed. The systems and internal controls can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

During the Year, the Audit Committee held four meetings for the purposes of reviewing the quarterly, interim and annual financial results and reports and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, and the other matters in accordance with the Audit Committee's written terms of reference. The Group's audited annual results for the year ended 31st December 2020 have been reviewed by the Audit Committee.

### Remuneration Committee

The Board has established the Remuneration Committee. It currently comprises one executive Director and three independent non-executive Directors, namely Ms. Shen Yan (Chairlady), Mr. Zhu Jiang, Ms. Dong Hairong and Ms. Huo Qiwei. The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the remuneration policy and structure for all Directors and senior management and approval on the terms of executive Directors' service contracts; and establishing a formal and transparent procedure for developing remuneration policy and to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

During the Year, the Remuneration Committee held one meeting to review and make recommendation to the Board on the remuneration packages of the Directors and other related matters in accordance with the Remuneration Committee's written terms of reference.

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the member(s) of the senior management by band for the year ended 31st December 2020 is set out below:

Remuneration band	Number of individuals
HK\$1,000,001 to HK\$1,500,000	1
HK\$2,000,001 to HK\$2,500,000	1

Further particulars regarding Directors' emoluments are set out in note 11 to the consolidated financial statements.

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES *(Continued)*

### Nomination Committee

The Board has established the Nomination Committee. It currently comprises one executive Director and three independent non-executive Directors, namely Mr. Li Qiang (Chairman), Ms. Shen Yan, and Ms. Dong Hairong and Ms. Huo Qiwei. The primary functions of the Nomination Committee include reviewing the Board's structure, size and composition of the Board, identifying individuals suitably qualified to become Board members, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

According to the Nomination Policy of the Company, appointments of Board members will be made on a merit basis and candidates will be considered against objective criteria. The selection criteria used in assessing the suitability of a candidate include:

- the candidate's academic background and qualifications (including professional qualifications, skills and knowledge which are relevant to the Company's business and corporate strategy);
- the candidate's relevant experience in the industry;
- the candidate's character and integrity;
- the candidate's willingness and capacity to devote adequate time in discharge of a Director's duties;
- whether the candidate can contribute to the Board a diversity of perspectives;
- Where the candidate is proposed to be appointed as an independent non-executive Director whether the candidate is in compliance with the criteria of independence under the GEM Listing Rules; and
- any other factors as may be determined by the Board from time to time.

In terms of nomination procedures, any Board member may nominate or invite a candidate for appointment as a Director to be considered by the Nomination Committee. The Nomination Committee will then evaluate the personal profile of the candidate based on the selection criteria set out above, undertake due diligence in respect of such candidate and make recommendation for the Board's consideration and approval. For nomination of independent non-executive Director, the Nomination Committee will also assess the candidate's independence in accordance with the CG Code and the GEM Listing Rules. For re-appointment of retiring Directors, the Nomination Committee will review the candidate's overall contribution and performance (including the candidate's attendance at Board committee meetings, Board meetings and general meetings, his/her level of participation and performance on the Board), and make recommendations to the Board and Shareholders for re-election at general meetings.

During the Year, the Nomination Committee held one meeting to review and make recommendation to the Board on the retirement by rotation of Directors in the 2020 AGM and other related matters in accordance with the Nomination Committee's written terms of reference.

# CORPORATE GOVERNANCE REPORT

## AUDITOR'S REMUNERATION

The remuneration in respect of audit and non-audit services provided by the auditor, Mazars CPA Limited, to the Group in the year 2020 amounted to HK\$1,550,000 and HK\$143,000 respectively. Non-audit services were mainly related to professional services in connection with interim financial information.

## COMPANY SECRETARY

The Company Secretary is Dr. Liu Wei. He has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge in 2020.

## DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Directors acknowledge their responsibility for the preparation of consolidated financial statements of the Group for the year ended 31st December 2020, which give a true and fair view of the financial position of the Group on a going concern basis. Statements of Directors' responsibilities for preparing the consolidated financial statements and external auditor's reporting responsibilities are set out in the "Independent Auditor's Report".

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining the Company's internal control system and risk management procedures and for reviewing the effectiveness of these controls annually.

To enhance corporate governance, the Group implements internal control and audit supervision to reduce operating risks. The Group has established an Internal Audit system in accordance with relevant regulations. Internal audit is an independent consultation, evaluation, control and supervision activity carried out within the Group. Through systematic and standardized methods, the Group reviews and evaluates within various departments of their operating activities and target achievement, the establishment and implementation of internal control, the utilization of resources, etc.. It also provides relevant analysis, recommendations, assistance, and supervision for management personnel to perform their duties in due diligence.

During the Year, the Directors has continuously reviewed and are satisfied with the effectiveness of the Group's risk management and internal control systems, including, in particular, financial, operational and compliance controls and risk management functions, to safeguard the Group's assets against unauthorised use or disposition, and to protect the interests of the Company and the Shareholders as a whole.



# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS' RIGHTS

The annual report, interim report and quarterly reports offer comprehensive information to the Shareholders on operational and financial performance whereas AGM provide a forum for the Shareholders to exchange views directly with the Board. The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board.

According to the Bye-laws, any 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 carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a special general meeting (the "SGM") to be called by the Board for the transaction of any business specified in such requisition. The requisition must be lodged with the registered office of the Company. The written requisition (i) must state the purposes of the SGM, and (ii) must be signed by the requisitionists and deposited at the principal place of business of the Company in Hong Kong for attention of the Board or the Company Secretary, and may consist of several documents in like form, each signed by one or more requisitionists. Such meeting shall be held within two (2) months after the deposit of such requisition. Such requisitions will be verified by the Company's branch share registrars and upon their confirmation that the requisition is proper and in order, the Company Secretary will inform the Board to convene a SGM by serving sufficient notice to all Shareholders. On the contrary, if the requisition has been verified as not in order, the requisitionists will be advised of this outcome and accordingly, the SGM will not be convened as requested.

As regards to proposing a person for election as a Director, please refer to the procedures as set out in the Bye-laws on the respective websites of the Stock Exchange and the Company.

Shareholders may send written enquiries or requests in respect of their rights to the principal place of business of the Company in Hong Kong and for the attention of the Company Secretary.

## INVESTOR RELATIONS

The Company establishes different communication channels with investors to update the latest business development and financial performance including the publication of quarterly, interim and annual reports, the publish and posting of notices, announcements and circulars on the GEM website and the Company's website in order to maintain a high level of transparency, and to ensure there is no selective disclosure of inside information.

## CONSTITUTIONAL DOCUMENTS

Pursuant to rule 17.102 of the GEM Listing Rules, the Company has published its Bye-laws on the respective websites of the Stock Exchange and the Company. During the Year, no amendments were made to the constitutional documents of the Company.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Board is pleased to submit the Group's environmental, social and governance report for the year ended 31st December 2020. The contents of the report are in compliance with the relevant requirements of the Environmental, Social and Governance Reporting Guide set out in Appendix 20 to the GEM Listing Rules.

## 1. ABOUT THIS REPORT

### Reporting Scope

This environmental, social and governance ("ESG") Report (the "Report") captures the Group's information from 1st January 2020 to 31st December 2020 (the "Year"). This Report covers the principal places of operations and business scope of the Group which represent the Group's major source of revenue and business operations that are more relevant to the environment, society and governance:

- Beijing headquarters office (the "Beijing Headquarters");
- Zhongshan factory (the "Zhongshan Factory")<sup>1</sup>; and
- Hong Kong office<sup>2</sup>

<sup>1</sup> In 2018, the Zhongshan Factory outsourced the entire production process to contractors, and the Zhongshan Factory is mainly responsible for monitoring the external contractors' performance. Therefore, the Report covers the information about daily operations of the factory only.

<sup>2</sup> Covers the information about manpower resources of the office only.

### Data Source and Reliability Assurance

The data and information in this Report are mainly from the documents, reports and statistics relevant to the Group. The Board undertakes that this Report contains no false statements or misleading statements and is responsible for the truthfulness, accuracy and completeness of its contents.

### Confirmation and Approval

The Report was approved by the Board on 19th March 2021 upon confirmation by the management.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 1. ABOUT THIS REPORT *(Continued)*

### Reporting Principles

This Report is one of the communication channels through which the Group connects with our stakeholders. It discloses the ESG information that is meaningful and important to the stakeholders and helps them in decision-making. In this regard, the Group has complied with the Environment, Social and Governance Reporting Guide (the “Guide”) as set out in Appendix 20 to the GEM Listing Rules in compiling this Report. The Group has taken the following reporting principles into account in preparation of this Report:

- **Materiality:** The Group performed a materiality review based on stakeholders’ opinions that determined material ESG aspects to the Group and guided the focus of this Report.
- **Quantitative:** The Group records and estimates quantitative data, and compares with past performance where feasible. To ensure the accuracy of the key performance indicators, the quantitative data on in this Report are based on the statistical records of relevant departments of the Group.
- **Balance:** To provide an unbiased picture of the Group’s performance, the Group disclosed both our achievements and room for improvement in fair disclosure regarding ESG.
- **Consistency:** Since 2016, the Group has complied with the Guide in reporting. If there are any changes that may affect the comparison with previous reports, the Group has made explanatory notes to the corresponding section hereof.

### Your Feedback

The Group’s continuous improvement relies on your valuable feedback on both the content and the form of the Report. If you have any questions or comments, please send us your views via [webadmin@yuxing.com.cn](mailto:webadmin@yuxing.com.cn) to help us with continued improvement in ESG performance of the Group.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2. SUSTAINABILITY GOVERNANCE

### The Core of Our Culture

The Group always sees its corporate doctrines “Integrity and transparency, strict self-discipline, mutual trust and highly accountable” as the core of its corporate culture. We operate with honesty and truthfulness because we uphold integrity, and that is what our corporate culture has always been rooted in. We are always innovative that empowers the Group to grasp every opportunity in the storms of the past, so that the business of the Group is continuously and firmly growing.

### Internal Control and Risk Management

Good corporate governance is material to the long-term health of the Group. The Group is committed to attaining and maintaining high standards of corporate governance and adopts principles of corporate governance emphasising quality Board, accountability to all stakeholders, open communication and fair disclosure.

The Board assumes the leadership and supervisory role of the Group, and leads the Group to formulate and achieve long-term strategies and goals. To enhance corporate governance, the Group implements internal control and audit supervision to reduce operating risks. The Group has established the “Internal Audit system” in accordance with relevant regulations. Through systematic and standardised methods, the Group reviews and evaluates various departments’ operating activities and target achievement, the establishment and implementation of internal control, the utilisation of resources, etc.. It also provides relevant analysis, recommendations, and assistance supervising the management personnel to perform their duties in due diligence. During the Year, the Directors have continuously reviewed and are satisfied with the effectiveness of the Group’s risk management and internal control systems, including, in particular, financial, operational and compliance controls and risk management functions, to safeguard the Group’s assets against unauthorised use or disposition, and to protect the interests of the Company and the Shareholders as a whole.

In response to the risks and opportunities of sustainable development, the Group holds regular management meetings to assess the ESG risks in various aspects of the Group’s operations, and formulates relevant improvement measures for supply chain, working environment and resource allocation based on the identified risks.

Looking ahead, the Group integrates the concept of sustainable development as an essential operating strategy into its values and corporate culture. The Group’s sustainable development culture lies in its corporate decisions and operating strategies, including the continued stringent requirements for external contractors to comply with the European Union’s (the “EU”) lead-free and non-toxic processes, and establishment of a comprehensive environmental management system to promote environmental protection, implementation of EU’s Restriction of Hazardous Substances (the “RoHS”) Directive in the production processes, as well as to ensure our contractors’ consideration of environmentally-friendly design and alignment of international standards during product development stages. Meanwhile, the Group has internally established an internationalised standard for environmental and social responsibility management, which continually improves the awareness of sustainability, and strives to mitigate the environmental impacts and effects arising from the Group’s operations. These aim to address the climate change, alleviate the scarcity of resources, and achieve towards the prospect for sustainable development.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3. ENGAGEMENT AND COMMUNICATION WITH STAKEHOLDERS

The Group has been using different kinds of communication channels to listen to our stakeholders' views at the ESG aspects and communicate with them on various ESG issues on an ongoing basis. The Group always believes that listening to the opinions of various stakeholders helps us to objectively and comprehensively assess the Group's ESG performance.

During the Year, the Group conducted an internal materiality assessment on relevant ESG issues, with the following topics of concern of the major stakeholders. The Group endeavors to communicate with key stakeholders to ensure that issues of their concerns are taken seriously by the Group, thereby to establish appropriate and open communication mechanisms to maintain communication with each of them:

Major stakeholders	Concerns	Communication means
Investors	<ul style="list-style-type: none"> <li>• Transparency of information</li> <li>• Return on investment</li> <li>• Protection of rights and interests</li> </ul>	Stakeholder communication is maintained in close, transparent and efficient manner, through periodic investor meetings, AGMs, email, investor mailbox and announcements, etc..
Customers	<ul style="list-style-type: none"> <li>• Transparency of information</li> <li>• Product quality</li> <li>• Opinion and complaint handling</li> </ul>	After-sales service hotlines are set up for customers to express their opinions. In case of complaints, the staff of the Service Department will properly respond as soon as possible.
Employees	<ul style="list-style-type: none"> <li>• Benefit and compensation</li> <li>• Equal opportunity</li> <li>• Health and safety</li> </ul>	Employment and employee benefit systems have been formulated. Training is in place to improve employees' awareness on occupational safety and health.
External contractors	<ul style="list-style-type: none"> <li>• Fulfillment of integrity</li> <li>• Mutual benefit</li> <li>• Joint development</li> </ul>	Open and transparent procurement policies are established through email and meetings from time to time to achieve mutual benefit with contractors.
Community	<ul style="list-style-type: none"> <li>• Coordinated community development</li> </ul>	Communication with local governments and residents through the Group's website to understand the needs of the community where the business operates.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3. ENGAGEMENT AND COMMUNICATION WITH STAKEHOLDERS *(Continued)*

Through the communication with stakeholders, the following issues are identified which are important to the sustainable development of the Group. Those issues are classified as the sustainable development focuses of the Group.

<b>Environmental</b>	<b>Social</b>
<ul style="list-style-type: none"><li>• Emissions</li><li>• Use of Resources</li><li>• Environmental and Natural Resources</li><li>• Climate Change</li></ul>	<ul style="list-style-type: none"><li>• Employment</li><li>• Health and Safety</li><li>• Development and Training</li><li>• Labour Standards</li><li>• Supply Chain Management</li><li>• Product Responsibility</li><li>• Anti-corruption Policies</li><li>• Community Investment</li></ul>

Based on such results, the Company will continuously improve the ESG performance of the Group to meet the expectation of stakeholders. In future, the Group will continue and expand stakeholder engagement to enhance the materiality analysis, and will collect a diverse range of stakeholders' views through various activities.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 4. ENVIRONMENT

Global climate change is currently one of the most concerned environmental topics amongst the United Nations and various governments. Abnormal weather across the globe in recent years, such as super typhoon, rainstorm, flood, drought, abnormal high temperature, etc., are closely related to the annual increase in greenhouse gases. The Group has long been committed to environmental protection management projects, requiring external contractors to attain international environmental certifications such as the ISO14001 Environmental Management System, adopting the holistic environmental assessment, complying with legal and regulatory requirements, inspection of raw materials and chemical substances being used, assessment on use of energy resources and safety of environmental facilities, which reduce the impact on the environment. It is obligated to effectively utilise resources and control greenhouse gas emissions.

### 4.1. Emissions

The Group understands that it is facing various environmental challenges including climate change, water scarcity and pollution, and the exhaustion of the Earth's natural resources. As a responsible corporation, the Group actively responds to the global trend of emission reduction and is committed to avoid generating emissions such as exhaust gases, greenhouse gases, sewage and solid waste in its daily operations and to seek innovative technologies and new products to enhance environmental performance constantly.

The Group has implemented a series of environmental protection policies and measures with reference to the "Environmental Protection Law of the PRC", the "List of National Hazardous Wastes" and "Water Law of the PRC". We also assess the operation of the external contractors regularly in order to improve the environmental management system of the Group in all aspects as set out below:

#### *Exhaust Gas Monitoring*

The Group's major source of exhaust gases is those generated from the travelling with vehicles. The Group sends its vehicles to inspection station regularly to make sure the vehicles' exhaust are tested with satisfactory result, to effectively control and reduce the exhaust gas emissions of various facilities.

The table below sets forth the volume of exhaust gas emissions by the Group during the Year:

	Beijing Headquarters	Zhongshan Factory
Nitrogen oxides (NOx) (kg)	40.64	0.384
Sulphur oxides (SOx) (kg)	0.092	0.008
Particulate matters (PM) (kg)	3.89	0.028

#### *Reduction in Greenhouse Gas Emissions*

The Group understands that regular review and monitoring of the performance of various greenhouse gas emissions sources are essential to assist in the review of the effectiveness of environmental protection measures. During the Year, the total direct and indirect greenhouse gas emissions generated by the Beijing Headquarters reduced by approximately 23% compared to the reporting year of 2019, respectively, while that of the Zhongshan Factory increased by approximately 16% compared to the reporting year of 2019.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 4. ENVIRONMENT *(Continued)*

### 4.1. Emissions *(Continued)*

#### *Reduction in Greenhouse Gas Emissions (Continued)*

The table below sets out the greenhouse gas emissions in total and intensity during the Year:

	<b>Beijing Headquarters</b>	<b>Zhongshan Factory</b>
	(tonnes carbon dioxide equivalent)	
Direct greenhouse gas emissions <sup>i</sup> (Scope 1)	59.46	1.24
Indirect greenhouse gas emissions <sup>i</sup> (Scope 2)	167.79	8.45
Other indirect greenhouse gas emissions	35.41	N/A
<b>Total greenhouse gas emissions</b>	<b>262.66</b>	<b>9.69</b>
<b>Greenhouse gas emission intensity<sup>ii</sup></b> <b>(tonnes carbon dioxide equivalent/person)</b>	<b>2.71</b>	<b>0.88</b>

*Notes:*

<sup>i</sup> The greenhouse gas emission factors listed in the table above are calculated in accordance with the 2006 IPCC Guidelines for National Greenhouse Gas Inventories.

<sup>ii</sup> To ensure consistent disclosure of statistics in this Report, the base unit for the calculation of emissions intensity of the Beijing Headquarters and the Zhongshan Factory is “number of employees”.

Scope 1: Direct greenhouse gas emissions refer to emissions directly from sources owned or controlled by the Group, such as vehicles.

Scope 2: Indirect greenhouse gas emissions refer to indirect greenhouse gas emissions caused by external purchase of electricity.

#### *Business Travel Reduction*

The Group thoroughly understands that business travel will increase energy consumption, leading to increase in emissions of greenhouse gases. Therefore, the Group actively reduces the number of business trips of employees to reduce the resulted greenhouse gas emissions. The Group also encourages employees to communicate in a green manner, for example, to replace long-distance travel for face-to-face meetings by video and phone conferences so as to reduce greenhouse gas emissions caused by extra transportation.

#### *Support Procurement from Local Suppliers*

The Group is committed to reducing the exhaust gas emissions and energy consumption arising from transportation. Under situation in compliance with hardware and software conditions (such as cost, quality, directives on restrictions on the use of certain harmful substances in electrical and electronic equipments (RoHS), technology and services, and environmental protection, etc.), the Group actively encourages external contractors to prioritise the use of products from local suppliers as far as possible, with the aim to reduce the transportation distance of goods and hence the emissions of exhaust gases and greenhouse gases.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 4. ENVIRONMENT *(Continued)*

### 4.1. Emissions *(Continued)*

#### *Waste Reduction Control*

“Fully-classified, Zero Waste” is the Group’s ultimate waste management goal. The Group is committed to the adoption of waste and resource management strategies. In addition to source management measures for achieving waste reduction, such as minimising the use of raw materials and development of green production technologies, the Group also actively promotes waste reuse in order to implement the waste resource recycling “3R” principle (i.e. Reduction, Reuse and Recycling) for reduction of waste treatment cost.

The Group’s three operational locations are all offices, waste generated by these offices can be attributable to general waste from office, such as office paper, courier bags and packaging boxes, so our operations do not produce hazardous wastes. Each office has installed recycle bins for segregation of reusable materials, to minimise the potential environmental hazards caused by wastes to air, land and water sources. In addition, the Group has serious concern about its external contractors’ environmental management across the product life cycle such as procurement, production and disposal after use, to actively reduce the waste volume and fulfil its corporate social responsibilities. Therefore, the Zhongshan Factory also encourages external contractors to handle hazardous wastes through legal means. For the disposal of non-hazardous waste, the Group continues to actively promote green office operation and encourages employees to implement the 3R principle, this facilitates environmental protection becomes self-awareness behavior of employees: (1) Waste Reduction (Reduce): print on both sides to reduce consumption of paper; (2) Reuse: reuse waste paper, print on the other side of the used paper; and (3) Recycle: proper classification and clean recycling. During the Year, the Group gave obsolete computers to employees, and took part in a product recovery activity “Kwun Tong Community Green Station”, in where obsolete computer was donated to the people in need.

### 4.2. Use of Resources

As a social-responsible corporation, the Group always insists on the operation philosophy of “priority in conservation, governance at source”. The Group has promoted the use of energy-saving, highly-efficient and environmental-friendly construction equipment, machinery and office supplies recommended by the countries and the industries. Thus, we have implemented appropriate measures to enhance the efficiency of resources utilisation, and continuously update the latest environmental news to optimise the existing services, so as to reduce environmental pollution.

#### *Energy Conservation*

For the aspect of energy conservation, the Group adopts different strategies to actively mitigate damage to the ecological environment.

#### **Energy Conservation Measures**

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- (1) LED lighting systems in the Beijing Headquarters and the Zhongshan Factory have been improved over the past years. The Group conducts regular repair and maintenance works for the office equipment to keep the equipment in low consumption and highly efficient condition.
  - (2) Educate employees to properly use electrical equipment in the office, such as lights, fans, air conditioners and computers. Thoroughly check that all energy-consuming equipments are turned off when not in use or before going off work. In addition, the Group promotes energy conservation and emission reduction, that fosters work habits of energy conservation and environmental protection among employees.
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# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 4. ENVIRONMENT *(Continued)*

### 4.2. Use of Resources *(Continued)*

#### *Water Conservation Policies*

Water is one of the most important natural resources. In order to cherish the precious water resources, the Group makes every effort to minimise the water resources used in its business operations. The Group has not identified any problem with the applicable water source and has no difficulty in water supply during its day-to-day operations. Daily water consumption is accessed through the municipal water supply system, and is mainly for the purpose of office and domestic use. There is no self-contained underground water or water from other natural sources. The Group constantly reminds employees to conserve water, such as by putting up water conservation labels in washrooms, employee canteens and rest areas, which include message of “after hand-washing, please turn off the tap” and “saving water, everybody’s responsibility”. Should water leakage or aging of equipment and accessories be found, timely repair or replacement by dedicated personnel would be arranged to reduce water consumption.

