



SHLD
升華蘭德

浙江升華蘭德科技股份有限公司
SHENGHUA LANDE SCITECH LIMITED*

(a joint stock limited company incorporated in the People's Republic of China)

Stock Code: 8106

Annual Report
2020



* For identification purposes only

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Qi Jinsong (*Chairman*)
Mr. Guan Zilong
Mr. Xu Jianfeng

Non-Executive Director

Mr. Chen Ping (*Vice Chairman*)

Independent Non-Executive Directors

Mr. Cai Jiamei
Ms. Huang Lianxi
Mr. Shen Haiying

SUPERVISORS

Mr. Lu Weifeng (*Chairman*)
Ms. Shen Xiaofen
Ms. Shen Rujia

AUTHORISED REPRESENTATIVES

Mr. Xu Jianfeng
Mr. Fork Siu Lun Tommy

COMPLIANCE OFFICER

Mr. Xu Jianfeng

COMPANY SECRETARY

Mr. Fork Siu Lun Tommy

AUDIT COMMITTEE

Mr. Shen Haiying (*Chairman*)
Mr. Cai Jiamei
Ms. Huang Lianxi

REMUNERATION COMMITTEE

Mr. Cai Jiamei (*Chairman*)
Mr. Qi Jinsong
Mr. Shen Haiying

NOMINATION COMMITTEE

Ms. Huang Lianxi (*Chairman*)
Mr. Qi Jinsong
Mr. Cai Jiamei

REGISTERED OFFICE

No. 9 Nanhu Road
Zhongguan Town
Deqing County
Huzhou City
Zhejiang Province
The People's Republic of China (the "PRC")

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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The PRC

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HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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AUDITOR

SHINEWING (HK) CPA Limited
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Causeway Bay
Hong Kong

PRINCIPAL BANKERS

Bank of China Limited, Deqing Branch
36 Yongan Street
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Deqing County
Huzhou City
Zhejiang Province
The PRC

Zhejiang Deqing Rural Commercial Bank Co., Ltd.
50 Shengchangwei Street
Wukang Town
Deqing County
Huzhou City
Zhejiang Province
The PRC

STOCK CODE

8106

CHAIRMAN'S STATEMENT

I would like to present hereby on behalf of the board (the “**Board**”) of Directors the 2020 annual report of the Company and its subsidiaries (together the “**Group**”).

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2020, the Group recorded a revenue from continuing operations of approximately RMB237,630,000, a net profit attributable to owners of the Company from continuing operations of approximately RMB5,919,000 and a net profit attributable to owners of the Company from continuing and discontinued operations of approximately RMB5,025,000.

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

REVIEW OF OPERATIONS AND PROSPECTS

During the reporting year, faced with the epidemic of the “Novel Pneumonia Coronavirus” in early 2020 which had deep impact on the social and economic development, the Group has wholeheartedly pioneered and innovated to overcome difficulties, achieving stable and healthy business development throughout the year.

On the one hand, while actively cooperating with the government to fight the pandemic, the Group has taken effective measures to overcome the negative impact of the pandemic on its business and grasped the development opportunities arising. For example, in the early stage of the epidemic outbreak, the Group has given full play to the advantages and characteristics of the industry in which it worked to maintain close contact with suppliers and customers through online office and other methods, and tried to maintain the normal conducting of business activities through providing online services. In addition, the Group has played the role of “digital anti-epidemic (數字抗疫)”, used multi-code integration, big data analysis and other information and data methods to help government management to fight the epidemic through “digital empowerment (數字賦能)” and provide “convenient services (便民服務)” to meet the needs of ordinary people. For example, the provision of smart city solutions business has actively developed new digital citizen (數字市民) applications and provided new solutions for individual city customers to support the government fighting the epidemic, which has been well received by the industry and among customers. The measures taken by the Group actively and earnestly responded to the epidemic and also laid a solid foundation for seizing the market rebound opportunity after the relief of epidemic during the year, keeping pace with the fast development of “new infrastructure (新基建)”, and securing more market orders.