#### *Policies for Reduction of Packaging Material Waste*

Since the Beijing Headquarters, the Zhongshan Factory and the Hong Kong office maintain office operations only, during the Year, there was no packaging material waste generated. Nevertheless, the Group still advocates avoiding excessive use of packaging materials and encourages external contractors to integrate green packaging concepts into the packaging design process during the product development stage. This minimised the impacts of the products on the environment throughout their life cycles. At the same time, the Group encourages external contractors to prioritise production technologies featuring less environmental pollution and less waste generation at the process of material sourcing while actively improves to reduce pollution from wastes as well as consumption of energy and resource.

The table below sets forth the total volume and intensity of consumption<sup>i</sup> by the Group of major resources during the Year:

	<u>Beijing Headquarters<sup>ii</sup></u>	<u>Zhongshan Factory<sup>ii</sup></u>
Gasoline consumption by mobile sources (litre)	6,235.83	547.53
Consumption intensity (litre/person)	64.29	49.78
Natural gas consumption (cubic metres)	20,640.00	N/A
Consumption intensity (cubic metre/person)	212.78	N/A
Power consumption of facility (thousand kWh)	173,337.58	10,102.76
Consumption intensity (thousand kWh/person)	1,786.99	918.43
Water consumption (cubic metre)	2,033.53	252.51
Consumption intensity (cubic metre/person)	20.96	22.96

#### *Notes:*

<sup>i</sup> To ensure a consistent disclosure statistics in this Report, the base units for the calculation of consumption intensity of the Beijing Headquarters and the Zhongshan Factory is “number of employees”.

<sup>ii</sup> The Beijing Headquarters and the Zhongshan Factory are engaged in office operation. Therefore, its business operation for the Year did not involve generation of packaging materials for finished products.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 4. ENVIRONMENT *(Continued)*

### 4.3. Environmental and Natural Resources

The Group integrates environmental responsibility into its daily business operations. As such, we promote green operations and a green procurement policy to reduce its environmental impact and consumption of natural resources.

#### *Green Procurement*

In order to reduce the emissions and energy consumption due to the transportation, the Group will encourage external contractors to prioritise in selecting local suppliers if they are qualified for the Group's software and hardware conditions, with an aim to avoid additional carbon emissions resulting from the need to transport goods over long distances. When local suppliers are selected, we also encourage external contractors to adopt a centralised approach to arrange as few deliveries as possible, and optimise delivery plans to reduce exhaust emissions during transportation. Meanwhile, when it is necessary to acquire or upgrade equipments, we will make reference to the information on the energy label to select energy-efficient models as far as possible in order to achieve better energy management efficiency.

#### *Selection of Environmentally Friendly Materials*

In order to ensure that the hazardous materials contained in the products meet the international requirements, all materials used by the Group's external contractors must comply with the RoHS Management Regulations which stipulates hazardous substances in electronic and electrical equipment. In this regard, the Group monitors external contractors on the use of RoHS-compliant materials as the raw materials for production, ensuring that the electronic and electrical products developed by the external contractors comply with the RoHS regulations.

#### *Green Operations*

A comprehensive environmental management system is the cornerstone for the Group to practice green development. In addition to strictly abiding by environmental laws and regulations, the Group is also committed to promoting green operations and development. The Group actively has close cooperation with external contractors to promote the environmental awareness, and requires the external contractors to fully formulate and complete assessment of the ISO 9001 Quality Management System and ISO 14001 Environmental Management System based on their actual operating conditions. Through effective enforcement and implementation, this jointly achieved the Group's sustainable development goals.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 4. ENVIRONMENT *(Continued)*

### 4.3. Environmental and Natural Resources *(Continued)*

#### *Green Office*

The Group is also highly concerned about resources consumption in offices and ensures minimal environmental impact from its operations. The Group continued to actively promote green office operation and encouraged employees to implement the 3R principle, this facilitates environmental protection to become self-awareness behavior of employees: (1) Waste Reduction (Reduce): print on both sides to reduce consumption of paper, use energy-saving office equipment, and carry out environmentally friendly procurement; (2) Reuse: reuse waste paper, print on the other side of the used paper; and (3) Recycle: proper classification and clean recycling. In daily operation, the enhanced use of electronic files was advocated and the printed files were replaced by computer files. This also includes the use of the CloubHub OA electronic approval system since 22nd January 2018 for maximizing the paperless office implementation and resources sharing to reduce the use of printed files.

In addition, the Beijing Headquarters and Hong Kong office would plant small pots in the office to help clean the air and make the office green. The Group issues energy conservation notices from time to time in the office to raise employees' concern on environmental protection, and posts slogans in prominent places to remind them to save energy, such as turning off the lights and computers in their responsible areas before getting off duty.

#### *Raising awareness*

To ensure that employees implement the Group's environmental protection philosophy in their daily work, all new employees will go through the training in environmental protection. In addition, the Group also encourages employees to actively participate in designing of various energy conservation and energy consumption reduction programmes, with the aim of enhancing all employees' environmental protection awareness.

### 4.4. Climate Change

In the context of the global crisis of climate change, how companies supporting the people's livelihood and the economy being affected by climate change comes to a key question nowadays. The Group continues to remain vigilant and is well prepared for risk management to mitigate physical and transition risks due to climate change. One of our major operational locations, the Zhongshan Factory, is more susceptible to typhoons, the Group checks the window condition regularly. Before typhoons, the Group will keep the windows closed and follow the instructions announced by local government, to ensure suitable precautionary measures are taken.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 5. SOCIAL

### 5.1. Employment

The success of our business depends on the untiring efforts and dedicated service of all employees. The Group understands that the recruitment, retention and cultivation of talents can help maintain its market competitiveness. The Group has formulated a series of employment policies to ensure that employees are treated in a fair and reasonable manner.

#### *Recruitment, Promotion and Equal Opportunity*

The Group has regular reviews for the demand and requirements for human resources with each business function head in order to secure enough staff members for the positions required and to keep the normal business operations and development. In addition, the Group has implemented a unified recruitment process with high transparency to ensure the righteousness, openness and fairness upheld throughout the recruitment and employment processes. The relevant systems and methods of the Group such as “Management Regulations on Prohibiting Discrimination” and “Human Resources Management Procedures” are developed according to the “Labour Law of the PRC”, the “Labour Contract Law of the PRC” and the “Employment Ordinance of Hong Kong”. We follow the principles of fairness, equality, and openness to employ outstanding talents through a variety of methods. Moreover, the Group treats all employees equally and consideration for issues such as employment, salary, welfare, bonus, promotion and dismissal are solely based on their education background, professional qualifications and competence.

#### *Work-Life Balance*

Employees are the most important core asset of the Group. In addition to operating its business diligently and addressing to the needs of employees, the Group pays close attention to employees’ work and life balance. After unwinding the employees’ lives, this would enhance the overall operating efficiency of the Group. Therefore, the Group shall comply with the “Labour Contract Law of the PRC” and the “Employment Ordinance of Hong Kong” to safeguard employees’ working hours and rest days.

#### *Compensation and Retirement Arrangement*

As a responsible employer, the Group initiates compensation and retirement arrangements, including the payment for loss, compensation and plans for retirement arrangement, in accordance with the relevant laws and regulations, such as the “Labour Law of the PRC”, the “Labour Contract Law of the PRC” and the “Employees’ Compensation Ordinance of Hong Kong”.

#### *Anti-discrimination*

Amongst all stages from recruitment, promotion, development, punishment, welfare and termination of labour contracts, the Group prohibits any discrimination arising from race, colour, nationality, language, wealth, social origin, social status, age, gender, sexual orientation, ethnicity, disability, pregnancy, religion, political affiliation, members of communities or marital status, so as to ensure the diversity of employees.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 5. SOCIAL (Continued)

### 5.1. Employment (Continued)

#### Employee Benefits

The Group has developed a comprehensive annual salary review mechanism. We consider the research result for salary review in job market in addition to the business performance, employee's duties and their annual performance appraisals for appropriate adjustment for remuneration, to provide employees with fair and competitive remuneration packages. The Group provides its employees with relevant benefits according to the standards by Ministry of Human Resources and Social Security of the PRC as well as the Labour Law, such as, to make contribution to medical insurance for employees, provide them with statutory leave and vacation, and paternity and maternity leaves additional to the legal regulations. The Beijing Headquarters offers five types of social insurances and one housing fund, namely, pension insurance, medical insurance, work injury insurance, unemployment insurance, maternity insurance and housing provident fund.

The table below sets forth the number and distribution of employees of the Group during the Year:

	Beijing Headquarters	Zhongshan Factory	Hong Kong office
<b>Gender</b>			
Male	63	5	10
Female	34	6	13
<b>Employment category</b>			
Full-time	96	11	23
Part-time	1	0	0
Temporary	0	0	0
<b>Region</b>			
Mainland China	97	11	0
Hong Kong, the PRC	0	0	23
<b>Employee age</b>			
15 – 24	3	0	0
25 – 34	29	0	7
35 – 44	33	11	3
45 – 54	27	0	10
55 – 64	5	0	3
> 65	0	0	0
<b>Total</b>	<b>97</b>	<b>11</b>	<b>23</b>

*Note:* The total number of employees in the above table is calculated as the number of employees on the first day of the year + the number of new employees as at the end of the year – the number of resigned employees as at the end of the year.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 5. SOCIAL *(Continued)*

### 5.1. Employment *(Continued)*

#### *Employee Benefits (Continued)*

The table below sets forth the turnover rate for various categories of employees per total employees of the respective principal places of operations of the Group for the Year:

	Beijing Headquarters	Zhongshan Factory	Hong Kong office
<b>Gender</b>			
Male	4.2%	0.0%	0.0%
Female	1.0%	0.0%	0.0%
<b>Employee age</b>			
15 – 24	0.0%	0.0%	0.0%
25 – 34	2.1%	0.0%	0.0%
35 – 44	1.0%	0.0%	0.0%
45 – 54	0.0%	0.0%	0.0%
55 – 64	2.1%	0.0%	0.0%
> 65	0.0%	0.0%	0.0%
<b>Region</b>			
Mainland China	5.2%	0.0%	0.0%
Hong Kong, the PRC	0.0%	0.0%	0.0%

### 5.2. Health and Safety

Human resources are most valuable to the Group, of which occupational health and safety is a priority. The Group strive to create the safest and most suitable working environment and to achieve the goal of zero work accidents. Various measures are taken to prevent occupational diseases and industrial casualties. The Group is committed to achieving the goal of zero accident by preventing the occurrence of occupational diseases and industrial casualties with different measures.

#### *Responding to Risks of Epidemic Outbreaks*

In the beginning of 2020, the COVID-19 pandemic has swept across the world. As a responsible employer, the Group has been on the “strict internal control and external prevention” strategic direction. To protect the health and safety of our employees, the Group has strictly implemented the inspection and isolation of employees’ who show symptoms and require all the personnel entering the factories and offices to wear masks, measure the body temperatures and show health code. Close contact with any person who is infected with COVID-19 must be placed in quarantine and get nucleic acid tests. In addition, there are also people responsible for cleaning dormitories every day and regularly disinfecting the environment and facilities. The Group has purchased masks and distributed to employees who work at the Hong Kong office, arranges flexible working hours and provides employees with disinfecting products. Also, we encourage employees to participate in the Universal Community Testing Programme.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 5. SOCIAL *(Continued)*

### 5.2. Health and Safety *(Continued)*

#### *Occupational Health and Safety*

To allow employees to focus on work, in addition to providing various insurance and benefits as well as retirement funds in accordance with the laws, the Group also subsidises employees each year to visit professional health check-up centres for medical examinations and provides them with medical insurance, that safeguards employees' safety on their work and life.

#### *Safety Management of Workplace*

The Group attaches great importance to workplace safety, and includes the internal requirements as follows with reference to the "Work Safety Law of the PRC", the "Fire Protection Law of the PRC" and the "Fire Services Ordinance of Hong Kong":

1. The layout of the workplace should be reasonable, kept clean and tidy;
2. The aisles should be flat and unblocked, lighting should be adequate; and
3. Fire facilities must be installed and fire extinguishers must be put in the workplace.

#### *Employee Safety Training*

The Group has formulated appropriate training guidelines, which facilitates the provision of appropriate training to employees, including information such as occupational health knowledge and cases, introduction of fire evacuation routes, these familiarise employees with escape routes in emergency situations.

#### *Communication with employees*

The Group employs a variety of communication channels, such as notice board and corporate social networks, to promote occupational safety among its employees. These channels can also be used to issue accident warnings to business teams, so as to facilitate our employees to acquire necessary information on health, safety and environmental protection in an efficient manner. We collect health and safety information regularly, and display such information in intranet or send it to employees via email for their reference, so as to create a safe working environment for our employees.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 5. SOCIAL *(Continued)*

### 5.2. Health and Safety *(Continued)*

#### *Communication with employees (Continued)*

The table below sets forth the rate of work-related fatalities and the number of working days lost due to work injuries during the Year. These two key performance indicators are zero, demonstrating the Group's achievements in actively promoting occupational health and safety.

	Beijing Headquarters			Zhongshan Factory			Hong Kong office		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Ratio of work-related employee fatality	0	0	0	0	0	0	0	0	0
Number of working days lost due to work-related injuries of employees	0	0	0	0	0	0	0	0	0

### 5.3. Development and Training

#### *Career Development*

To maintain competitiveness in the world of rapid development of technology, the Group believes that it is important to keep our skills and knowledge up-to-date. Therefore, the Group promotes the spirit of life-long learning and cultivates a continuous learning culture. To further improve team values and professionalism of staff, the Group devises training packages for our employees and encourages them to actively participate in various training workshops and courses.

#### *Induction Training*

In order to assist our newly recruited employees to adapt to the Group's work culture and environment, the Group provides induction training for them, the training covers information about our corporate culture, employee handbooks, job skills and relevant safety knowledge etc. with an aim of enhancing their understanding of the Company, their position and working environment.

#### *Vocational Skills Training*

In an effort to build a professional and technical team, the Group has arranged training courses for its employees to meet the needs of different jobs and ranks, so as to improve their professional knowledge, skills and capabilities. The Group encourages and subsidises its employees to attend external courses, such as professional qualification trainings, workshops or seminars, in order to strengthen the overall professionalism and individual calibre of employees, and help competent employees to pursue excellence and grow together with the Company.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 5. SOCIAL *(Continued)*

### 5.4. Labour Standards

#### *Child Labour Prevention*

Pursuant to related systems and methods issued including “Management Regulations on Child Labour” and “Underage Worker and Human Resources Management Procedures”, the Group strictly prohibits the recruitment of child labour and will not tolerate forced labour. In accordance with the “Regulations of the PRC on Special Protection of Under-age Workers” and the “Employment Ordinance of Hong Kong”, as well as the corresponding laws and regulations in various overseas regions, the Group would verify the identity certificates of applicants in various stages such as employee recruitment, on-the-job approval, and on-duty reporting.

#### *Forced Labour Prevention*

During the processes of staff employment, the Group respects the rights of job selection of each employee regarding the freedom of employment, resignation, overtime work, and movement, etc. in accordance with the “Labour Contract Law of the PRC” and the “Employment Ordinance of Hong Kong”. The employment contracts of the Group comply with the requirements of local laws and regulations, specify the rights and responsibilities of both parties, protect employees’ due rights, prohibit any form of forced labour, ensure that all employees work on a voluntary basis, and prohibit the use of any labour or contract labour, corporal punishment, imprisonment, or threats of violence.

### 5.5. Supply Chain Management

A reliable partnership with supplier is an important element for the steady development of the Group’s business. Supplier is one of the major stakeholders who contributes to business value recreation, with tight bonding with the Group. The Group always strives to build up strong relationships with its suppliers. In order to promote suppliers’ business and cooperation, the Group develops a flexible procurement work process standard to meet the different needs of the supply chain.

#### *External Contractor Management*

The Group attaches great importance to the safety of all external contractors’ operators. For outsourced business, the Group requires that its external contractors must strengthen monitoring and management, and recommends that they establish relevant safety management practices and appoint dedicated supervisors. Through providing safety training and safety inspections periodically, messages of safety issues and potential hazards can be communicated properly with external contractors. It also supervises and assists them to enhance safety performance for effective implementation of safety management work.

In terms of product assurance, the Zhongshan Factory of the Group will use different agreements to control the product quality delivered by each external contractor, such as the most commonly used RoHS Agreement. At the same time, the Group requires that external contractors must pass the certification assessment related to ISO 9001 and ISO 14001, which ensure that their management system and environmental protection policies are up to standard and are in line with the Group’s sustainable development goals.

The abovementioned requirements govern the external contractors in different aspects for reducing the supply chain risks, with the aim to assure final products not only meeting the requirements of laws and regulations, but also satisfying the needs of customers.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 5. SOCIAL *(Continued)*

### 5.5. Supply Chain Management *(Continued)*

#### *Sustainable Supply Chain*

The Group puts great emphasis on the sustainability of value chain. While fulfilling our environmental and social responsibilities, the Group also expects the suppliers to operate in the same responsible manner. Accordingly, we incorporate sustainability considerations into our procurement and outsourcing process and require suppliers to meet basic standards. For example, all suppliers are required to abide by the sustainability principles, and to ensure that their full-time and temporary employees, suppliers and sub-supplier's confirm and comply with the requirements of the relevant policies.

### 5.6. Product Responsibility

The Group is highly aware of improving the health and safety performance of products and services is crucial to the long-term business development. In countries where the products are being produced by our external contractors and sold by us, the Group strictly complies with the laws and regulations and assures the external contractors do the same, such as the "Work Safety Law of the PRC", the "Special Equipment Safety Law of the PRC" and the regulations in the regions where the customers located. This assures the products of the Group meet the legal requirements of the business areas and needs of the customers, and hence the delivery of high-quality products to the customers.

During the Year, the Group was not aware of any legal case or complaint against relevant laws and regulations relating to health and safety, advertising, labelling, privacy matters relating to products and services provided, which demonstrates the Group's commitment of operating business with the highest quality standards.

#### *Product Quality Assurance*

The Group strictly monitors product quality. Throughout the process from the input of raw materials to the shipment of products, employees would be appointed to the relevant external contractor's factories to perform quality control for assurance of quality standards. The Group also requires external contractors' operators to be cautious during the production process for preventing shipment of sub-standard products. Employees of the Group would carry out incoming materials inspection in accordance with "Management Regulations on Routine Inspection and Verification Inspection" for assuring all specified parts and components provided by external contractors in compliance with international and local standards before mass production. Through after-sales service quality management, the Group has won the trust of customers and assures that products meet customer expectations.

#### *Fair Marketing*

The Group ensures that the product information on the promotional websites and other promotional materials are true and accurate. Some of the Group's products come with operating manuals, in which the content is supported with reliable evidence. In addition, the Group requires sales personnel to comply with the "Advertisement Law", which requires information that delivered during product promotion simply involves the product advantages confirmed by the Group, but not negative statements related to competitors or their products. These prevent customers from being misled at the time of purchase.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 5. SOCIAL *(Continued)*

### 5.6. Product Responsibility *(Continued)*

#### *After-sales Service*

The Group generally provides free-of-charge repair and maintenance service ranging from 13 to 36 months after product purchased, and a 24-hour service is provided for following up the products under warranty.

#### *Customer Data Protection*

Given the importance of protecting customer data, the Group strictly manages and keeps confidential information and documents related to customer intellectual property, in accordance with the requirements of the internally issued "Non-Disclosure Agreement". Confidential files are managed and stored by a designated department. Without permission, employees are not allowed to copy or save them in private, nor take them away from the company's premises.

During the Year, amongst all products sold, the Group did not identify any case which was required to be returned for product safety and health reasons.

#### *Protection of Intellectual Property Rights*

The Group will not plagiarize the design of other organisations. In the "Non-Disclosure Agreement" signed with employees, employees are not allowed for plagiarism during and after their employment. They are required to maintain confidentiality of the Group's technology and trade secrets, considering all such properties belong to the assets of the Group.

### 5.7. Anti-corruption Policy

To enhance corporate governance, the Group implements internal control and audit supervision to reduce operating risks. The Group has established an internal audit system in accordance with relevant regulations, laws and internal rules such as the "Audit Law of the PRC", "Fundamental Management System under Regulations of the Auditing Department regarding Internal Audit Work" and the "Prevention of Bribery Ordinance of Hong Kong". Internal audit is an independent consultation, evaluation, control and supervision activity carried out within the Group. Through systematic and standardised methods, the Group reviews and evaluates within various departments their operating activities and target achievement, the establishment and implementation of internal control, the utilisation of resources, etc.. It also provides relevant analysis, recommendations and assistance supervising the management personnel to perform their duties in due diligence.

The Group engages a third-party auditing firm to conduct audit, such as financial audit. The independent agency could effectively audit the internal financial records of the Group for verifying them in compliance with the financial requirements of relevant legislations, including authenticity and evidence proving that the Group's operations are true and impartial. In addition, the Group has always been committed to the core values of fair trade and operating with integrity.

The Group strictly abides by relevant laws and regulations related to the prevention of bribery, extortion, fraud and money laundering, such as the "Anti-Unfair Competition Law of China", and there were no violations during the Year.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 5. SOCIAL *(Continued)*

### 5.8. Community Investment

As a responsible business operator, the Group is convinced the necessity for establishing a good relationship with the local communities where the business operates. Apart from adherence to business ethics and continued operational compliance, it also needs to initiate close collaboration and strengthen communication with various community stakeholders. The Group would actively focus on the potential impacts of its operations that may have on local economies, environment, and society, and also exert its own influence, resources and technological advantages for driving local employment and instilling positive energy to the local communities.

## 6. PROSPECTS

Due to the “new condition” of economy led by COVID-19 pandemic, the recent circumstances of economic globalisation and the implementation of China’s “Belt and Road” strategy, the development of Chinese enterprises in overseas markets has accelerated significantly. The industries involved have been further expanded from traditional manufacturing industry to multimedia, games, video, mobile internet and other industries. Therefore, the overseas Chinese enterprises are expected to show strong demand for cloud computing and big data services locally. With the robust development of digital economy and the continuous implementation of 5G commercialisation, due to a concentrated burst of demand for online office, online education and live broadcasting, high-traffic scenarios such as ultra-high-definition videos and VR/AR continued to increase. The surge of data traffic brought new challenges to IDC service providers on network transmission rate, rapid deployment and computing capability, but it also provided new opportunities for the development of IDC industry at the same time.

The Group has developed IDC business since 2019, it aims to provide safe and reliable IDC facilities and services for renowned domestic and overseas enterprises, in order to develop itself into an internationally renowned and leading cloud computing enterprise in the era of big data. To take advantage of its business network and industry credibility in the Greater China region as well as the international market, the Group aims to provide safe and reliable data centre facilities and services for renowned domestic and overseas enterprises. In future, the Group will proactively build the intelligentized IDC with characteristics of high performance, easy maintenance, and flexible expansion in core cities and regions, and will improve the competitiveness of the Group’s IDC business through green and refined operation and maintenance, to help our customers achieve digital transformation and commercial success.

In respect of sustainable development, we will continue to uphold Sustainable Development as our core value. We will enhance social responsibility management and promote the incorporation of social responsibility into daily operation, to bring forth the integration of ESG into the core component of its business development. In the coming year, the Group will continue to make disclosure based on “ESG Reporting Guide” issued by the Stock Exchange in accountable manner, enhance the communication with stakeholders, for example, conduct questionnaire surveys, update the results of materiality assessment, and prioritise the sustainability issues, as well as upgrade training-related system, for example, data records and course arrangement plan.