On the other hand, the Group has focused on its development strategy goals to strengthen market development, strived to promote the development of its main businesses, and integrate and optimize internal resources, with a view to achieving breakthroughs in business transformation. During the reporting year, the Group (i) strengthened its risk management in the trading of hardware and computer software business, continued to adjust its sales strategy and sales structure, gradually withdrew from the sales of brands and products with high level of inventories and receivables and increased the proportion of sales revenue from end customers with higher gross profit margins, and expanded the system integration service business to ensure the overall stable development of the business; (ii) actively grasped the development opportunities of domestic smart cities construction in the provision of smart city solutions business, leveraging on external resources to strengthen internal coordination, giving full play to the advantages of “digital anti-epidemic (數字抗疫)” to seize market opportunities such as the promotion of “new infrastructure (新基建)” by the government and the upgrade of third-generation social security cards, and continued to provide continuous software system development services and value-added services for the “Digital Citizen and Citizen Card Service Platform* (數字市民及市民卡服務平台)” in local cities where the Group has maintained good relationships with customers. In addition, the Group also vigorously explored new and old customer resources within and outside Zhejiang Province, and it successively won the bid for the new project of Changchun citizen card, upgrade project of Zhoushan citizen card and transformation project of Shaoxing citizen card, with the total contract amount for the year hitting a record high in the history of the business. With the development of new technologies such as AIoT and big data, the Group vigorously innovated to provide new smart city solutions services based on the City Brain (城市數據大腦) and new solution services in other sub-segments (such as smart trade union, smart community, smart housekeeping and digital village, etc.), and continued to conduct meaningful exploration in platform operation services; (iii) continued to maintain output of its e-commerce supply chain services business, actively explored domestic and overseas upstream supply channels and opened up and connected with various domestic downstream merchants including e-commerce platforms, under the dual influence of the pandemic and the integration of domestic cross-border e-commerce platforms. With the advancement of this business and the exploration of market opportunities, the Group has made fruitful attempts and business planning in the brand promotion services for beauty branding and healthy food, and has participated step-by-step in e-commerce platform operation services. In particular, as at the end of the reporting year, the Group has set a new direction for the development of this business and established Zhejiang Dianshi Technology Co., Ltd.* (浙江典石科技有限公司) (“**Dianshi Technology**”), a joint venture company, engaging a community marketing service team, to build a new retail entrepreneurial incubation platform and offer community marketing service of a wide range of mother and child supplies and other products; and (iv) disposed of its provision of telecommunication value-added services business due to limitations in the business model and policy factors, which led to the development of this business segment lagged behind expectation. The Group’s limited resources would then be deployed for the development of other businesses with more promising prospects.

REVIEW OF OPERATIONS AND PROSPECTS (Continued)

During the reporting year, the business adjustments of the Group achieved certain results. The direction of business development has gradually become clear, which has been a big step forward to building a business ecosystem in line with the development of the Group. However, the Group still faces many challenges. It is still uncertain whether the Group can seize the opportunity in the fierce market competition, build up core competitiveness in its business, and achieve substantive breakthroughs. Looking forward, the Group will further carefully streamline the three existing business segments, follow the trend of the promotion of “digital governance (數字治理)” in the PRC and the “digital reform (數字化改革)” in Zhejiang Province, actively seize the development opportunities of the domestic mobile Internet industry and smart city construction, identify the main weakness of the industry to explore and seize the market demand, give full play to the advantages of business resources, and achieve effective breakthroughs in the Group’s business, so as to improve the comprehensive profitability of the Group. The Group will maintain stable growth of the traditional business base of its three existing business sectors, promote the effective implementation of new projects of various businesses such as new application solution services based on the City Brain (城市數據大腦), community marketing service projects, etc., strengthen internal systematic management, promote collaborated development, plan the “Fourteenth Five-Year” development strategy in a scientific manner, and hold accountable the responsible personnel at all levels to ensure the sustainable and healthy development of the Group, and create more business value for the shareholders (the “Shareholders”) of the Company and give back to the society.

Finally, on behalf of the Board and the management, I would like to express my heartfelt thanks to the continued support of the business partners, customers of the Group and Shareholders and the long-term hard work of all staff members.

Qi Jinsong
Chairman

19 March 2021
Hangzhou City, the PRC

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MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

1. Review of operating results for the year

(i) Overview

Continuing operations

The Group is principally engaged in (i) the trading of hardware and computer software; (ii) the provision of smart city solutions; and (iii) the provision of e-commerce supply chain services.