# INDEPENDENT AUDITOR'S REPORT



## MAZARS CPA LIMITED

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### TO THE SHAREHOLDERS OF YUXING INFOTECH INVESTMENT HOLDINGS LIMITED

*(incorporated in Bermuda with limited liability)*

## OPINION

We have audited the consolidated financial statements of Yuxing InfoTech Investment Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) set out on pages 58 to 147, which comprise the consolidated statement of financial position as at 31st December 2020, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31st December 2020, and of its financial performance and 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 (the “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 (“HKSAAs”) 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.



# INDEPENDENT AUDITOR'S REPORT



## KEY AUDIT MATTERS *(Continued)*

Key audit matters identified in our audit are summarised as follows:

### Key audit matter

### How the matter was addressed in our audit

#### *Fair value of investment properties*

As at 31st December 2020, investment properties held by the Group were stated at fair value of approximately HK\$455,912,000.

Significant estimation and judgement are required by management to determine the fair value of the investment properties which is significant to the consolidated financial statements, including the determination of valuation techniques and the selection of financial inputs in the model. Therefore, it is considered as key audit matter. Management has engaged independent professional valuers whose work has been relied on in the estimation of the fair value of the investment properties.

*Relevant disclosures are made in notes 2(f), 4, 7 and 17 to the consolidated financial statements.*

Our key procedures in relation to management's estimation of the fair value of investment properties included:

- Evaluating the competence, capabilities and objectivity of the valuers;
- Assessing the appropriateness of the work of the valuers by making enquiries on the bases of valuation and obtaining corroborative evidence on the input data; and
- Considering the relevance and reasonableness of key assumptions and methods used, and the relevance and accuracy of the source data used.



## KEY AUDIT MATTERS *(Continued)*

Key audit matters identified in our audit are summarised as follows: *(Continued)*

### Key audit matter

#### ***Fair value of financial assets at fair value through profit or loss – private investment fund***

As at 31st December 2020, a private investment fund held by the Group was classified as financial assets at fair value through profit or loss and measured at fair value of approximately HK\$17,211,000.

Significant estimation and judgement are required by management to determine the fair value of the private investment fund, including the determination of valuation techniques and the selection of financial inputs in the model. Management has relied on the valuation performed by the investment manager in the estimation of the fair value of the private investment fund.

*Relevant disclosures are made in notes 2(h), 4, 7 and 20 to the consolidated financial statements.*

### How the matter was addressed in our audit

Our key audit procedures in relation to management's estimation of the fair value of private investment fund included:

- Evaluating the competence, capabilities and objectivity of the investment manager;
- Assessing the appropriateness of the work of the investment manager by making enquiries on the bases of valuation and obtaining corroborative evidence on the input data; and
- Considering the relevance and reasonableness of key assumptions and methods used, and the relevance and accuracy of the source data used.

# INDEPENDENT AUDITOR'S REPORT



## KEY AUDIT MATTERS *(Continued)*

Key audit matters identified in our audit are summarised as follows: *(Continued)*

### Key audit matter

#### ***Impairment in respect of trade and other receivables and loans receivable***

As at 31st December 2020, the Group had financial assets, comprising trade and other receivables and loans receivable amounting to approximately HK\$84,677,000 and HK\$251,026,000 respectively. Loss allowance for expected credit losses amounting to approximately HK\$15,000 and HK\$8,467,000 has been provided on trade receivables and other receivables respectively. No loss allowance has been recognised on the loans receivable.

Loss allowances for trade and other receivables and loans receivable are based on management's estimate of the lifetime or 12-month expected credit losses which is estimated by taking into account the credit loss experience, ageing of overdue receivables, debtors' repayment history and financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement.

Relevant disclosures are made in notes 2(h), 4, 6(a), 23 and 24 to the consolidated financial statements.

### How the matter was addressed in our audit

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

- Assessing whether items in the trade receivables ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with the relevant sales invoices on a sample basis;
- Assessing the reasonableness of management's loss allowance estimates on trade and other receivables and loans receivable by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current conditions and forward-looking information and examining the actual losses recorded during the current financial year and assessing whether there was an indication of management bias when recognising loss allowances; and
- Reviewing and testing the Group's credit control policy over grant of loans and monitoring of principal and interest repayments according to the terms as stipulated in the loan agreements.

# INDEPENDENT AUDITOR'S REPORT



## OTHER INFORMATION

The Directors of the Company are responsible for the other information. The other information comprises the information included in the 2020 annual report of the Company but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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



# INDEPENDENT AUDITOR'S REPORT



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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

# INDEPENDENT AUDITOR'S REPORT



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

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

### **Mazars CPA Limited**

*Certified Public Accountants*

Hong Kong, 19th March 2021

The engagement director on the audit resulting in this independent auditor's report is:

**Eunice Y M Kwok**

Practising Certificate number: P04604

# CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2020

	Note	2020 HK\$'000	2019 HK\$'000
Revenue	9	<b>307,378</b>	325,312
Cost of sales		<b>(256,056)</b>	(289,776)
Gross profit		<b>51,322</b>	35,536
Other revenue and net income	9	<b>67,478</b>	132,920
Distribution and selling expenses		<b>(9,076)</b>	(7,760)
General and administrative expenses		<b>(72,056)</b>	(92,525)
Other operating expenses		<b>(2,901)</b>	(6,180)
Net changes in fair value of investment properties	17	<b>(4,408)</b>	(939)
Profit from operations	10	<b>30,359</b>	61,052
Finance costs	13	<b>(3,129)</b>	(6,425)
Profit before tax		<b>27,230</b>	54,627
Income tax expenses	14	<b>(5,808)</b>	(13,941)
Profit for the year		<b>21,422</b>	40,686
<b>Profit attributable to:</b>			
Owners of the Company		<b>21,914</b>	41,484
Non-controlling interests		<b>(492)</b>	(798)
		<b>21,422</b>	40,686
Earnings per share	16	<b>HK\$</b>	HK\$
– Basic		<b>0.01</b>	0.02
– Diluted		<b>0.01</b>	0.02

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December 2020

	2020 HK\$'000	2019 HK\$'000
Profit for the year	<b>21,422</b>	40,686
Other comprehensive income/(loss):		
Item that will not be reclassified to profit or loss:		
Revaluation of property, plant and equipment upon transfer to investment properties		
– Gain on revaluation	–	2,862
– Effect of tax	–	(1,289)
Items that are reclassified or may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of the PRC subsidiaries	<b>46,152</b>	(15,617)
Release of translation reserves upon disposal of a subsidiary	<b>(1,015)</b>	(250)
Other comprehensive income/(loss) for the year (net of tax)	<b>45,137</b>	(14,294)
Total comprehensive income for the year	<b>66,559</b>	26,392
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	<b>67,051</b>	27,190
Non-controlling interests	<b>(492)</b>	(798)
	<b>66,559</b>	26,392



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st December 2020

	Note	2020 HK\$'000	2019 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Investment properties	17	455,912	430,614
Property, plant and equipment	18	751,668	550,611
Right-of-use assets	19	86,714	84,039
Deposits paid	24	1,506	–
Prepayment for construction	24	38,158	156,000
Financial assets at fair value through profit or loss	20	365,835	356,495
Deferred tax assets	14	–	5,018
		<b>1,699,793</b>	1,582,777
<b>CURRENT ASSETS</b>			
Inventories	22	11,203	3,748
Loans receivable	23	251,026	192,227
Trade and other receivables	24	94,894	97,805
Financial assets at fair value through profit or loss	20	255,086	288,421
Income tax recoverable		1,425	566
Pledged bank deposits	32	57,974	81,637
Cash and bank balances		122,841	272,891
		<b>794,449</b>	937,295
<b>CURRENT LIABILITIES</b>			
Trade and other payables	25	141,847	258,493
Dividend payables		31	31
Bank and other loans	26	139,907	123,025
Income tax payable		–	533
Lease liabilities	19	5,466	2,672
		<b>287,251</b>	384,754
<b>NET CURRENT ASSETS</b>			
		<b>507,198</b>	552,541
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>2,206,991</b>	2,135,318
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	14	28,505	28,409
Income tax payable		2,729	372
Lease liabilities	19	3,393	732
		<b>34,627</b>	29,513
<b>NET ASSETS</b>			
		<b>2,172,364</b>	2,105,805
<b>EQUITY</b>			
Share capital	28	51,827	51,827
Reserves	29	2,121,852	2,054,801
Equity attributable to owners of the Company		<b>2,173,679</b>	2,106,628
Non-controlling interests		<b>(1,315)</b>	(823)
<b>TOTAL EQUITY</b>			
		<b>2,172,364</b>	2,105,805

These consolidated financial statements on pages 58 to 147 were approved and authorised for issue by the Board on 19th March 2021 and signed on its behalf by:

**Li Qiang**  
Director

**Shi Guangrong**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2020

	Attributable to owners of the Company											
	Share capital HK\$'000	Share premium HK\$'000	Statutory reserves HK\$'000	Contributed surplus HK\$'000	Share option reserves HK\$'000	Property revaluation reserves HK\$'000	Translation reserves HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
As at 1st January 2019	45,077	133,249	8,668	234,621	55,612	24,540	16,752	-	1,469,413	1,987,932	-	1,987,932
<b>Profit for the year</b>	-	-	-	-	-	-	-	-	41,484	41,484	(798)	40,686
<b>Other comprehensive loss:</b>												
Revaluation of property, plant and equipment upon transfer to investment properties	-	-	-	-	-	2,862	-	-	-	2,862	-	2,862
- Gain on revaluation	-	-	-	-	-	(1,289)	-	-	-	(1,289)	-	(1,289)
- Effect of tax	-	-	-	-	-	-	(15,617)	-	-	(15,617)	-	(15,617)
Exchange differences arising on translation of the PRC subsidiaries	-	-	-	-	-	-	(250)	-	-	(250)	-	(250)
Release of reserves upon disposal of a subsidiary	-	-	-	-	-	-	(15,867)	-	-	(15,867)	-	(15,867)
<b>Total other comprehensive loss</b>	-	-	-	-	-	1,573	(15,867)	-	-	(14,294)	-	(14,294)
<b>Total comprehensive income for the year</b>	-	-	-	-	-	1,573	(15,867)	-	41,484	27,190	(798)	26,392
<b>Transactions with owners:</b>												
<i>Contributions and distributions</i>												
Issue of new shares (note 29(a))	6,750	74,250	-	-	-	-	-	-	-	81,000	-	81,000
Equity-settled share based payment	-	-	-	-	10,481	-	-	-	-	10,481	-	10,481
Share options lapsed	-	-	-	-	(5,511)	-	-	-	5,511	-	-	-
<i>Change in ownership interest</i>												
Change in ownership interest in a subsidiary that does not result in a loss of control	-	-	-	-	-	-	-	25	-	25	(25)	-
<b>Total transactions with owners</b>	6,750	74,250	-	-	4,970	-	-	25	5,511	91,506	(25)	91,481
As at 31st December 2019 and as at 1st January 2020	51,827	207,499	8,668	234,621	60,582	26,113	885	25	1,516,408	2,106,628	(823)	2,105,805
<b>Profit for the year</b>	-	-	-	-	-	-	-	-	21,914	21,914	(492)	21,422
<b>Other comprehensive income:</b>												
Exchange differences arising on translation of the PRC subsidiaries	-	-	-	-	-	-	46,152	-	-	46,152	-	46,152
Release of reserves upon disposal of a subsidiary	-	-	-	-	-	-	(1,015)	-	-	(1,015)	-	(1,015)
<b>Total other comprehensive income</b>	-	-	-	-	-	-	45,137	-	-	45,137	-	45,137
<b>Total comprehensive income for the year</b>	-	-	-	-	-	-	45,137	-	21,914	67,051	(492)	66,559
<b>Transactions with owners:</b>												
<i>Contributions and distributions</i>												
Share options lapsed	-	-	-	-	(50,159)	-	-	-	50,159	-	-	-
<b>Total transactions with owners</b>	-	-	-	-	(50,159)	-	-	-	50,159	-	-	-
As at 31st December 2020	51,827	207,499	8,668	234,621	10,423	26,113	46,022	25	1,588,481	2,173,679	(1,315)	2,172,364

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December 2020

	Note	2020 HK\$'000	2019 HK\$'000
<b>OPERATING ACTIVITIES</b>			
Profit before tax		27,230	54,627
Adjustments for:			
Exchange differences		5,546	(5,179)
Interest income		(17,978)	(17,453)
Interest expenses		3,129	6,425
Dividend income		(7,450)	(8,801)
Equity-settled share-based payment expenses		–	10,481
Depreciation of right-of-use assets		7,818	6,483
Depreciation of property, plant and equipment		5,947	2,329
Net changes in fair value of investment properties		4,408	939
(Gain)/Loss on disposal of property, plant and equipment		(3)	753
Gain on disposal of financial assets at fair value through profit or loss under non-current assets		–	(10,254)
Fair value gains on financial assets at fair value through profit or loss under non-current assets		(9,340)	(15,782)
(Gain)/Loss on disposal of a subsidiary	27	(1,015)	1,223
<b>OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL</b>		<b>18,292</b>	25,791
(Increase)/Decrease in inventories		(7,311)	9,014
Decrease in trade and other receivables		5,962	97,063
Decrease in financial assets and liabilities at fair value through profit or loss		33,335	362,757
Decrease in trade and other payables		(23,546)	(75,473)
<b>CASH GENERATED FROM OPERATIONS</b>		<b>26,732</b>	419,152
Income tax paid		(1,431)	(69)
Income tax refund		–	83
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>25,301</b>	419,166
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(187,549)	(276,674)
Decrease/(Increase) in prepayment for construction		–	(156,000)
(Increase)/Decrease in pledged bank deposits with original maturities over three months	(d)	(56,160)	93,510
Proceeds from disposal of financial assets at fair value through profit or loss under non-current assets		–	37,914
Interest received		14,095	16,853
Grant of new loans		(134,569)	(191,632)
Repayment of loans		87,429	119,937
Dividend received		7,450	8,801
Proceeds from disposal of property, plant and equipment		51	163
Net cash inflow on disposal of a subsidiary	27	–	59
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(269,253)</b>	(347,069)

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December 2020

	Note	2020 HK\$'000	2019 HK\$'000
<b>FINANCING ACTIVITIES</b>	30		
Proceeds from issue of shares		–	81,000
New bank and other loans raised		17,314	58,079
Principal elements of lease payments		(4,615)	(2,986)
Repayment of bank loans		(433)	(179,411)
Interest paid		(3,129)	(6,425)
<b>NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES</b>		<b>9,137</b>	(49,743)
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(234,815)</b>	22,354
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF REPORTING PERIOD</b>		<b>354,528</b>	333,317
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>		<b>4,942</b>	(1,143)
<b>CASH AND CASH EQUIVALENTS AT END OF REPORTING PERIOD</b>		<b>124,655</b>	354,528
Analysis of the balances of cash and cash equivalents:			
Funds held by securities brokers	(a)	28,338	20,262
Time deposits	(b)	13,612	81,896
Cash at bank and in hand	(b)	80,891	170,733
Pledged bank deposits with maturity less than three months	(c)	1,814	81,637
		<b>124,655</b>	354,528

Notes:

- (a) At the end of the reporting period, there were funds held by securities brokers of approximately HK\$28,338,000 (2019: approximately HK\$20,262,000) for securities trading.
- (b) At the end of the reporting period, cash at bank earned interest at floating rates based on daily bank deposit rates. Short-term time deposits are made between two to three months (2019: one week to three months) depending on the immediate cash requirement of the Group and earn interest ranging from 0.60% to 1.55% (2019: 1.35% to 1.70%) per annum.
- (c) At the end of the reporting period, bank deposits of approximately HK\$1,814,000 (2019: approximately HK\$81,637,000) were pledged to secure a loan facility which had an original maturity of less than three months and therefore have been classified as cash equivalents in the consolidated statement of cash flows.
- (d) As at 31st December 2020, pledged bank deposits of approximately HK\$56,160,000 (2019: HK\$Nil) had an original maturity of more than three months but within one year when acquired and therefore were not classified as cash equivalents in the consolidated statement of cash flows.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

Yuxing InfoTech Investment Holdings Limited (the “Company”) is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The addresses of the registered office and principal places of business of the Company are disclosed in the “Corporate Information” section of this annual report.

The principal activity of the Company is investment holding. The principal activities of the Company’s principal subsidiaries are detailed in note 36. The Company and its subsidiaries are herein collectively referred to as the “Group”.

## 2. PRINCIPAL ACCOUNTING POLICIES

### (a) Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the Hong Kong Companies Ordinance. 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.

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2019 consolidated financial statements except for the adoption of the following new/revised HKFRSs which are relevant to the Group and effective from the current year. The Group has also elected to early adopt amendments to HKFRS 16 in current year. A summary of the principal accounting policies adopted by the Group is set out below.

#### Adoption of new/revised HKFRSs

The Group has applied, for the first time, the following new/revised HKFRSs:

Amendments to HKASs 1 and 8	<i>Definition of Material</i>
Amendments to HKAS 39, HKFRSs 7 and 9	<i>Interest Rate Benchmark Reform – Phase 1</i>
Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 16	<i>COVID-19-Related Rent Concessions</i>

#### *Amendments to HKASs 1 and 8: Definition of Material*

The amendments clarify the definition of material and align the definition used across HKFRSs.

The adoption of the amendments does not have any impact on the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (a) Basis of preparation *(Continued)*

#### **Adoption of new/revised HKFRSs** *(Continued)*

##### *Amendments to HKAS 39, HKFRSs 7 and 9: Interest Rate Benchmark Reform – Phase 1*

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform (the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark). In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

The adoption of the amendments does not have any impact on the consolidated financial statements.

##### *Amendments to HKFRS 3: Definition of a Business*

The amendments, among others, revise the definition of a business and include new guidance to evaluate whether an acquired process is substantive.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

##### *Amendments to HKFRS 16: COVID-19-Related Rent Concessions*

The amendments exempt lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the Coronavirus disease 2019 (“COVID-19”) pandemic are lease modifications and allow lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before 30th June 2021. The amendments do not affect lessors.

These amendments shall be applied for annual periods beginning on or after 1st June 2020 with earlier application permitted. The Group has elected to early adopt the amendments in current year and use the transition practical expedient not to assess whether rent concessions that occur as a direct consequence of the COVID-19 pandemic and meet specified conditions are lease modifications. The Group applied it consistently to all lease contracts with similar characteristics and in similar circumstances.

The adoption of the amendments has resulted in reduction in lease payments of approximately HK\$203,000 recognised in profit or loss in the current year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (b) Basis of measurement

The measurement basis used in the preparation of these consolidated financial statements is historical cost, except for investment properties and financial assets at fair value through profit or loss, which are measured at fair value as explained in the accounting policies set out below.

### (c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Non-controlling interests are presented separately from owners of the Company, in the consolidated income statement and within equity in the consolidated statement of financial position. The non-controlling interests in the acquiree, that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, are measured initially either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. This choice of measurement basis is made on an acquisition-by-acquisition basis.

#### *Allocation of total comprehensive income*

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

#### *Changes in ownership interest*

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. 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.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost; and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests at the date when control is lost.

The amounts previously recognised in other comprehensive income in relation to the disposed subsidiary are accounted for on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary are accounted for as a financial asset, associate, joint venture or others as appropriate from the date when control is lost.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (d) Subsidiaries

A subsidiary is an entity that is controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Company's statement of financial position which is presented within these notes, an investment in subsidiary is stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (e) Property, plant and equipment

Property, plant and equipment, other than construction in progress and freehold land, are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Construction in progress and freehold land are stated at cost, which comprises the cost of acquisition, construction and borrowing costs, if applicable, less any identified impairment loss.

The cost of construction in progress will not be depreciated until they are completed and ready for intended use and are transferred to a specific category of property, plant and equipment when the construction is completed.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction in progress and freehold land, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately:

Buildings	3% or over the relevant lease term, whichever is shorter
Data centre facilities	10%
Leasehold improvements	5% – 33% or over the relevant lease term, whichever is shorter
Office equipment, furniture and fixtures	20% – 33%
Plant and machinery	10% – 20%
Motor vehicles	10% – 33%



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (e) Property, plant and equipment *(Continued)*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year in which the item is derecognised.

If a property occupied by the Group as an owner-occupied property becomes an investment property measured at fair value, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation surplus or deficit. The revaluation surplus is recognised in profit or loss to the extent of impairment loss previously recognised in profit or loss, with the remaining surplus recognised in other comprehensive income as property revaluation reserves within equity. The revaluation deficit is recognised in other comprehensive income to reduce the property revaluation reserves to the extent of the amount previously recognised in property revaluation reserves, with the remaining deficit recognised in profit or loss.

The property revaluation reserves are derecognised upon the disposal of investment property.

### (f) Investment properties

Investment properties are land and/or building that are held by owner or lessee, to earn rental income and/or for capital appreciation. These include properties held for a currently undetermined future use.

Investment properties are stated at fair value at the end of the reporting period. Any gain or loss arising from a change in fair value is recognised in profit or loss. The fair value of investment property is based on a valuation by an independent valuer who holds a recognised professional qualification and has recent experience in the location and category of property being valued.

### (g) Research and development costs

Research costs are expensed as incurred. Costs incurred on development activities, which involve the application of research findings to a plan or design for the production of new or substantially improved products and processes, are capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in profit or loss as an expense as incurred. When the asset is available for use, the capitalised development costs are amortised on a straight-line basis over a period which reflects the pattern in which the related economic benefits are recognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (h) Financial instruments

#### *Financial assets*

#### *Recognition and derecognition*

Financial assets are recognised when and only when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Group's contractual rights to future cash flows from the financial asset expire; or (ii) the Group transfers the financial asset and either (a) it transfers substantially all the risks and rewards of ownership of the financial asset; or (b) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

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. 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 the financial asset to the extent of its continuing involvement and an associated liability for the amounts it may have to pay.

#### *Classification and measurement*

Financial assets (except for trade receivables without a significant financing component) are initially recognised at their fair value plus, in the case of financial assets not carried at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial assets. Such trade receivables are initially measured at their transaction price.

On initial recognition, a financial asset is classified as (i) measured at amortised cost; (ii) debt investment measured at fair value through other comprehensive income ("FVOCI"); (iii) equity investment measured at FVOCI; or (iv) FVPL.

The classification of financial assets at initial recognition depends on the Group's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing them, in which case all affected financial assets are reclassified on the first day of the first annual reporting period following the change in the business model.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (h) Financial instruments *(Continued)*

#### *Financial assets (Continued)*

#### *Classification and measurement (Continued)*

##### 1) Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

- (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses arising from impairment, derecognition or through the amortisation process are recognised in profit or loss.

The Group's financial assets at amortised cost include cash and bank balances, pledged bank deposits, trade and other receivables and loans receivable.

##### 2) Financial assets at FVPL

These investments include financial assets that are not measured at amortised cost or FVOCI, including financial assets held for trading and designated upon initial recognition and financial assets that are otherwise required to be measured at FVPL. They are carried at fair value, with any resultant gain and loss recognised in profit or loss, which includes any dividend or interest earned on financial assets. Dividend or interest income is presented separately from fair value gain or loss.

Financial assets are classified as held for trading if they are (i) acquired principally for the purpose of selling in the near future; (ii) part of a portfolio of identified financial instruments that the Group manages together and have a recent actual pattern of short-term profit-taking on initial recognition; or (iii) derivatives that are not financial guarantee contracts or not designated and effective hedging instruments.

The Group's financial assets mandatorily measured at FVPL include listed and unlisted equity securities, private investment funds and money market funds.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (h) Financial instruments *(Continued)*

#### *Financial liabilities*

#### *Recognition and derecognition*

Financial liabilities are recognised when and only when the Group becomes a party to the contractual provisions of the instruments.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

#### *Classification and measurement*

Financial liabilities are initially recognised at their fair value plus, in the case of financial liabilities not carried at FVPL, transaction costs that are directly attributable to the issue of the financial liabilities.

The Group's financial liabilities include trade and other payables, lease liabilities and bank and other loans. All financial liabilities except for derivatives 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 insignificant, in which case they are stated at cost.

#### *Impairment of financial assets and other items*

The Group recognises loss allowances for expected credit losses ("ECL") on financial assets that are measured at amortised cost to which the impairment requirements apply in accordance with HKFRS 9. At each reporting date, the Group measures a loss allowance for a financial asset at an amount equal to the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to 12-month ECL.

#### *Measurement of ECL*

ECL is a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument.

For financial assets, a credit loss is the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument while 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (h) Financial instruments *(Continued)*

*Impairment of financial assets and other items (Continued)*

*Measurement of ECL (Continued)*

Where ECL is measured on a collective basis, the financial instruments are grouped on the following bases of shared credit risk characteristics:

- (i) past due information
- (ii) nature of instrument
- (iii) nature of collateral
- (iv) industry of debtors
- (v) geographical location of debtors
- (vi) external credit risk ratings

*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 the Group may not receive the outstanding contractual amounts in full if the financial instrument meets any of the following criteria:

- (i) 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); or
- (ii) there is a breach of financial covenants by the counterparty.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (h) Financial instruments *(Continued)*

#### *Impairment of financial assets and other items (Continued)*

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

Notwithstanding 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.

#### *Low credit risk*

A financial instrument is determined to have low credit risk if:

- (i) it has a low risk of default;
- (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
- (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

#### *Simplified approach of ECL*

For trade receivables, the Group applies a simplified approach in calculating ECL. The Group recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (h) Financial instruments *(Continued)*

#### *Impairment of financial assets and other items (Continued)*

##### *Credit-impaired financial asset*

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 include observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower.
- (b) a breach of contract, such as a default or past due event.
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider.
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.
- (e) the disappearance of an active market for that financial asset because of financial difficulties.
- (f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

##### *Write-off*

The Group writes off a financial asset when the Group has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof, based on historical experience of recoveries of similar assets. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities under the Group's procedures for recovery of amounts due. Any recovery made is recognised in profit or loss.

### (i) Cash equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

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

### (k) Revenue recognition

Rental income under operating lease is recognised when the properties are let out and on the straight line basis over the lease terms.

Dividend income from investments is recognised when the Group's rights to receive dividend is established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Interest income from financial assets is recognised using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the assets while it is applied to the amortised cost (i.e. the gross carrying amount net of loss allowance) in case of credit-impaired financial assets.

Revenue from contracts with customers within HKFRS 15

#### *Nature of goods or services*

The Group is engaged in sale and distribution of information home appliances ("IHA") and complementary products.

#### *Identification of performance obligations*

At contract inception, the Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either:

- (a) a good or service (or a bundle of goods or services) that is distinct; or
- (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (k) Revenue recognition *(Continued)*

Revenue from contracts with customers within HKFRS 15 *(Continued)*

*Identification of performance obligations (Continued)*

A good or service that is promised to a customer is distinct if both of the following criteria are met:

- (a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and
- (b) the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).

*Timing of revenue recognition*

Revenue is recognised when (or as) the Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- (a) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- (b) the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, the Group satisfies the performance obligation at a point in time when the customer obtains control of the promised asset. In determining when the transfer of control occurs, the Group considers the concept of control and such indicators as legal title, physical possession, right to payment, significant risks and rewards of ownership of the asset, and customer acceptance.

Sale of IHA and complementary products are recognised at a point in time at which the customer obtains the control of the promised asset, which generally coincides with the time when the goods are delivered to customers and the title is passed.

*Contract liabilities*

Within the context of HKFRS 15, if a customer pays consideration, or an entity has a right to an amount of consideration that is unconditional, before the entity transfers a good or service to the customer, the entity shall present the contract as a contract liability when the payment is made or the payment is due (whichever is earlier).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (I) Foreign currency translation

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 consolidated financial statements are presented in the currency of Hong Kong dollars ("HKD"), which is also the Company's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

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

- (a) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- (b) Income and expenses for each income statement are translated at average exchange rate;
- (c) All resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity;
- (d) On the disposal of a foreign operation, which includes a disposal of the Group's entire interest in a foreign operation, a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest is no longer equity-accounted for, the cumulative amount of the exchange differences relating to the foreign operation that is recognised in other comprehensive income and accumulated in the separate component of equity is reclassified from equity to profit or loss when the gain or loss on disposal is recognised;
- (e) On the partial disposal of the Group's interest in a subsidiary that includes a foreign operation which does not result in the Group losing control over the subsidiary, the proportionate share of the cumulative amount of the exchange differences recognised in the separate component of equity is re-attributed to the non-controlling interests in that foreign operation and are not reclassified to profit or loss; and
- (f) On all other partial disposals, which includes partial disposal of associates or joint ventures that do not result in the Group losing significant influence or joint control, the proportionate share of the cumulative amount of exchange differences recognised in the separate component of equity is reclassified to profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (m) Impairment of other assets

At the end of each reporting period, the Group reviews internal and external sources of information to assess whether there is any indication that its property, plant and equipment and right-of-use assets may be impaired or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income in profit or loss immediately.

### (n) Borrowing costs

Borrowing costs incurred, net of any investment income on the temporary investment of the specific borrowings, that are directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the period in which they are incurred.

### (o) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the years necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

### (p) Leases

The Group assesses whether a contract is, or contains, a lease at inception of the contract. 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.

*As lessee*

The Group applies the recognition exemption to short-term leases and low-value asset leases. Lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term.

The Group accounts for each lease component within a lease contract as a lease separately. The Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component.

Amounts payable by the Group that do not give rise to a separate component are considered to be part of the total consideration that is allocated to the separately identified components of the contract.

The Group recognises a right-of-use asset and a lease liability at the commencement date of the lease.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (p) Leases *(Continued)*

#### *As lessee (Continued)*

The right-of-use asset is initially measured at cost, which comprises:

- (a) the amount of the initial measurement of the lease liability;
- (b) any lease payments made at or before the commencement date, less any lease incentives received;
- (c) any initial direct costs incurred by the Group; and
- (d) an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Depreciation is provided on a straight-line basis over the shorter of the lease term and the estimated useful life of the right-of-use asset as set out below:

Buildings	1 to 3 years
Leasehold land	Over the lease term
Leasehold properties	3% or over the lease term, whichever is shorter

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date of the contract.

The lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- (a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- (b) variable lease payments that depend on an index or a rate;
- (c) amounts expected to be payable under residual value guarantees;
- (d) exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- (e) payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease, or where it is not readily determinable, the incremental borrowing rate of the lessee.

Subsequently, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (p) Leases *(Continued)*

#### *As lessee (Continued)*

The lease liability is remeasured using a revised discount rate when there are changes to the lease payments arising from a change in the lease term or the reassessment of whether the Group will be reasonably certain to exercise a purchase option.

The lease liability is remeasured by using the original discount rate when there is a change in the residual value guarantee, the in-substance fixed lease payments or the future lease payments resulting from a change in an index or a rate (other than floating interest rate). In case of a change in future lease payments resulting from a change in floating interest rates, the Group remeasures the lease liability using a revised discount rate.

The Group recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognises any remaining amount of the remeasurement in profit or loss.

A lease modification is accounted for as a separate lease if:

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

When a lease modification is not accounted for as a separate lease, at the effective date of the lease modification:

- (a) the Group allocates the consideration in the modified contract on the basis of relative stand-alone price as described above.
- (b) the Group determines the lease term of the modified contract.
- (c) the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate over the revised lease term.
- (d) for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease and recognising any gain or loss relating to the partial or full termination of the lease in profit or loss.
- (e) for all other lease modifications, the Group accounts for the remeasurement of the lease liability by making a corresponding adjustment to the right-of-use asset.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (p) Leases *(Continued)*

#### *As lessor*

The Group classifies each of its leases as either a finance lease or an operating lease at the inception date of the lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset. All other leases are classified as operating leases.

The Group accounts for each lease component within a lease contract as a lease separately from non-lease components of the contract. The Group allocates the consideration in the contract to each lease component on a relative stand-alone price basis.

### (q) Employee benefits

#### *Short-term employee benefits*

Salaries, annual bonuses and paid annual leave are accrued in the year in which the associated services are rendered by employees.

#### *Defined contribution plans*

The obligations for contributions to Mandatory Provident Fund Scheme (the "MPF") in Hong Kong are recognised as an expense in profit or loss as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Contributions to the retirement benefit schemes in the People's Republic of China (the "PRC"), which are calculated on certain percentages of the applicable payroll costs in accordance with the statutory requirements prescribed by the relevant legal authorities, are charged as expense when employees have rendered services entitling them to the contributions.

Contributions to the voluntary retirement plans adopted in the United States are calculated based on a maximum of 6% of the eligible employees' salaries, and are recognised as an expense in profit or loss as incurred. The assets of the pension fund are held separately from those of the Group in funds under the control of trustees.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (r) Share-based payment transactions

#### *Equity-settled transactions*

The Group operates a share-based compensation plan, the share option scheme, under which the Group receives services from employees including directors, and parties other than employees in exchange for the grant of rights over shares or shares of the Company (“Share(s)”) as remuneration in form of equity-settled transactions. The cost of such transaction with employees is measured by reference to the fair value of the equity instruments at the grant date by using the Binomial Model, taking into account the terms and conditions of the transactions, other than conditions linked to the price of the Shares. For share options granted to parties other than employees, the total amount to be expensed is measured at fair value of the goods or services received at the date the Group obtains the goods or the counterparty renders the services, except where the fair value cannot be reliably estimated, in which case they are measured at the fair value of the equity instruments granted.

The cost of equity-settled transactions are recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, and credited to share option reserves under equity for grant of share options.

During the vesting period, the number of share options that is expected to vest ultimately is reviewed. Any adjustment to the cumulative fair value recognised in prior periods is charged/credited to profit or loss for the year of review, with a corresponding adjustment to the share option reserves within equity.

Where the terms of an equity-settled award are modified, an additional expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described above.

When the share options are exercised, the amount previously recognised in share option reserves will be transferred to share capital (nominal value) and share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserves will be transferred to retained profits.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (s) Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, any deferred tax arising from initial recognition of other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Deferred tax is provided on temporary differences arising on investment in subsidiaries, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

### (t) Related parties

A related party is a person or entity that is related to the Group.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (t) Related parties *(Continued)*

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

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

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (u) Segment reporting

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

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

## 3. FUTURE CHANGES IN HKFRSs

At the date of authorisation of these consolidated financial statements, the HKICPA has issued a number of new/revised HKFRSs that are not yet effective for the current year, which the Group has not early adopted.

Amendments to HKAS 39, HKFRSs 4, 7, 9 and 16	<i>Interest Rate Benchmark Reform – Phase 2</i> <sup>1</sup>
Amendments to HKAS 16	<i>Proceeds before Intended Use</i> <sup>2</sup>
Amendments to HKAS 37	<i>Cost of Fulfilling a Contract</i> <sup>2</sup>
Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i> <sup>2</sup>
Annual Improvements to HKFRSs	<i>2018-2020 Cycle</i> <sup>2</sup>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> <sup>3</sup>
HKFRS 17	<i>Insurance Contracts</i> <sup>3</sup>
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>4</sup>

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

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

<sup>3</sup> Effective for annual periods beginning on or after 1st January 2023

<sup>4</sup> The effective date to be determined

The Group is in the process of assessing the possible impact on the future adoption of the new/revised HKFRSs, but are not yet in a position to reasonably estimate their impact on the consolidated financial statements.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and assumptions concerning the future and judgements are made by the management in the preparation of the consolidated financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

### Fair value of investment properties

In assessing the fair value of investment properties, the Group obtains the valuation of the investment properties provided by the independent professional qualified valuers. As described in note 7, the valuation techniques applied by the independent professional qualified valuers for the investment properties have been discussed with the Directors. The Directors review the valuations performed by the independent professional qualified valuers and use their estimation to determine whether valuation techniques applied are appropriate to the circumstances of the Group. Changes in assumptions could affect the reported fair value of investment properties in the consolidated financial statements.

### Fair value of private investment funds

In assessing the fair value of private investment funds, the Group obtains the valuation of the private investment funds provided by the investment manager. As described in note 7, the valuation techniques applied by the investment manager for the private investment funds have been discussed with the Directors. The Directors review the valuations performed by the investment manager and use their estimation to determine whether valuation techniques and assumptions applied are appropriate to the circumstances of the Group. Changes in assumptions could affect the reported fair value of private investment funds in the consolidated financial statements.

### Useful lives and impairment of property, plant and equipment and right-of-use assets

The Directors review the useful lives and depreciation method of property, plant and equipment and right-of-use assets at the end of each reporting period, through careful consideration with regards to expected usage, wear-and-tear and potential technical obsolescence to usage of the assets.

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Directors have to assess whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence. If any such indication exists, the recoverable amounts of the asset would be determined by reference to value in use and fair value less costs of disposal. Value in use is determined using the discounted cash flow method.

### Deferred tax liabilities

At the end of the reporting period, deferred tax liabilities of approximately HK\$28,505,000 (2019: approximately HK\$28,409,000) were provided for, in relation to the PRC land appreciation tax and corporate income tax ("CIT") arising from revaluation of property, plant and equipment transferred to investment properties and revaluation of investment properties. No deferred tax liabilities in relation to the withholding tax on the distribution of retained profits of the PRC subsidiaries have been provided for as those profits are not to be remitted out of the PRC in the foreseeable future. Further details are set out in note 14.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### Deferred tax assets

As at 31st December 2020, no deferred tax asset has been recognised on the tax losses from the PRC subsidiaries of approximately HK\$117,500,000 (2019: *approximately HK\$126,700,000*) due to unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient profits or taxable temporary differences will be available in the future. In cases there are changes in facts and circumstances which result in revision of future taxable profits estimation, a material recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such recognition takes place.

### Loss allowance for ECL

The Group's management estimates the loss allowance for trade and other receivables and loans receivable by using various inputs and assumptions including risk of default and expected loss rate. The estimation involves high degree of uncertainty which is based on the Group's historical information, existing market conditions as well as forward-looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables and loans receivable. Details of the key assumptions and inputs used in estimating ECL are set out in note 6(a).

### Discount rates for calculating lease liabilities – as lessee

The Group uses the lessee's incremental borrowing rates to discount future lease payments since interest rates implicit in the leases are not readily determinable. In determining the discounts rates for its leases, the Group refers to a rate that is readily observable as the starting point and then applies judgement and adjusts such observable rate to determine the incremental borrowing rate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders of the Company ("Shareholders"), issue new Shares, return capital to Shareholders, raise new debt financing or sell assets to reduce debt.

Meanwhile, the Group monitors its capital structure using a gearing ratio which is calculated as total debts divided by the total equity. For this purpose, the Group defines debt as total debts (which includes bank and other loans, trade and other payables, dividend payables, income tax payable, deferred tax liabilities and lease liabilities).

The gearing ratio as at 31st December 2020 and 2019 was as follows:

	Note	2020 HK\$'000	2019 HK\$'000
<b>Current liabilities:</b>			
Trade and other payables	25	141,847	258,493
Dividend payables		31	31
Bank and other loans	26	139,907	123,025
Income tax payable		–	533
Lease liabilities	19	5,466	2,672
		<b>287,251</b>	384,754
<b>Non-current liabilities:</b>			
Deferred tax liabilities	14	28,505	28,409
Income tax payable		2,729	372
Lease liabilities	19	3,393	732
		<b>34,627</b>	29,513
<b>Total debts</b>		<b>321,878</b>	414,267
<b>Total equity</b>		<b>2,172,364</b>	2,105,805
<b>Gearing ratio</b>		<b>14.8%</b>	19.7%

The lower gearing ratio of the Group as at 31st December 2020 was primarily resulted from settlement of accrued costs of construction in progress during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to price risk arising from its equity investments in other entities and movements in its own equity share price.

These risks are mitigated by the Group's financial management policies and practices described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, bank balances, pledged bank deposits and loans receivable. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The carrying amount of financial assets recognised on the consolidated statement of financial position, which is net of loss allowance, represents the Group's exposure to credit risk without taking into account the value of any collateral held or other credit enhancements.

The Group has limited credit risk with its money deposited in financial institutions and securities brokers, which are leading and reputable and are assessed as having low credit risk. The Group has not suffered any significant losses arising from the non-performance by these parties in the past and management does not expect this position to change in the future.

#### *Trade receivables*

In respect of trade receivables, the Group normally grants its customers an average credit period from 30 days to 6 months (2019: 30 days to 18 months). 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. Debtors with balances that are more than three months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. Credit quality of a customer is assessed based on an extensive credit rating and individual credit limit assessment which is mainly based on the Group's own trading records.

At the end of the reporting period, the Group had a concentration of credit risk as 47.4% (2019: 71.6%) and 98.3% (2019: 99.0%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The Group's customer base consists of a wide range of clients and the trade receivables are categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The Group applies a simplified approach in calculating ECL for trade receivables and recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The expected loss rate used in the provision matrix is calculated for each category based on actual credit loss experience over the past three years and adjusted for current and forward-looking factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's estimate on future economic conditions over the expected lives of the receivables. There was no change in the estimation techniques or significant assumptions made during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### (a) Credit risk *(Continued)*

#### *Trade receivables (Continued)*

The information about the exposure to credit risk and ECL for trade receivables using a provision matrix is summarised below:

#### **As at 31st December 2020**

	Expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000	Credit-impaired
Not past due	–	53,592	–	No
Less than 3 months past due	–	23,447	–	No
3 months to 6 months past due	–	–	–	No
6 months to 9 months past due	–	603	–	No
Over 9 months past due	100%	15	15	Yes
		<b>77,657</b>	<b>15</b>	

#### *As at 31st December 2019*

	Expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000	Credit-impaired
Not past due	–	43,816	–	No
Less than 3 months past due	–	30,126	–	No
3 months to 6 months past due	–	5,218	–	No
6 months to 9 months past due	–	299	–	No
Over 9 months past due	100%	15	15	Yes
		<b>79,474</b>	<b>15</b>	

The Group does not hold any collateral over trade receivables as at 31st December 2020 and 2019.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### (a) Credit risk *(Continued)*

#### *Trade receivables (Continued)*

As at 31st December 2020, the Group recognised loss allowance of approximately HK\$15,000 (2019: approximately HK\$15,000) on the credit-impaired trade receivables. The movement in the loss allowance for the credit-impaired trade receivables during the year is summarised below:

	2020 HK\$'000	2019 HK\$'000
At beginning of the reporting period	15	897
Write-off	–	(877)
Exchange realignment	–	(5)
At end of the reporting period	15	15

Trade receivables of HK\$Nil (2019: approximately HK\$877,000) written off during the year are still subject to enforcement activity.

#### *Loans receivable and other receivables*

At the end of the reporting period, the Group had a concentration of credit risk in respect of other receivables and loans receivable as 54.6% (2019: 68.0%) of total other receivables was due from one (2019: one) independent third party while 68.4% (2019: 100%) of total loans receivable was due from two (2019: two) independent third parties.

The Group considers that the loans receivable and other receivables have low credit risk based on the borrowers' strong capacity to meet their contractual cash flow obligations in the near term and low risk of default, except for the credit-impaired other receivable from the former chief executive officer, the risk of default is considered to be significant. Impairment on loans receivable and other receivables is measured on 12-month ECL and reflects the short maturities of the exposures, except for the credit-impaired other receivable from the former chief executive officer which is measured on lifetime ECL.

In estimating the ECL and in determining whether there is a significant increase in credit risk since initial recognition and whether the financial asset is credit-impaired, the Group has taken into account the historical actual credit loss experience on the debtors and the financial position of the counterparties by reference to, among others, their management or audited accounts, legal advice on claims from counterparties and adjusted for forward-looking factors that are specific to the debtors and general economic conditions of the industry in which the counterparties operate, in estimating the probability of default of these financial assets, as well as the loss upon default in each case. The management of the Group considers the ECL of these financial assets to be insignificant after taking into account the financial position and credit quality of the counterparties and the guarantees provided, except for the credit-impaired other receivable from the former chief executive officer, for which loss allowance had been provided for the whole amount in previous year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. FINANCIAL INSTRUMENTS (Continued)

### (a) Credit risk (Continued)

#### Loans receivable and other receivables (Continued)

There was no change in the estimation techniques or significant assumptions made during the year.

As at 31st December 2020, the Group recognised loss allowance of approximately HK\$8,467,000 (2019: approximately HK\$8,467,000) on the credit-impaired other receivables. The movement in the loss allowance for the credit-impaired other receivables during the year is summarised below:

	2020 HK\$'000	2019 HK\$'000
At beginning of the reporting period	8,467	8,467
Impairment loss	–	89
Write-off	–	(89)
At end of the reporting period	8,467	8,467

### (b) Liquidity risk

In management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group has unutilised bank borrowing facilities of approximately HK\$292,998,000 (2019: approximately HK\$302,064,000) at the end of the reporting period to meet liquidity needs.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates prevailing at the end of the reporting period) and the earliest dates the Group is required to pay.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. FINANCIAL INSTRUMENTS (Continued)

### (b) Liquidity risk (Continued)

Specifically, bank loans with a repayment on demand clause are included in the earliest period that the Group is required to repay regardless of the probability of the banks choosing to exercise their rights at the end of the reporting period. The maturity analysis for other non-derivative financial liabilities is prepared based on the scheduled repayment dates.