There is no particular seasonal fluctuation in the Group's revenue except that revenues from various business segments in the first quarter are in general lower than in other quarters. This is primarily due to decreased business activities throughout the PRC before, during and after the week-long Chinese New Year holidays, which occur in January or February of a year. However, the characteristics of the provision of smart city solutions business of the Group is project based. Currently the main revenue of the business comes from specific projects and the income depends on the obtaining of project orders, contract amount of orders obtained and progress of projects and therefore it is volatile.

In line with industry performance, the Group's hardware and computer software sales and e-commerce trading of general merchandise normally have relatively low gross profit margin. With the continuous optimisation of product structure and sales strategies and the improvement of service levels, the gross profit margin will increase accordingly. On the other hand, the Group's provision of software development, technical support and various value-added services normally enjoy relatively higher gross profit margin, which vary among different projects and/or products.

Discontinued operation

In previous years, the Group had also been carrying out the provision of telecommunication value-added services. Considering that the business no longer met the development needs of the Group, the Group discontinued the business in the last quarter of this reporting year and concentrated the limited resources of the Group to better develop other businesses. Details of the discontinuation of the business are set out in the sub-section headed "Review of Operations" under this section.

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(ii) Revenue

Continuing operations

For the year ended 31 December 2020, (i) the trading of hardware and computer software business generated revenue of approximately RMB120,025,000 (2019: RMB138,725,000), representing approximately 13.48% decrease when compared to last year. The Group started to withdraw from the agency business of a certain brand due to the increased risks in its inventories price decline and receivables since the third quarter of the year, so the revenue for the year fell year-on-year; (ii) the provision of smart city solutions business generated revenue of approximately RMB42,245,000 (2019: RMB41,333,000), representing approximately 2.21% increase when compared to last year. The business is currently focused on construction projects. Due to the differences in the contract amounts for the projects under construction and progress of the projects in each reporting year, there would be certain fluctuation in the amount of revenue recognised in the respective reporting years. The Group has been actively expanding operation services to enhance the stable income capability of the business. Also, during the first half of the year, due to the impact of the “Novel Pneumonia Coronavirus” epidemic, the progress of the implementation of various projects of this business was slower than expected, and there were fewer projects under construction in the first half of the year compared with the same period of last year. Therefore, the revenue of this business dropped sharply year-on-year for the first half of the year. However, with the normal operations of the Group and its customers, especially the smooth progress of some key projects, since the second quarter, the Group has successfully won several major customer orders and completed the signing of contracts, and has been speeding up the on-site development and implementation of the projects. So the business revenue in the second half of the year increased significantly year-on-year, and better business revenue has been achieved for the whole year; and (iii) the provision of e-commerce supply chain services business generated revenue of approximately RMB75,360,000 (2019: RMB105,059,000), representing approximately 28.27% decrease when compared to last year. The customer concentration of this business was relatively high. In the second half of the year 2020, due to the business adjustment of the major customers, the business volume continued to decline. It is expected that the impact will not be eliminated in the short term. The Group has established Dianshi Technology at the end of the year 2020 to start deployment in social e-commerce.

For the year ended 31 December 2020, the revenue of the Group from continuing operations was approximately RMB237,630,000 (2019: RMB285,117,000 (restated)), representing a decrease of approximately RMB47,487,000, or approximately 16.66%, as compared with that of the year 2019.

(iii) Gross profit margin**Continuing operations**

For the year ended 31 December 2020, (i) the gross profit margin of the trading of hardware and computer software business was approximately 8.04% (2019: 4.50%). Compared with last year, the gross profit margin of this business has increased significantly. The Group strived to continuously adjust the sales strategy and sales structure of this business by increasing the sales of brands and products with relatively higher gross profit margin, while decreasing the sales of brands and products with low gross profit margin. At the same time, the Group focused on developing direct customers in this business to increase the overall business gross profit margin, and the effect was apparent; (ii) the gross profit margin of the provision of smart city solutions business was approximately 63.91% (2019: 48.16%). The gross profit margin of this business was affected by the gross profit margins of related projects carried out during the respective reporting years, and there would be certain fluctuations. The Group has been actively expanding operation services to enhance the stable profitability of the business. In addition, this business has increased the research and development investment in the year, which has increased its business gross profit margin to a certain extent (with an increase in the labour cost allocated to research and development expenses, there was a reduction in the project cost allocated); and (iii) the gross profit margin of the provision of e-commerce supply chain service business was approximately 5.07% (2019: 5.20%).