	Note	2020						2019						
		Carrying amount	Total contractual undiscouted cash flow	Within one year or on demand	More than one year but less than two years	More than two years but less than five years	More than five years	Carrying amount	Total contractual undiscouted cash flow	Within one year or on demand	More than one year but less than two years	More than two years but less than five years	More than five years	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Non-derivative financial liabilities</b>														
Trade and other payables	25	121,567	121,567	115,222	378	372	5,595	235,020	235,020	229,153	89	397	5,381	
Dividend payables		31	31	31	-	-	-	31	31	31	-	-	-	
Bank and other loans	26	139,907	139,907	139,907	-	-	-	123,025	123,025	123,025	-	-	-	
Lease liabilities	19	8,859	9,063	5,632	3,431	-	-	3,404	3,504	2,759	649	96	-	
		<b>270,364</b>	<b>270,568</b>	<b>260,792</b>	<b>3,809</b>	<b>372</b>	<b>5,595</b>	<b>361,480</b>	<b>361,580</b>	<b>354,968</b>	<b>738</b>	<b>493</b>	<b>5,381</b>	

The amounts repayable under loan agreements that include a clause that gives lenders the unconditional right to call loans at any time are classified under the "within one year or on demand" bracket. In this regard, term loans from banks of approximately HK\$2,593,000 (2019: approximately HK\$3,025,000) (note 26) at the end of the reporting period have been so classified even though the Directors do not expect that lenders would exercise their rights to demand repayment and thus these borrowings (including the aggregate principal and interest cash outflows) would be repaid according to the following schedule as set out in the loan agreements:

	2020 HK\$'000	2019 HK\$'000
<b>Term loans from banks, including interest, with a repayment on demand clause</b>		
Within one year	505	505
More than one year but less than two years	505	505
More than two years but less than five years	926	1,319
Over five years	960	1,072
	<b>2,896</b>	<b>3,401</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### (c) Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's secured interest-bearing borrowings, bank balances and pledged bank deposits. Bank balances and interest-bearing borrowings with floating interest rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group has not entered into significant hedging activities to hedge against the exposure to interest rate risk. The Group closely monitors its interest rate exposure and the level of interest-bearing borrowings, in consideration of economic atmosphere and the strategies of the Group.

At the end of the reporting period, if interest rates had been 100 basis points higher or lower (but on condition that interest rate would not fall below zero) and all other variables were held constant, the Group's net profit would be increased by approximately HK\$392,000 or HK\$848,000 respectively (2019: approximately HK\$2,314,000 or HK\$121,000 respectively).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of next annual reporting period. The analysis is performed on the same basis for 2019.

### (d) Currency risk

The Group has transactional currency exposure. Such exposure arises from trading and investing transactions denominated in a currency other than the functional currency of an operating unit to which they relate. The Group's exposure to foreign currency risk principally arises from changes in exchange rate of United States dollars ("USD") and Renminbi ("RMB") against HKD. The management considers that the Group has limited exposure to foreign currency risk of USD against HKD since the relevant exchange rate has remained relatively stable.

The Group is exposed to foreign exchange risk since the Group's certain financial assets at fair value through profit or loss and bank balances were denominated in RMB. The Group has not entered into significant hedging activities to hedge against the exposure to foreign exchange risk because the main operations of the subsidiaries of the Group are conducted in their functional currency. The Group monitors currency risk exposure of RMB and will consider hedging significant exposure should the need arise.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### (d) Currency risk *(Continued)*

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

	Exposure to foreign currency	
	2020 RMB HK\$'000	2019 RMB HK\$'000
Financial assets at fair value through profit or loss	<b>60,426</b>	45,835
Cash and bank balances	<b>1,786</b>	959
Net exposure	<b>62,212</b>	46,794

At the end of the reporting period, if RMB had been 7% (2019: 4%) strengthened/weakened against HKD while all other variables were held constant, the Group's net profit would be increased/decreased by approximately HK\$4,355,000 (2019: approximately HK\$1,872,000).

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group's exposure to currency risk for all financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. The stated changes in foreign currency represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of next annual reporting period.

### (e) Price risk

The Group is exposed to price risk arising from investments in equity securities classified as financial assets at fair value through profit or loss (note 20). For the Group's equity securities investments and money market funds that are publicly traded, the fair value is determined with reference to quoted market prices. The Group's private investment fund is held for long-term strategic purpose. Its performance is assessed at least annually based on the information available to the Group, together with an assessment of their relevance to the Group's long-term strategic plans.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### (e) Price risk *(Continued)*

#### *Financial assets at fair value through profit or loss*

At the end of the reporting period, if the quoted market price of equity securities had been 4% (2019: 10%) higher/lower while all other variables held constant, the Group's net profit would be increased/decreased by approximately HK\$21,294,000 (2019: approximately HK\$55,752,000) due to change in the fair value of equity securities which were stated at FVPL.

At the end of the reporting period, if the quoted market price of cryptocurrencies invested by private investment funds had been 10% (2019: 10%) higher/lower while all other variables held constant, the Group's net profit would be increased/decreased by approximately HK\$1,471,000 (2019: approximately HK\$689,000).

The sensitivity analysis has been determined assuming that the reasonably possible changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to the exposure to price risk in existence at that date. It is also assumed that the fair values of the Group's investments would change in accordance with the historical correlation with the relevant stock market index or other relevant risk variables and that all other variables remain constant. The stated changes represent management's assessment of reasonably possible changes in the relevant stock market index or the relevant risk variables. The analysis is performed on the same basis for 2019.

## 7. FAIR VALUE MEASUREMENTS

In the opinion of the Directors, the carrying amounts of financial assets approximate their fair values.

The following presents the assets measured at fair value or required to disclose their fair value in these consolidated financial statements on a recurring basis at 31st December 2020 across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair Value Measurement*, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7. FAIR VALUE MEASUREMENTS *(Continued)*

### Assets measured at fair value on a recurring basis

	Note	Carrying amount HK\$'000	2020		
			Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Investment properties	17	455,912	–	93,227	362,685
Financial assets at fair value through profit or loss	20	620,921	532,351	24,946	63,624

	Note	Carrying amount HK\$'000	2019		
			Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Investment properties	17	430,614	–	91,404	339,210
Financial assets at fair value through profit or loss	20	644,916	564,721	–	80,195

As at 31st December 2020, a private investment fund was transferred out from Level 3 to Level 2 fair value measurements as unobservable inputs were no longer applied in valuation of the private investment fund.

As at 31st December 2019, a private investment fund was transferred out from Level 2 to Level 3 fair value measurements since unobservable inputs were applied in valuation of the private investment fund.

The Group's policy is to recognise transfers into and out of Level 3 as of the end of the reporting period or the date of the event or change in circumstances that caused the transfer, if applicable.

### Valuation techniques and inputs in Level 2 fair value measurement

#### (a) *Investment properties*

The investment properties situated in the PRC of approximately HK\$93,227,000 were revalued by Roma Appraisals Limited, an independent professional qualified valuer, on the market value basis using direct comparison approach.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7. FAIR VALUE MEASUREMENTS *(Continued)*

### Valuation techniques and inputs in Level 2 fair value measurement *(Continued)*

#### *(b) Financial assets at fair value through profit or loss: Private investment funds*

The fair value of a private investment fund, mainly invested in cryptocurrencies, is valued based on the net asset value of each fund unit quoted by the investment manager with reference to quoted prices of the underlying investments (i.e. cryptocurrencies) on trading platforms using direct comparison approach.

As at 31st December 2019, a significant unobservable input (i.e. discount for lack of marketability) was applied in the fair value measurement of this private investment fund while no such unobservable input was applied for its fair value measurement as at 31st December 2020 because the lack of marketability of the underlying investments was considered to be reflected on its quoted prices of the underlying investments as at 31st December 2020. As a result, this private investment fund was transferred out from Level 3 to Level 2 fair value measurements as at 31st December 2020.

The fair value of another private investment fund, which invested in a trusted fund, is valued based on the return rate quoted by the trust fund administrator using the discounted cash flow model.

### Movements in Level 3 fair value measurements

The details of the movements of the recurring fair value measurements categorised as Level 3 are shown as follows:

	Investment properties HK\$'000	Financial assets at fair value through profit or loss HK\$'000
As at 1st January 2019	344,945	272,181
Exchange realignment	(8,347)	–
Net changes in fair value recognised in profit or loss	2,612	3,023
Redemption upon maturity	–	(206,007)
Transferred from Level 2	–	10,998
As at 31st December 2019 and as at 1st January 2020	339,210	80,195
Exchange realignment	24,037	–
Net changes in fair value recognised in profit or loss	(562)	640
Transferred to Level 2	–	(17,211)
<b>As at 31st December 2020</b>	<b>362,685</b>	<b>63,624</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7. FAIR VALUE MEASUREMENTS *(Continued)*

### Valuation techniques and inputs in Level 3 fair value measurement

(a) *Investment properties*

The investment property situated in the PRC of approximately HK\$362,685,000 was revalued by Vigers Appraisal & Consulting Limited ("Vigers"), an independent professional qualified valuer, on the market value basis of capitalisation of net rental income derived from the existing tenancy with allowance for the reversionary income potential. The significant unobservable input used is the capitalisation rate ranging from 5.75% to 6.25% (2019: 5.75% to 6.25%).

As at 31st December 2020, if the capitalisation rate had been 1% (2019: 1%) higher/lower while all other variables held constant, the Group's net profit would be decreased by approximately HK\$40,594,000 or increased by approximately HK\$49,252,000 respectively (2019: decreased by approximately HK\$41,908,000 or increased by approximately HK\$50,880,000 respectively).

(b) *Financial assets at fair value through profit or loss: Unlisted equity securities*

The fair value of the unlisted equity securities without an active market classified in Level 3 was valued by Vigers using direct comparison approach with unobservable inputs. The significant unobservable input used in the fair value measurement is the price-to-earnings ratio.

As at 31st December 2020, if the expected price-to-earnings ratio had been 10% (2019: 10%) higher/lower while all other variables held constant, the Group's net profit would be increased/decreased by approximately HK\$3,863,000 respectively (2019: approximately HK\$3,205,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8. SEGMENT INFORMATION

For management purposes, the current major operating businesses of the Group are IHA, internet data centre (“IDC”), investing and leasing.

Up to 31st December 2019, revenue derived from sale of goods of the IHA business was classified in the line item of revenue in the consolidated income statement, whereas income generated in other businesses was classified in the line item of other revenue and net income in the consolidated income statement. In order to be in line with the Group’s business development strategy, management has decided that revenue generated from (i) the IHA business; and (ii) the IDC business would be classified as revenue in the consolidated financial statements with effect from 1st January 2020.

The IHA business is principally engaged in sale and distribution of IHA and complementary products (including set-top boxes and raw materials). Revenue from the IHA business, which is stated net of value added tax where applicable, is recognised at a point in time at which the customers obtain the control of goods, which generally coincides with the time when goods are delivered to customers and the title is passed.

The IDC business comprises the development, construction, operation, mergers, acquisitions and leasing out of properties used as IDC and facilities used in IDC. Revenue from the IDC business, including rental income from leasing of properties used as IDC and facilities used in IDC and service income from provision of IDC facilities for customers’ use, are recognised when the properties and facilities are let out and on a straight-line basis over the lease term, and as time lapsed or ratably over the term of the agreement respectively.

Rental income of approximately HK\$35,988,000 from the leasing of properties used as IDC and facilities used in IDC was recognised as revenue for the year ended 31st December 2020. During the year ended 31st December 2019, rental income of approximately HK\$27,257,000 from the leasing of properties used as IDC was recognised as other revenue and net income.

The investing segment comprises trading of securities and investing in financial instruments.

The leasing segment comprises leasing out of properties.

Other operations segment of the Group mainly comprises trading of miscellaneous materials.

For the purpose of assessing the performance of the operating segments and allocating resources between segments, the executive Directors assess segment profit or loss before tax without allocation of interest income from bank deposits, finance costs, legal and professional fees and other corporate administrative costs and the basis of preparing such information is consistent with that of the consolidated financial statements.

All assets are allocated to reportable segments other than head office bank balances and other unallocated financial and corporate assets which are managed on a group basis. All liabilities are allocated to reportable segments other than unallocated head office and corporate liabilities which are managed on a group basis.

Inter-segment sales transactions are charged at prevailing market rates. The accounting policies of the reporting segments are the same as the Group’s accounting policies as described in note 2.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8. SEGMENT INFORMATION *(Continued)*

### Business segments

An analysis of the Group's revenue, other revenue and net income, net changes in fair value of investment properties, segment results and segment assets and liabilities by business segments is as follows:

*For the year ended 31st December 2020*

	IHA	IDC	Investing	Leasing	Other	Elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	operations	HK\$'000	HK\$'000
					HK\$'000		
<b>REVENUE</b>							
Sale of goods	271,390	-	-	-	-	-	271,390
Lease of properties used as IDC and facilities used in IDC	-	35,988	-	-	-	-	35,988
<b>OTHER REVENUE AND NET INCOME</b>	(802)	232	39,041	8,493	1,015	(83)	47,896
<b>NET CHANGES IN FAIR VALUE OF INVESTMENT PROPERTIES</b>	-	(562)	-	(3,846)	-	-	(4,408)
Segment revenue	270,588	35,658	39,041	4,647	1,015	(83)	350,866
<b>RESULTS</b>							
Segment results	(9,642)	14,009	25,641	(500)	1,050	-	30,558
Unallocated corporate income							18,298
Interest income from bank deposits							1,284
Other unallocated corporate expenses							(19,781)
Finance costs							30,359
							(3,129)
Profit before tax							27,230
Income tax expenses							(5,808)
Profit for the year							21,422



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8. SEGMENT INFORMATION *(Continued)*

### Business segments *(Continued)*

As at 31st December 2020

	IHA HK\$'000	IDC HK\$'000	Investing HK\$'000	Leasing HK\$'000	Other operations HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>							
Segment assets	120,121	1,159,423	711,151	111,933	373	–	2,103,001
Unallocated corporate assets						391,241	391,241
Consolidated total assets							2,494,242
<b>LIABILITIES</b>							
Segment liabilities	82,763	70,806	129,031	21,089	–	–	303,689
Unallocated corporate liabilities						18,189	18,189
Consolidated total liabilities							321,878
<b>OTHER INFORMATION</b>							
Capital expenditures							
– Property, plant and equipment	93	206,568	–	–	–	39	206,700
– Right-of-use assets	2,273	–	–	–	–	7,607	9,880
Depreciation							
– Property, plant and equipment	482	4,520	–	689	–	256	5,947
– Right-of-use assets	1,588	–	710	348	–	5,172	7,818
Write-down of inventories, net	551	–	–	–	–	–	551
Foreign exchange losses/(gains), net	2,040	–	–	–	–	(146)	1,894
Operating lease charges on premises	92	–	67	4	–	333	496
Net fair value gains on financial assets at fair value through profit or loss	(376)	–	(31,591)	–	–	–	(31,967)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8. SEGMENT INFORMATION *(Continued)*

### Business segments *(Continued)*

For the year ended 31st December 2019

	IHA HK\$'000	IDC HK\$'000	Investing HK\$'000	Leasing HK\$'000	Other operations HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
<b>REVENUE</b>							
Sale of goods	325,312	–	–	–	–	–	325,312
<b>OTHER REVENUE AND NET INCOME</b>	2,341	27,257	77,567	7,860	908	(167)	115,766
<b>NET CHANGES IN FAIR VALUE OF INVESTMENT PROPERTIES</b>	–	2,612	–	(3,551)	–	–	(939)
Segment revenue	327,653	29,869	77,567	4,309	908	(167)	440,139
<b>RESULTS</b>							
Segment results	4,954	22,192	70,821	(1,632)	121	–	96,456
Unallocated corporate income							10,898
Interest income from bank deposits							6,256
Other unallocated corporate expenses							(52,558)
Finance costs							61,052 (6,425)
Profit before tax							54,627
Income tax expenses							(13,941)
Profit for the year							40,686

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8. SEGMENT INFORMATION *(Continued)*

### Business segments *(Continued)*

As at 31st December 2019

	IHA HK\$'000	IDC HK\$'000	Investing HK\$'000	Leasing HK\$'000	Other operations HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>							
Segment assets	132,068	1,060,296	815,233	107,695	1,939	–	2,117,231
Unallocated corporate assets						402,841	402,841
Consolidated total assets							2,520,072
<b>LIABILITIES</b>							
Segment liabilities	88,542	165,606	121,024	20,874	36	–	396,082
Unallocated corporate liabilities						18,185	18,185
Consolidated total liabilities							414,267
<b>OTHER INFORMATION</b>							
Capital expenditures							
– Property, plant and equipment	38	411,869	–	90	–	2,742	414,739
– Right-of-use assets	440	–	1,410	–	–	2,681	4,531
Depreciation							
– Property, plant and equipment	725	64	–	1,034	3	503	2,329
– Right-of-use assets	1,392	–	598	351	–	4,142	6,483
Reversal of write-down of inventories, net	(2,173)	–	–	–	–	–	(2,173)
Foreign exchange (gains)/losses, net	(223)	–	(5)	–	–	2,343	2,115
Operating lease charges on premises	463	–	186	4	–	1,585	2,238
Impairment loss on other receivables	–	–	–	–	89	–	89
Net fair value gains on financial assets at fair value through profit or loss	(531)	–	(68,761)	–	–	–	(69,292)
Net fair value gains on financial liabilities at fair value through profit or loss	(961)	–	–	–	–	–	(961)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8. SEGMENT INFORMATION *(Continued)*

### Geographical information

The Group operates in the following principal geographical areas: the PRC, Hong Kong, Australia, the United States and other overseas markets in both 2020 and 2019.

The following tables set out information about the geographical location of (a) the Group's revenue and non-current assets other than financial assets at fair value through profit or loss and deferred tax assets; and (b) other revenue and net income other than unallocated corporate income and interest income from bank deposits. The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the non-current assets is based on the physical location of the assets. The geographical location of other revenue and net income is based on the location at which other revenue and net income is generated.

(a) *Revenue and non-current assets*

	Revenue		Non-current assets	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
The PRC	<b>118,336</b>	87,562	<b>473,644</b>	449,722
Hong Kong	<b>30,168</b>	45,590	<b>132,567</b>	74,020
Australia	<b>125,476</b>	138,947	–	–
The United States	–	–	<b>727,747</b>	697,522
Other overseas markets	<b>33,398</b>	53,213	–	–
	<b>307,378</b>	325,312	<b>1,333,958</b>	1,221,264

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8. SEGMENT INFORMATION *(Continued)*

### Geographical information *(Continued)*

(b) *Other revenue and net income*

For the year ended 31st December 2020						
	IHA	IDC	Investing	Leasing	Other	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	operations	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The PRC	(802)	–	4,506	8,338	1,015	13,057
Hong Kong	–	–	34,535	72	–	34,607
The United States	–	232	–	–	–	232
	(802)	232	39,041	8,410	1,015	47,896

For the year ended 31st December 2019						
	IHA	IDC	Investing	Leasing	Other	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	operations	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The PRC	2,341	27,257	4,075	7,693	908	42,274
Hong Kong	–	–	73,492	–	–	73,492
	2,341	27,257	77,567	7,693	908	115,766

### Information about major customers

Revenue from customers individually contributing 10% or over of the total revenue of the Group, all of which were IHA customers, is as follows:

	2020	2019
	HK\$'000	HK\$'000
Customer A	125,476	138,947
Customer B	89,499	59,122
Customer C	–*	36,788
Customer D	–*	33,554
	214,975	268,411

\* These customers individually contributed less than 10% of the total revenue.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 9. REVENUE, OTHER REVENUE AND NET INCOME

	2020 HK\$'000	2019 HK\$'000
<b>Revenue</b>		
Sale of goods ( <i>Note</i> )	271,390	325,312
Rental income from IDC properties and facilities ( <i>note 8</i> )	35,988	–
	<b>307,378</b>	325,312
<b>Other revenue</b>		
Dividend income from listed securities	7,450	8,801
Rental income from other investment properties	7,723	7,292
Rental income from IDC properties ( <i>note 8</i> )	–	27,257
Interest income calculated using the effective interest method:		
Interest income from bank deposits	1,284	6,256
Interest income from loans receivable	16,694	11,197
	<b>33,151</b>	60,803
<b>Other net income</b>		
Consultancy fee income	–	2,044
Foreign exchange losses, net	(1,894)	(2,115)
Net fair value gains on financial assets at fair value through profit or loss	31,967	69,292
Net fair value gains on financial liabilities at fair value through profit or loss	–	961
Gain on disposal of a subsidiary	1,015	–
Gain on disposal of property, plant and equipment	3	–
Government subsidies	1,696	–
Sundry income	1,540	1,935
	<b>34,327</b>	72,117
	<b>67,478</b>	132,920

*Note:*

The revenue from contracts with customers for sale of goods within HKFRS 15 is based on fixed price and recognised at a point in time.

The amount of revenue recognised for the year ended 31st December 2020 that was included in the contract liabilities at the beginning of the year is approximately HK\$2,549,000 (2019: approximately HK\$16,841,000).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging/(crediting):

	2020 HK\$'000	2019 HK\$'000
Auditor's remuneration	1,550	1,550
Impairment loss on other receivables	–	89
Depreciation of property, plant and equipment*	5,947	2,329
Depreciation of right-of-use assets	7,818	6,483
Cost of inventories	227,207	279,448
(Gain)/Loss on disposal of property, plant and equipment	(3)	753
Write-down/(Reversal of write-down) of inventories, net**	551	(2,173)
Research and development costs	327	156
Direct operating expenses arising from investment properties that generating rental income from:		
– Leasing of IDC properties (included in cost of sales)	1,312	–
– Leasing of IDC properties (included in other operating expenses)	–	1,318
– Leasing of other investment properties (included in other operating expenses)	1,360	1,375
(Gain)/Loss on disposal of a subsidiary	(1,015)	1,223
Equity-settled share-based payment expenses to other eligible participants	–	2,058
Staff costs (including Directors' emoluments (note 11)):		
Salaries and allowances	50,241	52,998
Equity-settled share-based payment expenses	–	8,423
Retirement benefits scheme contributions	829	3,814
Severance payment	16	482
<b>Total staff costs</b>	<b>51,086</b>	<b>65,717</b>

\* Depreciation of property, plant and equipment included depreciation of IDC facilities of HK\$4,500,000 (2019: HK\$Nil) recognised as cost of sales for the year.

\*\* The reversal of write-down of inventories arose from disposal of inventories which had been written down in previous years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the seven (2019: eight) Directors were as follows:

Name of Director	Note	Qualifying services					Share option benefit HK\$'000	Total HK\$'000
		Other services in connection with the management of the affairs						
		Directors' fee HK\$'000	Salaries, allowances and other benefits in kind HK\$'000		Discretionary bonuses HK\$'000	Retirement benefits scheme contributions HK\$'000		
<i>Executive Directors</i>								
Mr. Li Qiang		–	1,300	550	65	–	1,915	
Mr. Gao Fei	(a)	–	1,300	650	65	–	2,015	
Mr. Shi Guangrong		–	930	550	43	–	1,523	
Mr. Zhu Jiang		–	699	550	21	–	1,270	
<i>Independent Non-Executive Directors</i>								
Ms. Shen Yan		120	–	100	–	–	220	
Ms. Dong Hairong		120	–	100	–	–	220	
Ms. Huo Qiwei		120	–	100	–	–	220	
<b>Total for 2020</b>		<b>360</b>	<b>4,229</b>	<b>2,600</b>	<b>194</b>	<b>–</b>	<b>7,383</b>	
<i>Executive Directors</i>								
Mr. Li Qiang		–	1,300	1,000	65	210	2,575	
Mr. Gao Fei	(a)	–	1,300	1,000	65	210	2,575	
Mr. Shi Guangrong		–	1,033	1,000	96	1,369	3,498	
Mr. Zhu Jiang		–	887	1,500	21	1,369	3,777	
<i>Independent Non-Executive Directors</i>								
Ms. Shen Yan		120	–	150	–	105	375	
Ms. Dong Hairong		120	–	150	–	211	481	
Ms. Huo Qiwei	(b)	38	–	100	–	–	138	
Mr. Zhong Pengrong	(c)	82	–	100	–	58	240	
<b>Total for 2019</b>		<b>360</b>	<b>4,520</b>	<b>5,000</b>	<b>247</b>	<b>3,532</b>	<b>13,659</b>	

Notes:

- (a) Mr. Gao Fei is the chief executive officer of the Company. His emoluments disclosed above included his services rendered as the chief executive officer of the Company.
- (b) Ms. Huo Qiwei was appointed on 5th September 2019.
- (c) Mr. Zhong Pengrong resigned on 5th September 2019.
- (d) Mr. Cong Yu and Mr. Chen Biao were appointed as executive Directors on 21st January 2021.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11. DIRECTORS' EMOLUMENTS *(Continued)*

During the years ended 31st December 2020 and 2019, no emolument was paid by the Group to any Director as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emolument during both years.