The gross profit margin of the Group from continuing operations for the year ended 31 December 2020 was approximately 17.03% (2019: 11.09% (restated)). Due to the increase in the gross profit margins of the trading of hardware and computer software business and provision of smart city solutions business during the year, the Group's consolidated gross profit margin from continuing operations increased during the year.

(iv) Profit attributable to owners of the Company from continuing operations

For the year ended 31 December 2020; (i) the trading of hardware and computer software business reported segment profit of approximately RMB5,696,000 (2019: RMB407,000). The business segment continued to adjust the sales strategy and sales structure of the business during the year to increase sales of brands and products with higher gross profit margins. In the current year, the Group obtained and completed the large orders of individual major customers and focused on developing direct customers to increase the overall business gross profit margin. As a result, the segment profit of the business increased significantly despite of the decrease in the revenue; (ii) the provision of smart city solutions business reported segment profit of approximately RMB8,568,000 (2019: RMB5,509,000). The improvement in the business segment performance was mainly due to the increase in gross profit margins of the projects completed during the year (the business cost was mainly based on labour cost, which was relatively fixed); and (iii) the provision of e-commerce supply chain business reported segment profit of approximately RMB44,000 (2019: RMB745,000). The decline in the performance of this business segment was mainly due to the decline in business income this year, and the profitability decreased. For the year ended 31 December 2020, the net unallocated expenses of the Group from continuing operations were approximately RMB8,630,000 (2019: RMB2,811,000 (restated)). The significant increase in the net unallocated expenses for the year was mainly attributable to the decrease in government grants received during the year when comparing to the year 2019.

As a result of the cumulative effect of the principal factors described above, for the year ended 31 December 2020, the Group reported a net profit attributable to owners of the Company and earnings per share from continuing operations of approximately RMB5,919,000 (2019: RMB4,574,000 (restated)) and RMB1.17 cents (2019: RMB0.90 cents (restated)), respectively.

(v) (Loss) profit attributable to owners of the Company from discontinued operation

For the year ended 31 December 2020, the Group reported a net loss attributable to owners of the Company from discontinued operation of approximately RMB894,000 (2019: profit of RMB40,000 (restated)).

(vi) Profit attributable to owners of the Company from continuing and discontinued operations

For the year ended 31 December 2020, the Group reported a net profit attributable to owners of the Company and earnings per share from continuing and discontinued operations of approximately RMB5,025,000 (2019: RMB4,614,000) and RMB0.99 cents (2019: RMB0.91 cents), respectively.

2. Impact of “Novel Pneumonia Coronavirus” epidemic

The epidemic of the “Novel Pneumonia Coronavirus” in early 2020 had made a deep impact on the social and economic development. The Group cooperated with the government to fight the spread of the virus and actively took counter-measures to avoid economic loss. The Group also studied and analysed the pandemic’s effect on its business and identified consequent development opportunities. During the pandemic, the Group maintained normal business activity to the greatest extent possible. According to the advantages and characteristics of the industry in which the Group worked, it promoted its employees to work from home and over the network and maintained close contact with its suppliers and customers. In addition, according to the experience of the Group in the past years, the Group’s business would have relatively little activity before, during and after the Chinese New Year holiday. Therefore, though issues like the delayed resumption of work had some impact (such as decreasing efficiencies in goods delivery, project development, etc) on the Group’s main business operations, they were basically controllable. As the pandemic in the PRC was successfully curtailed, its negative impact on the Group’s operating activities has lessened. Information technology played a huge role in the fight against the pandemic, whether through “digital empowerment (數字賦能)” in aid of government management or “convenient services (便民服務)” to meet the needs of ordinary people. The Group’s businesses also played a role, such as the smart city solutions business provided solutions for individual city customers helping the government’s anti-pandemic measures and achieved praise from the industry and customer groups. The measures taken by the Group also created a solid foundation for seizing on post-pandemic market rebound opportunities during the year, keeping pace with “new infrastructure (新基建)” developments, and securing more market orders. As the pandemic might still drag on for some time, the Group would prepare best to cope with the negative impact and grasp any market development opportunity in the post-epidemic era.