There were no loans, quasi-loans or other dealings in favour of the Directors that were entered into or subsisted during the years ended 31st December 2020 and 2019.

The Directors are of the opinion that no transactions, arrangements and contracts of significance in relation to the Company's business to which the Company was a party and in which a Director or a connected entity of the Director had a material interest, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the year except for the grant of share options to the Directors during the year ended 31st December 2019, details of which are disclosed in note 33 (2019: Nil).

## 12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

During the year, four (2019: four) Directors are included in the five highest paid individuals of the Group. Details of Directors' emoluments are set out in note 11 above. The emoluments of the remaining one (2019: one) highest paid individual, who is an employee of the Group, are as follows:

	2020 HK\$'000	2019 HK\$'000
Basic salaries, allowances and other benefits in kind	1,337	1,369
Discretionary bonus	1,000	2,300
Retirement benefits scheme contributions	56	109
Share option benefits	–	2,000
	<b>2,393</b>	<b>5,778</b>

The emoluments of the above one (2019: one) highest paid individual fell within the following bands:

	2020 Number of individuals	2019 Number of individuals
HK\$2,000,001 – HK\$2,500,000	1	–
HK\$5,500,001 – HK\$6,000,000	–	1
	<b>1</b>	<b>1</b>

During the years ended 31st December 2020 and 2019, no emolument was paid by the Group to the above highest paid individual as an inducement to join or upon joining the Group or as compensation for loss of office.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 13. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Borrowing costs for bank and other loans	2,935	6,236
Imputed interest expenses on lease liabilities	194	189
	<b>3,129</b>	6,425

## 14. INCOME TAX EXPENSES

The taxation charged to profit or loss represents:

	2020 HK\$'000	2019 HK\$'000
<b>Current tax</b>		
PRC corporate income tax		
Current year	38	562
Under-provision in prior year	–	42
Overseas tax		
Current year	2,357	372
	<b>2,395</b>	976
<b>Deferred taxation</b>		
Origination and reversal of temporary differences	(1,641)	(620)
Benefit of tax losses utilised	5,054	13,585
	<b>3,413</b>	12,965
Charge for the year	<b>5,808</b>	13,941

For the years ended 31st December 2020 and 2019, Hong Kong Profits Tax has not been provided as the Group either did not generate any assessable profit from Hong Kong or its estimated assessable profits for the year were wholly absorbed by unrelieved tax losses brought forward from previous years.

The income tax provision in respect of operations in the PRC is calculated at the CIT rate of 25% on the estimated assessable profits for 2020 and 2019 based on existing legislation, interpretations and practices in respect thereof. An operating subsidiary of the Company has been officially designated by the local tax authority as "Participant of Development in Western China" which is exempted for part of PRC CIT. As a result, the effective CIT rate for the subsidiary is 15% for 2020 and 2019. Certain subsidiaries of the Company have been designated as "Small-Scale and Low-Profit Enterprises" which are charged at the effective preferential CIT rates of 5% or 10% respectively on condition that the taxable income was no more than RMB1.0 million or between RMB1.0 million to RMB3.0 million for 2020 and 2019.

The United States operation of the Group is subject to the United States Federal and State Income Tax. For the years ended 31st December 2020 and 2019, the United States Federal and State Income Tax has not been provided as the Group did not generate any assessable profit in the United States.

Under the United States domestic tax laws, a foreign person is subject to 30% income tax on the gross amount of certain United States-source (non-business) income. As such, withholding tax is provided at 30% for the interest income derived from the loans to a wholly-owned subsidiary in the United States by the Company for the years ended 31st December 2020 and 2019.

The Group has investment properties situated in the PRC which are stated at fair value. Deferred taxes are recognised on changes in fair value of investment properties in the PRC taking into account the PRC land appreciation tax and CIT payable upon sales of those investment properties.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 14. INCOME TAX EXPENSES *(Continued)*

### *Reconciliation of tax expenses*

	2020 HK\$'000	2019 HK\$'000
Profit before tax	<b>27,230</b>	54,627
Tax at a weighted average rate of 18.83% (2019: 18.62%) applicable to the jurisdictions concerned	<b>5,128</b>	10,172
Tax effect of non-deductible expenses	<b>7,988</b>	30,743
Tax effect of non-taxable income	<b>(14,333)</b>	(26,700)
Tax effect of utilisation of tax losses not previously recognised	<b>(3,737)</b>	(7,296)
Tax effect of unrecognised tax losses and temporary differences	<b>10,410</b>	(1,782)
Tax effect of under-provision in prior year	–	42
Tax effect of reversal/provision of deferred taxation	<b>(1,641)</b>	7,860
Withholding tax for offshore interest income	<b>2,357</b>	372
Others	<b>(364)</b>	530
Tax expenses for the year	<b>5,808</b>	13,941

### *Recognised deferred tax assets and liabilities*

The movements for the year in the Group's deferred tax assets and liabilities are as follows:

	Assets		Liabilities	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
At beginning of the reporting period	<b>5,018</b>	18,782	<b>(28,409)</b>	(28,350)
Exchange realignment	<b>36</b>	(179)	<b>(1,737)</b>	610
Recognised in profit or loss	<b>(5,054)</b>	(13,585)	<b>1,641</b>	620
Recognised in other comprehensive loss	–	–	–	(1,289)
<b>At end of the reporting period</b>	<b>–</b>	5,018	<b>(28,505)</b>	(28,409)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 14. INCOME TAX EXPENSES (Continued)

### Recognised deferred tax assets and liabilities (Continued)

Recognised deferred tax assets and liabilities at the end of the reporting period represent the following:

	Assets		Liabilities	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Revaluation of property, plant and equipment upon transfer to investment properties	–	–	(21,672)	(19,824)
Revaluation of investment properties	–	–	(6,833)	(8,585)
Depreciation allowances	–	–	(2,984)	(153)
Tax losses	2,984	5,171	–	–
Deferred tax assets/(liabilities)	2,984	5,171	(31,489)	(28,562)
Offsetting	(2,984)	(153)	2,984	153
Net deferred tax assets/(liabilities)	–	5,018	(28,505)	(28,409)

At 31st December 2019, deferred tax asset arising from the unused tax losses of one of the PRC subsidiaries of the Company of approximately HK\$5,018,000 has been recognised due to the continuous profit stream in the past few years and the predictability of future profit stream of this subsidiary in nearest future.

At 31st December 2020, all deferred tax asset arising from the unused tax losses of this PRC subsidiary has been fully utilised.

### Unrecognised deferred tax assets arising from

	2020 HK\$'000	2019 HK\$'000
Deductible temporary differences	1,322	473
Tax losses	518,524	472,903
	519,846	473,376

At 31st December 2020, the Group had unrecognised deferred tax assets of approximately HK\$92,653,000 (2019: approximately HK\$87,155,000) in respect of the tax losses and other temporary differences. As it is not probable that future taxable profits will be available against which the deductible temporary differences and the unused tax losses of the Group can be utilised, deferred tax assets have not been recognised. The deductible temporary differences do not expire under the current tax legislation.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 14. INCOME TAX EXPENSES *(Continued)*

### ***Unrecognised deferred tax assets arising from*** *(Continued)*

The expiry of unrecognised tax losses are as follows:

	2020 HK\$'000	2019 HK\$'000
Tax losses without expiry date	401,067	346,203
Tax losses expiring on 31st December 2025	24,281	–
Tax losses expiring on 31st December 2024	16,080	13,896
Tax losses expiring on 31st December 2023	45,263	61,901
Tax losses expiring on 31st December 2022	28,459	33,818
Tax losses expiring on 31st December 2021	3,374	15,574
Tax losses expiring on 31st December 2020	–	1,511
	<b>518,524</b>	472,903

The profits earned by PRC subsidiaries from 1st January 2008 onwards would be subject to withholding tax if they are distributed. In the opinion of the Directors, all undistributed profits are expected to be retained in the PRC subsidiaries and not to be remitted out of the PRC in the foreseeable future. Accordingly, no provision for deferred tax has been made. As at 31st December 2020, retained profits earned by PRC subsidiaries amounted to approximately HK\$12,774,000 (2019: approximately HK\$10,762,000).

## 15. DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31st December 2020 (2019: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 16. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per Share attributable to owners of the Company is based on the following data:

	2020 HK\$'000	2019 HK\$'000
Profit attributable to owners of the Company	<b>21,914</b>	41,484

	2020 '000	2019 '000
Issued ordinary Shares at 1st January	<b>2,073,089</b>	1,803,089
Issue of new Shares	–	115,397
Weighted average number of ordinary Shares for basic earnings per Share	<b>2,073,089</b>	1,918,486
Weighted average number of ordinary Shares for diluted earnings per Share	<b>2,073,089</b>	1,918,486
Earnings per Share:	<b>HK\$</b>	HK\$
– Basic	<b>0.01</b>	0.02
– Diluted (Note)	<b>0.01</b>	0.02

Note:

Diluted earnings per Share is the same as the basic earnings per Share for the years ended 31st December 2020 and 2019 because the potential new ordinary Shares to be issued on exercise of the outstanding share options under the Company's share option scheme have an anti-dilutive effect on the basic earnings per Share for the years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17. INVESTMENT PROPERTIES

	2020 HK\$'000	2019 HK\$'000
<b>At fair value</b>		
At beginning of the reporting period	<b>430,614</b>	434,003
Transfer from property, plant and equipment	–	7,785
Exchange realignment	<b>29,706</b>	(10,235)
Net changes in fair value	<b>(4,408)</b>	(939)
<b>At end of the reporting period</b>	<b>455,912</b>	430,614

In previous years, the Group had leased out certain portion of its factory plant in the PRC to third parties which was previously held for own-use, resulting in transfer from property, plant and equipment to investment properties.

The Group has outsourced the production process of IHA to outsiders since the second half of 2018. During the year ended 31st December 2019, the Group had cleared the remaining portion of the own-use factory plant and made it available for leasing out, with certain portion of the property leased out to third parties. As a result, its revalued amount of approximately HK\$7,785,000 was transferred from property, plant and equipment to investment properties.

As at 31st December 2020, the carrying amounts of the investment properties held under medium-term leases and situated in the PRC were approximately HK\$455,912,000 (2019: approximately HK\$430,614,000).

The valuation techniques and input for the revaluation of investment properties are disclosed in note 7.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17. INVESTMENT PROPERTIES *(Continued)*

### *Commitments under operating leases – as lessor*

The Group leases certain of its properties to third parties under operating leases, which have an initial non-cancellable lease term of one to ten years (2019: *one to ten years*). The leases do not include any purchase, termination and extension options.

These properties are exposed to residual value risk. The lease contracts, as a result, impose a restriction that, unless approval is obtained from the Group as lessor, the properties can only be used by the lessees. The lessees are also required to keep the properties in a good state of repair and return the properties in their original condition at the end of the leases.

Below is a maturity analysis of undiscounted lease payments to be received from the leasing of investment properties:

	2020 HK\$'000	2019 HK\$'000
Year 1	34,778	32,878
Year 2	36,218	30,639
Year 3	35,846	33,032
Year 4	34,345	32,867
Year 5	33,815	31,921
After year 5	39,076	68,481
Undiscounted lease payments to be received	214,078	229,818

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 18. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK\$'000	Data centre facilities HK\$'000	Freehold land HK\$'000	Buildings held for own use HK\$'000	Leasehold property HK\$'000	Leasehold improvements HK\$'000	Office equipment, furniture and fixtures HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Reconciliation of carrying amounts										
– year ended 31st December 2019										
At beginning of the reporting period	16,551	–	74,880	43,556	73,913	5,476	1,547	1,714	586	218,223
Transfer to right-of-use assets upon adoption of HKFRS 16	–	–	–	–	(73,913)	–	–	–	–	(73,913)
Additions	411,856	–	–	–	–	2,568	315	–	–	414,739
Disposals	–	–	–	–	–	(46)	(191)	(652)	(15)	(904)
Depreciation	–	–	–	(302)	–	(671)	(731)	(341)	(284)	(2,329)
Exchange realignment	–	–	–	(111)	–	(112)	(21)	(31)	(7)	(282)
Revaluation upon transfer to investment properties	–	–	–	2,862	–	–	–	–	–	2,862
Transfer to investment properties	–	–	–	(7,785)	–	–	–	–	–	(7,785)
<b>At end of the reporting period</b>	<b>428,407</b>	<b>–</b>	<b>74,880</b>	<b>38,220</b>	<b>–</b>	<b>7,215</b>	<b>919</b>	<b>690</b>	<b>280</b>	<b>550,611</b>
Reconciliation of carrying amounts										
– year ended 31st December 2020										
At beginning of the reporting period	428,407	–	74,880	38,220	–	7,215	919	690	280	550,611
Additions	146,525	60,000	–	–	–	–	175	–	–	206,700
Disposals	–	–	–	–	–	–	(1)	(47)	–	(48)
Depreciation	–	(4,500)	–	–	–	(645)	(418)	(310)	(74)	(5,947)
Exchange realignment	–	–	–	–	–	289	23	26	14	352
<b>At end of the reporting period</b>	<b>574,932</b>	<b>55,500</b>	<b>74,880</b>	<b>38,220</b>	<b>–</b>	<b>6,859</b>	<b>698</b>	<b>359</b>	<b>220</b>	<b>751,668</b>
As at 31st December 2019										
Cost	428,407	–	74,880	38,220	–	24,120	6,205	4,282	4,115	580,229
Accumulated depreciation and impairment losses	–	–	–	–	–	(16,905)	(5,286)	(3,592)	(3,835)	(29,618)
	428,407	–	74,880	38,220	–	7,215	919	690	280	550,611
As at 31st December 2020										
Cost	574,932	60,000	74,880	38,220	–	24,647	6,316	4,179	4,152	787,326
Accumulated depreciation and impairment losses	–	(4,500)	–	–	–	(17,788)	(5,618)	(3,820)	(3,932)	(35,658)
	<b>574,932</b>	<b>55,500</b>	<b>74,880</b>	<b>38,220</b>	<b>–</b>	<b>6,859</b>	<b>698</b>	<b>359</b>	<b>220</b>	<b>751,668</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Buildings held for own use represented buildings under development for the Group's IDC in the United States which was not ready for use at the end of the reporting period and no depreciation was recognised for the years ended 31st December 2020 and 2019.

### *Commitments under operating lease – as lessor*

The Group leases certain of its IDC facilities to a third party under operating lease, which has an initial non-cancellable lease term of five years. The lease does not include any purchase, termination and extension options.

These IDC facilities are exposed to residual value risk. The lease contract, as a result, imposes a restriction that, unless approval is obtained from the Group as lessor, the IDC facilities can only be used by the lessee. The lessee is also required to keep the IDC facilities in a good state of repair and return the IDC facilities in their original condition at the end of the lease.

Below is a maturity analysis of undiscounted lease payments to be received from the leasing of IDC facilities:

	2020 HK\$'000	2019 HK\$'000
Year 1	12,000	–
Year 2	15,000	–
Year 3	19,000	–
Year 4	20,000	–
Year 5	5,000	–
After year 5	–	–
Undiscounted lease payments to be received	71,000	–



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The movements of right-of-use assets and lease liabilities within HKFRS 16 during the years ended 31st December 2020 and 2019 are set out below:

	Right-of-use assets				Lease liabilities HK\$'000
	Leasehold land HK\$'000	Leasehold properties HK\$'000	Buildings HK\$'000	Total HK\$'000	
At beginning of the reporting period upon adoption of HKFRS 16	10,389	73,913	2,005	86,307	(2,005)
Additions	–	–	4,531	4,531	(4,531)
Depreciation of right-of-use assets	(351)	(3,003)	(3,129)	(6,483)	–
Imputed interest expenses on lease liabilities	–	–	–	–	(189)
Lease payments	–	–	–	–	3,175
Release upon disposal of a subsidiary	–	–	(58)	(58)	60
Exchange realignment	(221)	–	(37)	(258)	86
<b>At 31st December 2019 and at 1st January 2020</b>	<b>9,817</b>	<b>70,910</b>	<b>3,312</b>	<b>84,039</b>	<b>(3,404)</b>
Additions	–	–	9,880	9,880	(9,880)
Depreciation of right-of-use assets	(348)	(3,003)	(4,467)	(7,818)	–
Imputed interest expenses on lease liabilities	–	–	–	–	(194)
Lease payments	–	–	–	–	4,809
Exchange realignment	613	–	–	613	(190)
<b>At 31st December 2020</b>	<b>10,082</b>	<b>67,907</b>	<b>8,725</b>	<b>86,714</b>	<b>(8,859)</b>
At 31st December 2019					
Current portion	–	–	–	–	(2,672)
Non-current portion	9,817	70,910	3,312	84,039	(732)
	9,817	70,910	3,312	84,039	(3,404)
<b>At 31st December 2020</b>					
Current portion	–	–	–	–	(5,466)
Non-current portion	10,082	67,907	8,725	86,714	(3,393)
	<b>10,082</b>	<b>67,907</b>	<b>8,725</b>	<b>86,714</b>	<b>(8,859)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES *(Continued)*

### *The Group as lessee*

The leasehold land of approximately HK\$10,082,000 (2019: approximately HK\$9,817,000) represents upfront payment for medium-term leasehold land situated in the PRC, which is amortised over the lease period of 45 years. At the end of the reporting period, the remaining lease term of the land was 28 years (2019: 29 years).

The interests in leasehold properties, which comprise leasehold lands and the buildings thereon (including the whole or part of undivided share in the underlying land), in Hong Kong of approximately HK\$67,907,000 (2019: approximately HK\$70,910,000) are held by the Group as the registered owner. Those property interests were acquired from the previous registered owners by making lump sum payments at the upfront. Except for the variable amounts to be charged by the government subsequently that are reviewed regularly with reference to a few factors such as the rateable values, there are no ongoing payments to be made under the terms of the land lease. At the end of the reporting period, the remaining lease term of the land were 27 to 28 years (2019: 28 to 29 years).

The leasehold properties were held for own use and classified as finance lease which were depreciated over the shorter of the lease term and the estimated useful life.

The Group leases various office premises and staff quarters for its daily operations with fixed lease payment terms. Lease terms range from one to three years (2019: one to three years).

### *COVID-19-related rent concessions*

The amount recognised in profit or loss during the year ended 31st December 2020 to reflect changes in lease payments arising from rent concessions to which the Group has applied the practical expedient for COVID-19-related rent concessions as provided in Amendments to HKFRS 16 is approximately HK\$203,000.

### *Restrictions or covenants*

Most of the leases impose a restriction that, unless approval is obtained from the lessor, the right-of-use asset can only be used by the Group and the Group is prohibited from selling or pledging the underlying assets. The Group is also required to keep those properties in a good state of repair and return the properties in their original condition at the end of the leases.

The Group has recognised the following amounts for the year:

	2020 HK\$'000	2019 HK\$'000
Lease payments:		
Short-term leases	496	2,238
Total cash outflow for leases	5,305	5,413

During the year ended 31st December 2020, lease expenses charged to profit or loss amounted to approximately HK\$496,000 (2019: approximately HK\$2,238,000).

### *Commitments under operating leases – as lessee*

At 31st December 2020, the Group was committed to approximately HK\$120,000 (2019: approximately HK\$176,000) for short-term leases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	2020 HK\$'000	2019 HK\$'000
Equity securities listed in Hong Kong	(a)	<b>385,875</b>	438,055
Equity securities listed outside Hong Kong	(a)	<b>146,476</b>	119,467
Money market funds	(a)	–	7,199
Private investment funds	(b)	<b>24,946</b>	10,998
Unlisted equity securities outside Hong Kong	(c)	<b>63,624</b>	69,197
		<b>620,921</b>	644,916
Current portion		<b>255,086</b>	288,421
Non-current portion		<b>365,835</b>	356,495
		<b>620,921</b>	644,916

Notes:

- (a) The fair value of listed equity securities and money market funds are based on quoted market prices in active markets at the end of the reporting period.
- (b) Included in the private investment funds were two private investment funds, one of which invested in cryptocurrencies and unlisted equity investment with carrying amount of approximately HK\$17,211,000 (2019: approximately HK\$10,998,000) and another one invested in a trusted fund in the PRC with carrying amount of approximately RMB6,510,000 (equivalent to approximately HK\$7,735,000) (2019: HK\$Nil).

The valuation techniques and inputs applied for fair value measurement have been disclosed in note 7.