3. Business and product development

Continuing operations

During the reporting year, the Group (i) strengthened its risk management in the trading of hardware and computer software business, continued to adjust its sales strategy and sales structure, gradually withdrew from the sales of brands and products with high level of inventories and receivables and increased the proportion of sales revenue from end customers with higher gross profit margins, and expanded the system integration service business to ensure the overall stable development of the business; (ii) actively grasped the development opportunities of domestic smart cities construction in the provision of smart city solutions business, leveraging on external resources to strengthen internal coordination, giving full play to the advantages of “digital anti-epidemic (數字抗疫)” to seize market opportunities such as the promotion of “new infrastructure (新基建)” by the government and the upgrade of third-generation social security cards, and continued to provide continuous software system development services and value-added services for the “Digital Citizen and Citizen Card Service Platform* (數字市民及市民卡服務平台)” in local cities where the Group has maintained good relationships with customers. In addition, the Group also vigorously explored new customer resources within and outside Zhejiang Province, and it successively won the bid for the new project of Changchun citizen card, upgrade project of Zhoushan citizen card and transformation project of Shaoxing citizen card, with the total contract amount for the year hitting a record high in the history of the business. With the development of new technologies such as AIoT and big data, the Group vigorously innovated to provide new smart city solutions services based on the City Brain (城市數據大腦) and new solution services in other sub-segments (such as smart trade union, smart community, smart housekeeping and digital village, etc.), and continued to conduct meaningful exploration in platform operation services; and (iii) continued to maintain output of its e-commerce supply chain services business, actively explored domestic and overseas upstream supply channels and opened up and connected with various domestic

downstream merchants including e-commerce platforms, under the dual influence of the pandemic and the integration of domestic cross-border e-commerce platforms. With the advancement of this business and the exploration of market opportunities, the Group has made fruitful attempts and business planning in the brand promotion services for beauty branding and healthy food, and has participated step-by-step in e-commerce platform operation services. In particular, at the end of the reporting year, the Group has set a new direction for the development of this business and established Dianshi Technology, a joint venture company, engaging a community marketing service team, to build a new retail entrepreneurial incubation platform and offer community marketing service of a wide range of mother and child supplies and other products.

Discontinued operation

Due to policy factors and business model limitations, the Group's development of telecommunication value-added services business did not meet its expectations. The Group disposed of such business in the reporting year in order to concentrate its limited resources for better development of other businesses.

4. Investment and cooperation

(i) Business investment and cooperation

On 9 December 2020, the Company entered into the Rights Transfer Agreement with Mr. Zhang Jing, Mr. Jin Liang-fu and the other shareholders of Zhejiang Lan Chuang Information Co., Ltd.* (浙江蘭創通信有限公司) ("**Lan Chuang**"), pursuant to which the Company conditionally agreed to transfer to Mr. Zhang Jing the rights relating to 85% equity interests in Lan Chuang, together with all benefits and title therein, for a consideration of RMB7,200,000. Lan Chuang was then a subsidiary of the Company principally engaged in the provision of telecommunication value-added services, and was owned as to 85% by the Group (through a variable interest entity structure in the form of contractual arrangements with Mr. Jin Liang-fu being the registered owner for the Company). Details of the Rights Transfer Agreement and transfer of the rights relating to 85% equity interests in Lan Chuang were set out in the announcement of the Company dated 9 December 2020. Following the completion of the Rights Transfer Agreement on 14 December 2020, Lan Chuang ceased to be a subsidiary of the Company and the Group discontinued its provision of telecommunication value-added services business.