- (c) The investment in unlisted equity securities of a company incorporated in the Cayman Islands is not held for trading. The valuation techniques and inputs applied for fair value measurement have been disclosed in note 7.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 21. INVESTMENT PORTFOLIO

The Group's ten largest investments, including individual investments with value exceeding 5% of the Group's total assets, as at 31st December 2020 and 2019 with brief description of the investee companies as follows:

### As at 31st December 2020

Stock code	Name of investee company	Note	Number of shares held	Effective shareholding interest	Acquisition cost HK\$'000	Fair value HK\$'000	Accumulated unrealised holding gain/(loss) arising on revaluation from the date of acquisition to 31st December 2020 HK\$'000	Net gain/(loss) for the year ended 31st December 2020 HK\$'000	Dividend received for the year ended 31st December 2020 HK\$'000	Classification of financial assets
<b>Listed equity securities</b>										
2318	Ping An Insurance (Group) Company of China, Ltd. ("Ping An") (H shares)	(i)	3,000,000	0.04%	120,766	285,000	164,234	8,700	6,261	FVPL
6060	ZhongAn Online P & C Insurance Co., Ltd. (H shares)		1,552,700	0.11%	43,718	56,208	12,490	12,577	-	FVPL
601238	Guangzhou Automobile Group Co., Ltd. (A shares)		2,626,773	0.04%	49,162	41,441	(7,721)	(2,326)	473	FVPL
002199	Zhejiang East Crystal Electronic Co., Ltd.		3,332,000	1.37%	69,008	27,556	(41,452)	(8,580)	-	FVPL
8137	Honbridge Holdings Limited		46,774,000	0.47%	63,208	21,516	(41,692)	(1,871)	-	FVPL
002075	Jiangsu Shagang Co., Ltd.		1,500,000	0.07%	18,231	19,571	1,340	8,940	177	FVPL
2238	Guangzhou Automobile Group Co., Ltd. (H shares)		1,285,200	0.04%	16,142	11,078	(5,064)	(1,388)	228	FVPL
LU	Lufax Holding Ltd (American depositary shares)		90,000	0.05%	9,427	9,909	482	482	-	FVPL
<b>Private investment fund</b>										
	iSun Global Restructuring-led Partnership Fund I LP ("iSun Fund")	(ii)	N/A	N/A	66,500	17,211	(49,289)	6,213	-	FVPL
<b>Unlisted equity securities</b>										
	APAL Holdings Limited ("APAL")	(iii)	100,000,000	9.47%	78,000	63,624	(14,376)	(5,573)	-	FVPL

The above investments represent in aggregate over 89.1% in value of the Group's investments. Apart from the ten largest investments listed above, the Group also held various other individual investments with value representing below 1% of the Group's total assets as at 31st December 2020.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 21. INVESTMENT PORTFOLIO (Continued)

As at 31st December 2019

Stock code	Name of investee company	Note	Number of shares held	Effective shareholding interest	Acquisition cost HK\$'000	Fair value HK\$'000	Accumulated unrealised holding gain/(loss) arising on revaluation from the date of acquisition to 31st December 2019 HK\$'000	Net gain/(loss) for the year ended 31st December 2019 HK\$'000	Dividend received for the year ended 31st December 2019 HK\$'000	Classification of financial assets
<b>Listed equity securities</b>										
2318	Ping An (H shares)	(i)	3,000,000	0.04%	120,766	276,300	155,534	94,486	5,730	FVPL
6060	ZhongAn Online P & C Insurance Co., Ltd. (H shares)		1,552,700	0.33%	43,718	43,631	(87)	4,736	-	FVPL
601238	Guangzhou Automobile Group Co., Ltd. (A shares)		2,805,973	0.04%	51,956	36,399	(15,557)	3,902	971	FVPL
0880	SJM Holdings Limited		4,000,000	0.07%	37,087	35,480	(1,607)	8,908	1,160	FVPL
002199	Zhejiang East Crystal Electronic Co., Ltd.		3,332,000	1.37%	64,833	34,406	(30,427)	303	-	FVPL
0981	Semiconductor Manufacturing International Corporation		2,000,000	0.04%	20,377	23,880	3,503	12,259	-	FVPL
8137	Honbridge Holdings Limited		46,774,000	0.47%	63,208	23,387	(39,821)	(22,452)	-	FVPL
0966	China Taiping Insurance Holdings Company Limited		911,000	0.03%	23,156	17,601	(5,555)	(1,986)	91	FVPL
002075	Jiangsu Shaqang Co., Ltd.		2,200,000	0.10%	25,921	15,252	(10,669)	(9,825)	70	FVPL
<b>Unlisted equity securities</b>										
APAL		(iii)	100,000,000	9.47%	78,000	69,197	(8,803)	1,452	-	FVPL

The above investments represented in aggregate over 89.2% in value of the Group's investments. Apart from the ten largest investments listed above, the Group also held various other individual investments with value representing below 1% of the Group's total assets as at 31st December 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 21. INVESTMENT PORTFOLIO *(Continued)*

Notes:

- (i) Ping An was incorporated in the PRC with its shares listed on the Shanghai Stock Exchange in the PRC (stock code: 601318) and the Stock Exchange (stock code: 2318). The principal activities of Ping An comprise the provision of a wide range of financial products and services with a focus on the businesses of insurance, banking, asset management and technology. For the year ended 31st December 2020, the audited profit attributable to owners of Ping An was approximately RMB143,099 million while the basic and diluted earnings per share were RMB8.10 and RMB8.04 respectively. As at 31st December 2020, the fair value of this investment amounted to approximately HK\$285,000,000 (2019: approximately HK\$276,300,000), which accounted for 11.4% (2019:11.0%) of the total assets of the Group. The Group's investment strategy for this investment is collection of dividends and long-term asset appreciation.
- (ii) iSun Fund is a Cayman Islands exempted limited partnership, with the principal objective of primarily target investments in public or private companies or digital assets (such as cryptocurrencies) in the data centre, fintech or high tech (software and hardware) sectors. The partnership is managed by the general partner, iSun GP I Limited, which holds the property of the partnership on behalf of the partnership. The partnership shall continue in existence for five years unless dissolution of the partnership. The objective of the partnership is to produce attractive returns on the capital from the partnership while managing investment risk. As at 31st December 2020, the fair value of the partnership is approximately HK\$17,211,000 (2019: approximately HK\$10,998,000) by reference to the quoted prices of the underlying investments and the valuation on the unlisted equity securities from the investment manager using discounted cash flows model. For details of the iSun Fund, please refer to the announcement of the Company dated 25th July 2017 and 9th February 2018.
- (iii) APAL is an exempt company incorporated in the Cayman Islands with limited liability. APAL and its subsidiaries are principally engaged in the business of global aircraft leasing, aircraft trading, securitised aircraft leasing financial products, aircraft parts trading, maintenance of aircraft, dismantling aircraft and other related consulting services. As at 31st December 2020, the fair value of the entire unlisted equity securities was approximately HK\$671,872,000 (2019: approximately HK\$730,730,000) by reference to the valuation provided by an independent professional qualified valuer using direct comparison approach with unobservable inputs.

## 22. INVENTORIES

	2020 HK\$'000	2019 HK\$'000
Raw materials	4,623	1,668
Finished goods	6,580	2,080
	<b>11,203</b>	3,748



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 23. LOANS RECEIVABLE

	2020 HK\$'000	2019 HK\$'000
Loans receivable from third parties due within one year	251,026	192,227

The loans receivable comprise:

- (i) In December 2019, RMB100,000,000 loan was granted to an independent third party borrower which was secured by a corporate guarantee provided by an independent third party and a personal guarantee provided by a shareholder of the borrower. The loan was interest-bearing at 8% per annum and repayable in September 2020. During the year, the principal of RMB10,000,000 and accrued interest of approximately HK\$7,373,000 were repaid with the remaining principal of RMB90,000,000 extended to be repayable in December 2021, with other terms remain unchanged.

At the end of the reporting period, the principal of RMB90,000,000 (equivalent to approximately HK\$106,939,000) (2019: RMB100,000,000 (equivalent to approximately HK\$111,632,000)) and accrued interest receivable of approximately HK\$2,495,000 (2019: approximately HK\$229,000) were recognised as loans receivable under current assets. Details of the loan and extension of loan were disclosed in the Company's announcements dated 19th December 2019, 18th September 2020 and 17th December 2020 respectively.

- (ii) In December 2019, HK\$80,000,000 loan was granted to an independent third party borrower which was secured by a corporate guarantee provided by a substantial shareholder of the Company. The loan was interest-bearing at 8% per annum and repayable in June 2020. During the year, the principal of HK\$39,000,000 and accrued interest of approximately HK\$4,707,000 were repaid with the remaining principal of HK\$41,000,000 extended to be repayable in December 2021, with other terms remain unchanged.

At the end of the reporting period, the principal of HK\$41,000,000 (2019: HK\$80,000,000) and accrued interest receivable of HK\$Nil (2019: approximately HK\$366,000) was recognised as loans receivable under current assets. Details of the loan and extension of loan were disclosed in the Company's announcements dated 9th December 2019, 12th December 2019, 29th June 2020 and 31st December 2020 respectively.

- (iii) In April 2020, HK\$60,000,000 loan was granted to an independent third party borrower which is secured by corporate guarantees provided by two independent third parties. The loan is interest-bearing at 5% per annum and repayable in 18 months from the drawdown date (i.e. 2nd April 2020). At the end of the reporting period, the principal of HK\$60,000,000 and accrued interest receivable of approximately HK\$2,252,000 were recognised as loans receivable under current assets. Details of the loan were disclosed in the Company's announcements dated 18th March 2020 and 17th June 2020 respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 23. LOANS RECEIVABLE *(Continued)*

- (iv) In October and December 2020, loans with aggregate principal of RMB12,000,000 were granted to an independent third party borrower. The loans are unsecured and interest-bearing at 5% per annum. Principals of RMB2,000,000 and RMB10,000,000 are repayable in January 2021 and December 2021 respectively. At the end of reporting period, the principal of RMB12,000,000 (equivalent to approximately HK\$14,259,000) and accrued interest receivable of approximately RMB44,000 (equivalent to approximately HK\$53,000) were recognised as loans receivable under current assets.

Principal of RMB2,000,000 (equivalent to approximately HK\$2,376,000) and accrued interest receivable of RMB25,000 (equivalent to approximately HK\$30,000) were repaid in January 2021 in accordance with the terms of the loans agreements.

- (v) In July 2020, RMB22,000,000 loan was granted to an independent third party borrower which is unsecured, interest-bearing at 5% per annum and repayable in October 2020. Principal of RMB2,000,000 and accrued interest of approximately RMB277,000 were repaid on the repayment date with the remaining principal of RMB20,000,000 extended to be repayable in January 2021. At the end of the reporting period, the principal of RMB20,000,000 (equivalent to approximately HK\$23,764,000) and accrued interest receivable of approximately RMB222,000 (equivalent to approximately HK\$264,000) were recognised as loans receivable under current assets.

The principal together with accrued interest receivables were fully settled at maturity in January 2021.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 24. TRADE AND OTHER RECEIVABLES AND PREPAYMENT FOR CONSTRUCTION

	Note	2020 HK\$'000	2019 HK\$'000
Trade receivables		<b>77,657</b>	79,474
Less: Loss allowance		<b>(15)</b>	(15)
	(a)	<b>77,642</b>	79,459
Other receivables, net of loss allowance		<b>7,035</b>	3,975
Prepayments and deposits		<b>11,723</b>	14,371
Prepayment for construction	(b)	<b>38,158</b>	156,000
		<b>134,558</b>	253,805
Current portion		<b>94,894</b>	97,805
Non-Current portion		<b>39,664</b>	156,000
		<b>134,558</b>	253,805

Notes:

- (a) The ageing analysis of trade receivables (net of loss allowance) by invoice date at the end of the reporting period is as follows:

	2020 HK\$'000	2019 HK\$'000
0-30 days	<b>15,096</b>	20,684
31-60 days	<b>16,376</b>	16,214
61-90 days	<b>17,873</b>	9,907
Over 90 days	<b>28,297</b>	32,654
	<b>77,642</b>	79,459

- (b) In relation to the construction of the Group's IDC in the United States, the Group has entered into a holding escrow agreement with a bank in the United States and the construction company pursuant to which the Group agrees to maintain an amount of US\$20,000,000 (equivalent to approximately HK\$156,000,000) or the amount due to the construction company, whichever is lower, in the escrow account.

As at 31st December 2020, the Group maintained approximately US\$4,892,000 (equivalent to approximately HK\$38,158,000) (2019: US\$20,000,000 (equivalent to approximately HK\$156,000,000)) in the escrow account.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 25. TRADE AND OTHER PAYABLES

	Note	2020 HK\$'000	2019 HK\$'000
Trade payables	(a)	<b>47,240</b>	66,315
Contract liabilities	(b)	<b>5,827</b>	3,739
Other payables		<b>22,999</b>	21,438
Accruals		<b>65,781</b>	167,001
		<b>141,847</b>	258,493

Notes:

(a) The ageing analysis of trade payables by invoice date at the end of the reporting period is as follows:

	2020 HK\$'000	2019 HK\$'000
0-30 days	<b>12,450</b>	13,898
31-60 days	<b>2,294</b>	33,793
61-90 days	<b>18,969</b>	18,391
Over 90 days	<b>13,527</b>	233
	<b>47,240</b>	66,315

(b) The movements (excluding those arising from increases and decreases both occurred within the same year) of contract liabilities from contracts with customers within HKFRS 15 during the year are as follows:

	2020 HK\$'000	2019 HK\$'000
As at 1st January	<b>3,739</b>	17,484
Exchange realignment	<b>41</b>	(4)
Recognised as revenue	<b>(2,549)</b>	(16,841)
Receipt of advances or recognition of receivables	<b>4,596</b>	3,100
As at 31st December	<b>5,827</b>	3,739

As at 31st December 2020, the contract liabilities that are expected to be settled after more than 12 months are HK\$Nil (2019: HK\$Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26. BANK AND OTHER LOANS

	2020 HK\$'000	2019 HK\$'000
<b>Current and secured</b>		
Bank loans with repayment on demand clause	<b>137,314</b>	120,000
Term loans from banks with repayment on demand clause	<b>2,593</b>	3,025
	<b>139,907</b>	123,025
Analysis of the amounts due based on scheduled payment dates set out in the loan agreements (ignoring the effect of any repayment on demand clause) is as follows:		
On demand or within one year	<b>137,758</b>	120,433
After one but within two years	<b>455</b>	444
After two but within five years	<b>835</b>	1,203
After five years	<b>859</b>	945
	<b>139,907</b>	123,025

At 31st December 2020, the bank loans carried variable interest rates ranging from 1.30% to 4.90% (2019: 2.45% to 3.42%) per annum. The bank loans are secured by the assets of the Group as set out in note 32.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 27. DISPOSAL OF A SUBSIDIARY

During the year, the Group disposed of the entire equity interests in a subsidiary in the PRC, Shenzhen Shi Qian Hai Yi Zhang Wo Internet Technology Company Limited\* (深圳市前海易掌沃網絡科技有限公司) through deregistration which was completed in June 2020.

	2020 HK\$'000
Net assets disposed of	–
Reclassification adjustment from equity to profit or loss upon disposal:	
Translation reserves	(1,015)
Gain on disposal	1,015
<b>Consideration received or receivable</b>	<b>–</b>

## 28. SHARE CAPITAL

	Number of Shares		Amount	
	2020 '000	2019 '000	2020 HK\$'000	2019 HK\$'000
<b>Authorised:</b>				
At beginning and end of the reporting period				
Ordinary Shares of HK\$0.025 each	8,000,000	8,000,000	200,000	200,000
<b>Issued and fully paid:</b>				
At beginning of the reporting period				
Ordinary Shares of HK\$0.025 each	2,073,089	1,803,089	51,827	45,077
Issue of new Shares (Note)	–	270,000	–	6,750
At end of the reporting period				
Ordinary Shares of HK\$0.025 each	2,073,089	2,073,089	51,827	51,827

Note:

On 29th July 2019, 270,000,000 ordinary Shares of HK\$0.025 each were issued at total consideration of HK\$81,000,000 as a result of subscription of new Shares by two independent investors.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 29. RESERVES

	Share premium HK\$'000 (Note (b)(i))	Statutory reserves HK\$'000 (Note (b)(iii))	Contributed surplus HK\$'000 (Note (b)(iii))	Share option reserves HK\$'000 (Note (b)(iv))	Property revaluation reserves HK\$'000 (Note (b)(v))	Translation reserves HK\$'000 (Note (b)(vi))	Other reserves HK\$'000 (Note (b)(vii))	Retained profits HK\$'000	Total HK\$'000
As at 1st January 2019	133,249	8,668	234,621	55,612	24,540	16,752	-	1,469,413	1,942,855
<b>Profit for the year</b>	-	-	-	-	-	-	-	41,484	41,484
<b>Other comprehensive loss:</b>									
Revaluation of property, plant and equipment upon transfer to investment properties	-	-	-	-	2,862	-	-	-	2,862
- Gain on revaluation	-	-	-	-	(1,289)	-	-	-	(1,289)
- Effect of tax	-	-	-	-	-	(15,617)	-	-	(15,617)
Exchange differences arising on translation of the PRC subsidiaries	-	-	-	-	-	(250)	-	-	(250)
Release of reserves upon disposal of a subsidiary	-	-	-	-	-	(15,867)	-	-	(14,294)
<b>Total other comprehensive loss</b>	-	-	-	-	1,573	(15,867)	-	-	(14,294)
<b>Total comprehensive income for the year</b>	-	-	-	-	1,573	(15,867)	-	41,484	27,190
<b>Transactions with owners:</b>									
<i>Contributions and distributions</i>									
Issue of new Shares (Note (a))	74,250	-	-	-	-	-	-	-	74,250
Equity-settled share based payment	-	-	-	10,481	-	-	-	-	10,481
Share options lapsed	-	-	-	(5,511)	-	-	-	5,511	-
<i>Change in ownership interest</i>									
Change in ownership interest in a subsidiary that does not result in a loss of control	-	-	-	-	-	-	25	-	25
<b>Total transactions with owners</b>	74,250	-	-	4,970	-	-	25	5,511	84,756
As at 31st December 2019 and as at 1st January 2020	207,499	8,668	234,621	60,582	26,113	885	25	1,516,408	2,054,801
<b>Profit for the year</b>	-	-	-	-	-	-	-	21,914	21,914
<b>Other comprehensive income:</b>									
Exchange differences arising on translation of the PRC subsidiaries	-	-	-	-	-	46,152	-	-	46,152
Release of reserves upon disposal of a subsidiary	-	-	-	-	-	(1,015)	-	-	(1,015)
<b>Total other comprehensive income</b>	-	-	-	-	-	45,137	-	-	45,137
<b>Total comprehensive income for the year</b>	-	-	-	-	-	45,137	-	21,914	67,051
<b>Transactions with owners:</b>									
<i>Contributions and distributions</i>									
Share options lapsed	-	-	-	(50,159)	-	-	-	50,159	-
<b>Total transactions with owners</b>	-	-	-	(50,159)	-	-	-	50,159	-
As at 31st December 2020	207,499	8,668	234,621	10,423	26,113	46,022	25	1,588,481	2,121,852



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 29. RESERVES (Continued)

Notes:

(a) *Issue of new Shares*

Pursuant to subscription agreements dated 14th July 2019, two independent subscribers subscribed 270,000,000 new Shares at a price of HK\$0.30 per Share ("Subscription"). Total proceeds of the Subscription amounted to HK\$81,000,000, of which HK\$6,750,000 was credited to share capital and the balance of HK\$74,250,000 was credited to the share premium account. These Shares rank pari passu with the existing Shares in all respects.

(b) *Nature and purpose of reserves*

(i) Share premium

The application of the share premium account is governed by Section 46(2) of the Companies Act 1981 of Bermuda.

(ii) Statutory reserves

Statutory reserves comprise statutory surplus reserves fund of the subsidiaries in the PRC and form part of shareholders' fund. According to the articles of association of certain subsidiaries, the subsidiaries are required to transfer 10% of the profit after tax to the statutory surplus reserves fund until the fund balance reaches 50% of the registered capital. The transfer to the funds must be made before distributing dividends to Shareholders.

(iii) Contributed surplus

The contributed surplus represents the difference between the underlying net assets of the subsidiaries which were acquired by the Company and the nominal amount of Shares issued by the Company for each acquisition at the time of the Group reorganisation.

Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

(iv) Share option reserves

The share option reserves comprise the fair value of the actual or estimated number of unexercised share options granted to eligible participants of the Group recognised in accordance with the accounting policy adopted for share-based payments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 29. RESERVES (Continued)

Notes: (Continued)

(b) Nature and purpose of reserves (Continued)

(v) Property revaluation reserves

The property revaluation reserves comprise the net changes in fair value arising on the revaluation of properties held for own use upon transfer to investment properties.

(vi) Translation reserves

The translation reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(vii) Other reserves

The other reserves have been set up and dealt with in accordance with the accounting policies adopted for the changes in ownership interests in subsidiaries that do not result in a loss of control.

## 30. OTHER CASH FLOW INFORMATION

### Changes in liabilities arising from financing activities

Details of the changes in the Group's liabilities from financing activities are as follows:

	Bank and other loans HK\$'000	Lease liabilities HK\$'000
As at 1st January 2019	245,251	–
Adoption of HKFRS 16 at 1st January 2019	–	2,005
Additions	–	4,531
Net cash flows	(127,568)	(3,175)
Exchange differences	(894)	(86)
Interest accrued	6,236	189
Release upon disposal a subsidiary	–	(60)
As at 31st December 2019 and as at 1st January 2020	123,025	3,404
Additions	–	9,880
Net cash flows	13,946	(4,809)
Exchange differences	1	190
Interest accrued	2,935	194
<b>As at 31st December 2020</b>	<b>139,907</b>	<b>8,859</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2020 HK\$'000	2019 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries		1,481,499	1,369,791
Financial assets at fair value through profit or loss		285,000	276,300
		<b>1,766,499</b>	1,646,091
<b>CURRENT ASSETS</b>			
Prepayments, deposits paid and other receivables		466	431
Financial assets at fair value through profit or loss		9,909	–
Pledged bank deposits		54,624	81,038
Cash and bank balances		1,215	83,774
		<b>66,214</b>	165,243
<b>CURRENT LIABILITIES</b>			
Other payables		4,502	6,137
Dividend payables		31	31
Amounts due to subsidiaries		1,280,674	1,276,930
		<b>1,285,207</b>	1,283,098
<b>NET CURRENT LIABILITIES</b>		<b>(1,218,993)</b>	(1,117,855)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>547,506</b>	528,236
<b>NON-CURRENT LIABILITIES</b>			
Income tax payable		2,729	372
<b>NET ASSETS</b>		<b>544,777</b>	527,864
<b>CAPITAL AND RESERVES</b>			
Share capital		51,827	51,827
Reserves	(a)	492,950	476,037
<b>TOTAL EQUITY</b>		<b>544,777</b>	527,864

This statement of financial position was approved and authorised for issue by the Board on 19th March 2021 and signed on its behalf by:

Li Qiang  
Director

Shi Guangrong  
Director

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

### (a) Reserves

	Share premium HK\$'000 (note 29(b)(i))	Contributed surplus HK\$'000 (note 29(b)(iii))	Share option reserves HK\$'000 (note 29(b)(iv))	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000
As at 1st January 2019	133,249	380,621	55,612	(205,114)	364,368
<b>Profit for the year</b>	-	-	-	26,938	26,938
<b>Total comprehensive income for the year</b>	-	-	-	26,938	26,938
<b>Transactions with owners:</b>					
<i>Contributions and distributions</i>					
Issue of new Shares <i>(note 29(a))</i>	74,250	-	-	-	74,250
Equity-settled share based payment	-	-	10,481	-	10,481
Share options lapsed	-	-	(5,511)	5,511	-
<b>Total transactions with owners</b>	74,250	-	4,970	5,511	84,731
As at 31st December 2019 and as at 1st January 2020	207,499	380,621	60,582	(172,665)	476,037
<b>Profit for the year</b>	-	-	-	16,913	16,913
<b>Total comprehensive income for the year</b>	-	-	-	16,913	16,913
<b>Transactions with owners:</b>					
<i>Contributions and distributions</i>					
Share options lapsed	-	-	(50,159)	50,159	-
<b>Total transactions with owners</b>	-	-	(50,159)	50,159	-
<b>As at 31st December 2020</b>	<b>207,499</b>	<b>380,621</b>	<b>10,423</b>	<b>(105,593)</b>	<b>492,950</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 32. PLEDGE OF ASSETS

As at 31st December 2020, the Group had pledged the following assets to secure the loan facilities:

	2020 HK\$'000	2019 HK\$'000
(a) Investment properties	71,780	70,373
(b) Leasehold improvements	93	104
(c) Right-of-use assets	73,746	76,595
(d) Financial assets at fair value through profit or loss	294,909	276,300
(e) Bank deposits	57,974	81,637

## 33. SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") pursuant to the ordinary resolutions passed by the Shareholders at the special general meeting ("SGM") on 14th January 2015 (the "Option Adoption Date"). The Share Option Scheme is valid for ten years from the Option Adoption Date and shall expire at the close of business on the day immediately preceding the 10th anniversary thereof unless terminated earlier by Shareholders in general meeting.

The purpose of the Share Option Scheme is to enable the Company to grant share options to the selected eligible participants as incentives or rewards for their contribution or potential contribution to the growth and development of the Group.

The Directors may, at their absolute discretion, invite any person belonging to any of the following categories of participants (the "Eligible Participants") to take up share options to subscribe for the Shares:

### Category A Eligible Participants

- (a) any Director or proposed Director (whether executive or non-executive, including any independent non-executive director), employee or proposed employee (whether full time or part time) of any member of the Group or any substantial Shareholder or any company controlled by a substantial Shareholder; or
- (b) any individual for the time being seconded to work for any member of the Group or any substantial Shareholder or any company controlled by a substantial Shareholder.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 33. SHARE OPTION SCHEME *(Continued)*

### Category B Eligible Participants

Any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group and shall include any company controlled by one or more persons belonging to any of the above classes of participants.

Options granted to the Eligible Participants are subject to vesting conditions. Options granted to an eligible participant who has joined the Group for more than three years are subject to a vesting scale in tranches of 40%, 30% and 30% each per annum starting from the date of grant and will become fully vested on the third anniversary of the grant. Options granted to an eligible participant who has joined the Group for less than three years are subject to a vesting scale in tranches of 10%, 20%, 35% and 35% each per annum from the second to the fifth year after the grant and will become fully vested on the fifth anniversary of the grant.

The total number of Shares which may be issued upon the exercise of all share options to be granted under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the total issued share capital of the Company on the Option Adoption Date (the "Scheme Mandate") unless the Company obtains an approval from the Shareholders to renew the 10% limit on the basis that the maximum number of Shares in respect of which share options may be granted under the Share Option Scheme together with any share options outstanding and yet to be exercised under the Share Option Scheme and any other share option schemes shall not exceed 30% of the total issued share capital of the Company from time to time. At the SGM which was held on the Option Adoption Date, the Scheme Mandate was approved by the Shareholders and the total number of Shares that may be allotted and issued under the Share Option Scheme would be 179,211,680 Shares, representing 10% of the total number of Shares in issue as at the Option Adoption Date and 7.20% of the total number of Shares in issue as at the date of this report.

The maximum number of Shares issued and to be issued upon the exercise of the share options granted under the Share Option Scheme and any other share option schemes of the Company to any eligible participant (including cancelled, exercised and outstanding share options), in any 12-month period up to the date of grant shall not exceed 1% of the number of Shares in issue, without prior approval from the Shareholders. Any grant of a share option to a Director, chief executive of the Company or substantial Shareholder (or any of their respective associates) must be approved by the Independent Non-Executive Directors. Where any grant of share options to a substantial Shareholder or an Independent Non-Executive Director (or any of their respective associates) will result in the total number of Shares issued and to be issued upon the exercise of the share options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of the Company (including share options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant: (i) representing in aggregate over 0.1% of the Shares in issue; and (ii) having an aggregate value, based on the closing price of the Shares at each date of grant, in excess of HK\$5,000,000, such further grant of share options is required to be approved by the Shareholders in general meeting.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 33. SHARE OPTION SCHEME *(Continued)*

An offer for the grant of share options must be accepted within 30 days inclusive of the day on which such offer was made. The amount payable by the grantee of a share option to the Company on acceptance of the offer for the grant of a share option is HK\$1.0. A share option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period commencing on such date on or after the date on which the share option is granted as the Board may determine in granting the share options and expiring at the close of business on such date as the Board may determine in granting the share options but in any event shall not exceed ten years from the date of grant (which is the date of offer of grant if the offer for the grant of the share options is accepted). The exercise price of the share option is to be determined by the Board provided always that it shall be at least the higher of: (i) the closing price of the Shares on the date of offer of grant; and (ii) the average closing price of the Shares for the five business days immediately preceding the date of offer of grant, provided that the option price per Share shall in no event be less than the nominal amount of the Shares.

On 16th January 2015, the Company offered to grant 186 eligible participants to subscribe for a total of 107,527,008 ordinary Shares of HK\$0.025 each in the capital of the Company at an exercise price HK\$2.2 per Share (the "2015 Share Options"). The 2015 Share Options are exercisable up to five years from the date of grant. On 8th June 2016, the Company removed vesting period of all existing 2015 Share Options which were outstanding and unvested under the Share Option Scheme pursuant to the ordinary resolutions passed by the Shareholders at a SGM and such 2015 Share Options were therefore immediately vested with the consent of relevant 2015 Share Options holders. As a result, non-cash share-based compensation expenses in respect of all outstanding and unvested 2015 Share Options at the date of approval of removal of vesting period of the 2015 Share Options of approximately HK\$7,564,000 was recognised as expense by the Group with the same amount credited to share option reserves under equity for the year ended 31st December 2016. For details of the amendment of the terms of the 2015 Share Options, please refer to the Company's announcement dated 18th May 2016 and the circular dated 23rd May 2016.

On 30th August 2019, the Company offered to grant 11 eligible participants to subscribe for a total of 100,000,000 ordinary Shares of HK\$0.025 each in the capital of the Company at an exercise price HK\$0.33 per Share (the "2019 Share Options"). The 2019 Share Options are exercisable up to three years from the date of grant. As there is no vesting condition for the 2019 Share Options, they were vested immediately at the date of grant. As a result, non-cash share-based compensation expenses in respect of all the 2019 Share Options of approximately HK\$10,481,000 was recognised as expense by the Group with the same amount credited to share option reserves under equity for the year ended 31st December 2019. For details of the terms of the 2019 Share Options, please refer to the Company's announcement dated 30th August 2019.

No share options were exercised during the years ended 31st December 2020 and 2019, and no share options were granted during the year ended 31st December 2020.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 33. SHARE OPTION SCHEME *(Continued)*

(a) Movements in share options:

	Number of share options	
	2020	2019
At beginning of the reporting period	<b>167,575,008</b>	75,049,008
Granted during the year	–	100,000,000
Lapsed during the year	<b>(68,575,008)</b>	(7,474,000)
<b>At end of the reporting period</b>	<b>99,000,000</b>	167,575,008

(b) Terms of vested and unexercised share options at the end of the reporting period:

Date of grant	Exercisable period	Exercise price per Share HK\$	Number of share options	
			2020	2019
16.01.2015	16.01.2015-15.01.2020	2.20	–	67,575,008
30.08.2019	30.08.2019-29.08.2022	0.33	<b>99,000,000</b>	100,000,000
			<b>99,000,000</b>	167,575,008

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 33. SHARE OPTION SCHEME (Continued)

### (c) Details of share options granted

Details of the movements of the 2015 and 2019 Share Options granted to subscribe for the Shares are as follows:

#### For the year ended 31st December 2020

Name of grantees	Date of grant	Exercise price per Share HK\$	Exercisable period*	Number of Shares issuable under the share options					
				Outstanding as at 1st January 2020	Granted during the year	Reclassification of category during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31st December 2020
<b>2015 Share Options</b>									
<b>Directors</b>									
Mr. Shi Guangrong	16.01.2015	2.20	16.01.2015 – 15.01.2020	6,500,000	-	-	-	(6,500,000)	-
Mr. Zhu Jiang	16.01.2015	2.20	16.01.2015 – 15.01.2020	7,000,000	-	-	-	(7,000,000)	-
Ms. Shen Yan	16.01.2015	2.20	16.01.2015 – 15.01.2020	1,000,000	-	-	-	(1,000,000)	-
<b>Continuous contract employees</b>	16.01.2015	2.20	16.01.2015 – 15.01.2020	38,570,776	-	-	-	(38,570,776)	-
<b>Suppliers of goods or services</b>	16.01.2015	2.20	16.01.2015 – 15.01.2020	920,000	-	-	-	(920,000)	-
<b>Other eligible participants</b>	16.01.2015	2.20	16.01.2015 – 15.01.2020	13,584,232	-	-	-	(13,584,232)	-
				67,575,008	-	-	-	(67,575,008)	-
<b>2019 Share Options</b>									
<b>Directors</b>									
Mr. Li Qiang	30.08.2019	0.33	30.08.2019 – 29.08.2022	2,000,000	-	-	-	-	2,000,000
Mr. Gao Fei	30.08.2019	0.33	30.08.2019 – 29.08.2022	2,000,000	-	-	-	-	2,000,000
Mr. Shi Guangrong	30.08.2019	0.33	30.08.2019 – 29.08.2022	13,000,000	-	-	-	-	13,000,000
Mr. Zhu Jiang	30.08.2019	0.33	30.08.2019 – 29.08.2022	13,000,000	-	-	-	-	13,000,000
Ms. Shen Yan	30.08.2019	0.33	30.08.2019 – 29.08.2022	1,000,000	-	-	-	-	1,000,000
Ms. Dong Hairong	30.08.2019	0.33	30.08.2019 – 29.08.2022	2,000,000	-	-	-	-	2,000,000
<b>Continuous contract employees</b>	30.08.2019	0.33	30.08.2019 – 29.08.2022	47,000,000	-	-	-	-	47,000,000
<b>Other eligible participants</b>	30.08.2019	0.33	30.08.2019 – 29.08.2022	20,000,000	-	-	-	(1,000,000)	19,000,000
				100,000,000	-	-	-	(1,000,000)	99,000,000
				167,575,008	-	-	-	(68,575,008)	99,000,000
<b>Weighted average exercise price (HK\$)</b>				1.08	-	-	-	2.17	0.33

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 33. SHARE OPTION SCHEME (Continued)

(c) Details of share options granted (Continued)

For the year ended 31st December 2019

Name of grantees	Date of grant	Exercise price per Share HK\$	Exercisable period*	Number of Shares issuable under the share options					
				Outstanding as at 1st January 2019	Granted during the year	Reclassification of category during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31st December 2019
<i>2015 Share Options</i>									
<b>Directors</b>									
Mr. Shi Guangrong	16.01.2015	2.20	16.01.2015 – 15.01.2020	6,500,000	-	-	-	-	6,500,000
Mr. Zhu Jiang	16.01.2015	2.20	16.01.2015 – 15.01.2020	7,000,000	-	-	-	-	7,000,000
Ms. Shen Yan	16.01.2015	2.20	16.01.2015 – 15.01.2020	1,000,000	-	-	-	-	1,000,000
Mr. Zhong Pengrong <i>(resigned on 5th September 2019)</i>	16.01.2015	2.20	16.01.2015 – 15.01.2020	1,000,000	-	(1,000,000)	-	-	-
<b>Continuous contract employees</b>	16.01.2015	2.20	16.01.2015 – 15.01.2020	39,998,776	-	(252,000)	-	(1,176,000)	38,570,776
<b>Suppliers of goods or services</b>	16.01.2015	2.20	16.01.2015 – 15.01.2020	920,000	-	-	-	-	920,000
<b>Other eligible participants</b>	16.01.2015	2.20	16.01.2015 – 15.01.2020	18,630,232	-	1,252,000	-	(6,298,000)	13,584,232
				75,049,008	-	-	-	(7,474,000)	67,575,008
<i>2019 Share Options</i>									
<b>Directors</b>									
Mr. Li Qiang	30.08.2019	0.33	30.08.2019 – 29.08.2022	-	2,000,000	-	-	-	2,000,000
Mr. Gao Fei	30.08.2019	0.33	30.08.2019 – 29.08.2022	-	2,000,000	-	-	-	2,000,000
Mr. Shi Guangrong	30.08.2019	0.33	30.08.2019 – 29.08.2022	-	13,000,000	-	-	-	13,000,000
Mr. Zhu Jiang	30.08.2019	0.33	30.08.2019 – 29.08.2022	-	13,000,000	-	-	-	13,000,000
Ms. Shen Yan	30.08.2019	0.33	30.08.2019 – 29.08.2022	-	1,000,000	-	-	-	1,000,000
Ms. Dong Hairong	30.08.2019	0.33	30.08.2019 – 29.08.2022	-	2,000,000	-	-	-	2,000,000
Mr. Zhong Pengrong <i>(resigned on 5th September 2019)</i>	30.08.2019	0.33	30.08.2019 – 29.08.2022	-	1,000,000	(1,000,000)	-	-	-
<b>Continuous contract employees</b>	30.08.2019	0.33	30.08.2019 – 29.08.2022	-	47,000,000	-	-	-	47,000,000
<b>Other eligible participants</b>	30.08.2019	0.33	30.08.2019 – 29.08.2022	-	19,000,000	1,000,000	-	-	20,000,000
				-	100,000,000	-	-	-	100,000,000
				75,049,008	100,000,000	-	-	(7,474,000)	167,575,008
Weighted average exercise price (HK\$)				2.20	0.33	1.37	-	2.20	1.08

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 33. SHARE OPTION SCHEME *(Continued)*

### (c) Details of share options granted *(Continued)*

- \* Mr. Zhong Pengrong resigned as director of the Company on 5th September 2019. The Board approved to extend the exercisable period of the 2019 Share Options granted to Mr. Zhong for six months from the date of his resignation (i.e. 4th March 2020).

the 2015 Share Options granted to the Directors, Chief Executive Officer, continuous contract employees, suppliers of goods or services and other eligible participants are subject to vesting conditions. However, the vesting period of all existing 2015 Share Options granted to the Directors, Chief Executive Officer, continuous contract employees, suppliers of goods or services and other eligible participants which were outstanding and unvested had been removed with the approval of the Shareholders at the SGM held on 8th June 2016.

#### Notes:

- (i) The closing price of the Shares was HK\$0.315 as quoted on the Stock Exchange on the trading day immediately before the date of grant of the 2019 Share Options.
- (ii) 68,575,008 (2019: 7,474,000) share options were lapsed according to the terms of the Share Option Scheme during the year under review.
- (iii) All the 2015 Share Options outstanding were lapsed on 16th January 2020.
- (d) The non-cash share-based payment in respect of the 2019 Share Options for the year ended 31st December 2020 was HK\$Nil (2019: approximately HK\$10,481,000). The cost of share options granted is estimated on the date of the grant using the Binomial Model with the following parameters:

Date of grant	30th August 2019	16th January 2015
Number of Shares issuable under options granted	100,000,000	107,527,008
Exercise price	HK\$0.33	HK\$2.20
Fair value at the date of grant	HK\$0.06 – HK\$0.11	HK\$0.72 – HK\$0.75
Risk-free interest rate based on the yields of		
(a) the 5-year Exchange Fund Notes	N/A	0.88%
(b) the 6-month and 3-year Exchange Fund Notes	1.47% – 2.13%	N/A
Expected volatility <sup>#</sup>	54% – 77%	46%
Expected dividend yield	0%	2.27%
Expected life	0.5 year to 3 years	3 years to 5 years

- <sup>#</sup> The expected volatility of the underlying stock is assumed to be constant during the life of the share options. It was estimated with reference to the historical volatility in similar life of the share options.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 34. RETIREMENT BENEFITS SCHEME

The Group operates a MPF for all eligible employees in Hong Kong. The assets of the MPF are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of the relevant payroll costs of each eligible employee to the MPF, subject to a maximum amount of HK\$1,500 per month. Since 1st July 2017, the Group has made voluntary contributions to the MPF for executive Directors and senior management up to 5% of their relevant monthly income.

The employees of the Group's subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the government of the PRC. The subsidiaries are required to contribute certain percentage of their payroll costs to the retirement benefits scheme to fund the benefits. The principal obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions. At the end of the reporting period, there was no forfeited contribution available to reduce the contribution payable in future years.

The Group has made voluntary contributions to the 401(K) retirement plan for all eligible employees in the United States since 1st August 2020. The group contributes up to 6% of the relevant monthly income of each eligible employee to the plan. The assets of the pension fund are held separately from those of the Group in funds under the control of trustees.

The total cost charged to profit or loss of approximately HK\$829,000 for the year ended 31st December 2020 (2019: approximately HK\$3,814,000) represents contributions paid and payable to these schemes by the Group in respect of the current year.

## 35. RELATED PARTY TRANSACTIONS

### Key management compensation

The emoluments of the Directors and other members of key management during the year are as follows:

	2020 HK\$'000	2019 HK\$'000
Salaries	6,150	5,339
Discretionary bonus	3,550	6,800
Housing and other allowances	177	550
Retirement benefits scheme contributions	255	356
Share option benefit	–	5,158
	<b>10,132</b>	18,203

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 36. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31st December 2020 are as follows:

Name of subsidiary	Place of incorporation/ kind of legal entity	Principal activities/ place of operation	Particulars of issued and paid-up capital	Interest held
<b>Direct subsidiaries:</b>				
Billion State Limited	British Virgin Islands ("BVI")/ limited liability company	Trustee/Hong Kong ("HK")	100 ordinary shares of US\$1 each	100%
China Hunter Limited	BVI/limited liability company	Investment/HK	100 ordinary shares of US\$1 each	100%
Cloud Rich Holdings Limited	BVI/limited liability company	Investment holding/HK	100 ordinary shares of US\$1 each	100%
Yuxing Group (International) Limited	BVI/limited liability company	Investment holding/the PRC and HK	2,000 ordinary shares of US\$1 each	100%
Wealthy Well Limited	Cayman Islands/ limited liability company	Investment/HK	100 ordinary shares of US\$1 each	100%
Golden Rich Asia Investment Limited	HK/limited liability company	Investment holding/HK	1 ordinary share of HK\$1	100%
HyBroad Vision Holdings Limited	HK/limited liability company	Investment holding/HK	1 ordinary share of HK\$1	100%
Noble Rich Investment Limited	HK/limited liability company	Investment holding/HK	100 ordinary shares of HK\$1 each	100%
Rich Universe International Limited	HK/limited liability company	Investment/HK	100 ordinary shares of HK\$1 each	100%
<b>Indirect subsidiaries:</b>				
Harmony Wealthy Investments Limited	BVI/limited liability company	Investment/HK	1 ordinary share of US\$1	100%
Up Spacious Global Investments Limited	BVI/limited liability company	Trading of securities/HK	3 ordinary shares of US\$1 each	100%
Yield Lasting Investments Limited	BVI/limited liability company	Property holding/HK	1 ordinary share of US\$1	100%
Cloud Digit Investment LP	BVI/limited partnership	Investment/HK	HK\$60,000,000	100%
RiCloud Corp.	The United States/limited liability company	IDC/the United States	100 common stock of US\$0.01	100%
Cloud Digital Co., Limited	HK/limited liability company	IDC/HK	100 ordinary shares of HK\$1 each	100%

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 36. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ kind of legal entity	Principal activities/ place of operation	Particulars of issued and paid-up capital	Interest held
<b>Indirect subsidiaries: (Continued)</b>				
HyBroad Vision (HK) Technology Company Limited	HK/limited liability company	Trading and distribution of IHA and electronic components/HK	10,000,000 ordinary shares of HK\$1 each	100%
Yuxing Technology Company Limited	HK/limited liability company	Trading and distribution of IHA and electronic components and investment holding/HK	2 ordinary shares of HK\$1 each	100%
Yuxin Asset Management Company Limited	HK/limited liability company	Asset management/HK	5,000,000 ordinary shares of HK\$1 each	51%
Beijing E'rich Investment Management Co., Ltd*	The PRC/domestic wholly owned enterprise	Investment consultancy/the PRC	RMB8,000,000	100%
Beijing Yuxing Software Company Limited*	The PRC/foreign wholly owned enterprise	Research and development ("R&D") and software design/the PRC	HK\$10,000,000	100%
Guangdong HyBroad Vision Electronics Technology Company Limited*	The PRC/domestic equity joint venture	Manufacturing, distribution and sales of IHA and R&D and software design/the PRC	RMB90,000,000	100%
Zhongshan HyBroad Vision Trading Company Limited*	The PRC/domestic wholly owned enterprise	Trading and distribution of IHA and electronic components/ the PRC	RMB5,000,000	100%
Lasaruida Investment Consultation Management Company Limited*	The PRC/domestic wholly owned enterprise	Investment consultancy/the PRC	RMB10,000,000	100%
Shanghai Yiding Electronic Technology Company Limited*	The PRC/foreign wholly owned enterprise	Property holding/the PRC	US\$31,000,000	100%
Sheng Bang Qiang Dian Electronics (Zhongshan) Company Limited*	The PRC/foreign wholly owned enterprise	Property holding/the PRC	RMB123,000,000	100%

The above table contains only the particulars of subsidiaries of the Company which principally affected the results, assets or liabilities of the Group. To give details of other subsidiaries would result in particulars of excessive length.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 37. CAPITAL COMMITMENT

During the year ended 31st December 2019, the Company's indirectly wholly-owned subsidiary, RiCloud Corp. and a private company in the United States entered into a construction contract at contract sum of approximately US\$62,495,000 (equivalent to approximately HK\$487,459,000) in respect of construction of phase one of the Group's IDC in the United States. At the end of the reporting period, the Group maintained approximately US\$4,892,000 (equivalent to approximately HK\$38,158,000) (2019: US\$20,000,000 (equivalent to approximately HK\$156,000,000)) in an escrow account as prepayment for the construction cost (note 24). At 31st December 2020, the Group had remaining capital commitment in respect of the aforesaid construction of US\$Nil (2019: approximately US\$12,600,000 (equivalent to approximately HK\$98,280,000)).

## 38. EVENTS AFTER THE REPORTING PERIOD

### Issuing of new Shares

On 30th December 2020, the Company entered into two subscription agreements (the "Subscription Agreements") with two independent third parties (the "Subscribers") pursuant to which the Company had conditionally agreed to allot and issue and the Subscribers had conditionally agreed to subscribe for an aggregate of 414,616,000 new shares of the Company (the "Subscription Shares") at the subscription price of HK\$0.20 per Subscription Share. On 13th January 2021, 414,616,000 new Shares were issued to the Subscribers in accordance with the terms and conditions of the Subscription Agreements. The net proceeds, after deducting the relevant expenses, of approximately HK\$82,723,000 are intended to be used for the Group's major operating businesses of IHA and IDC and for general working capital. Details of the subscriptions are set out in the Company's announcements dated 30th December 2020 and 13th January 2021.

### Design and service agreements and construction contract in respect of the investment properties in Shanghai

In January and February 2021, the Company's indirectly wholly-owned subsidiary, Shanghai Yiding Electronic Technology Company Limited\* (上海一鼎電子科技有限公司), and three PRC private companies entered into the design and service agreements and construction contract at contract sum of approximately RMB30,530,000 (equivalent to approximately HK\$36,276,000) for the expansion of the Group's investment properties in Shanghai. The construction is expected to be completed in 2021.

## PARTICULARS OF PROPERTIES

Location	Usage	Tenure	Attributable interest of the Group
<b><i>Investment properties</i></b>			
No. 1188 Xinyuan Road, Minhang District, Shanghai, the PRC	An Industrial building for rental and/or capital appreciation	Medium-term	100%
Yuxing Industrial Park, Yanjiang Road East, Torch Development Zone, Zhongshan, the PRC	An industrial complex for rental and/or capital appreciation	Medium-term	100%
<b><i>Land and Building</i></b>			
6580 Via Del Oro, San Jose, California, the United States	Internet data centre	Freehold interest	100%