On 28 December 2020, the Company entered into an investment cooperation framework agreement (the "**Investment Cooperation Framework Agreement**") with Mr. Li Dejun, Hangzhou Fun and Culture Creativity Partnership LP* (杭州拾趣文化創意合夥企業(有限合夥)) ("**Fun and Culture Creativity Partnership**") and Mr. Chen Guojian, pursuant to which the afore-mentioned parties have agreed to establish Dianshi Technology with a registered capital of RMB10,000,000 in Huzhou City, Zhejiang Province, the PRC and each of the Company, Mr. Li Dejun, Fun and Culture Creativity Partnership and Mr. Chen Guojian has agreed to contribute to the registered capital of Dianshi Technology at RMB4,100,000, RMB4,000,000, RMB1,800,000 and RMB100,000, respectively. Dianshi Technology will be principally engaged in the provision of community marketing services, through building and operating a start-up incubator platform and establishing high value-added supply chain channels and the overall incubator service system, providing reliable, high-quality, unique goods and comprehensive standardised valued-added services for the entrepreneurial community teams. Details of the Investment Cooperation Framework Agreement and formation of Dianshi Technology were set out in the announcements of the Company dated 28 December 2020 and 30 December 2020. Dianshi Technology was established on 29 December 2020 and accounted for as a subsidiary of the Company and its financial statements would be incorporated in the consolidated financial statements of the Group.

Subsequent to the year end, on 15 March 2021, Increator Technology Co., Ltd.* (浙江創建科技有限公司) (“**Increator Technology**”), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement (the “**Equity Transfer Agreement**”) with Guizhou Broadcasting and Television Network Co., Ltd.* (貴州省廣播電視信息網絡股份有限公司) (“**Guiguang Network**”), pursuant to which Increator Technology agreed to sell its 33% equity interests in Guifutong Network Technology Co., Ltd.* (貴服通網絡科技有限責任公司) (“**Guifutong**”) to Guiguang Network for a consideration of RMB7,218,500. Guifutong has been principally engaged in the provision of smart city solutions, involving mainly the construction and operation of the Guifutong Service Platform and the related value-added application service platform and big data platform. Guifutong was then an associate of the Group and was owned as to 33% by Increator Technology and 67% by Guiguang Network. Details of the Equity Transfer Agreement and disposal of 33% equity interests in Guifutong were set out in the announcement of the Company dated 15 March 2021. The Equity Transfer Agreement has not yet been completed up to the date of this annual report. Upon the completion of the Equity Transfer Agreement, the Group will no longer hold any equity interests in Guifutong, which will cease to be an associate of the Group.

Besides the above-mentioned investment activities, the Group has also been constantly seeking suitable investment opportunities or business cooperation opportunities, including opportunities for expansion of existing businesses and other potential new business opportunities suitable for the Group’s development. However, there is no substantial progress up to present.

During the year ended 31 December 2020, the Group deregistered an immaterial and inactive subsidiary, namely Hangzhou Qunsite Communication Service Co., Ltd.* (杭州群思特通信服務有限公司), due to restructuring of business units.

During the reporting year, the Group also maintained good cooperation relationship with the hardware and computer software manufacturers, Citizen Card* (市民卡) management companies at various places, e-commerce platforms and other business partners.

(ii) Investments in wealth management products

During the reporting year, the Group subscribed for and held various short-term investments, from time to time, in the wealth management products issued by Bank of China Limited (the “**BOC Wealth Management Products**”) and Bank of Hangzhou Co., Ltd.* (杭州銀行股份有限公司) (the “**BOH Wealth Management Products**”) (collectively referred to as the “**Wealth Management Products**”). The Wealth Management Products had no fixed maturity periods and were not principal protected nor with pre-determined or guaranteed returns. The underlying investments of the BOC Wealth Management Products were primarily (i) money market instruments (such as various types of deposits, certificates of deposit, pledged repo, etc.); (ii) fixed income securities (such as fixed income products like corporate and government bonds); and (iii) non-standardised assets that met regulatory requirements and other financial investment instruments approved by the regulatory authorities (such as trust loans, acceptance bills and/or letters of credit). The expected annualised rate of return of the BOC Wealth Management Products was around 2.40% to 2.80% (2019: 2.80% to 3.50%), which was relatively higher than the comparable market bank deposit interest rates. The underlying investments of the BOH Wealth Management Products were mainly fixed income assets, including but not limited to various bonds, deposits, money market financial instruments and other highly liquid assets, bond funds, pledged and buyout repo, and other debt assets that met regulatory requirements. The expected annualised rate of return of the BOH Wealth Management Products was around 2.94% to 3.18% (2019: not applicable), which was relatively higher than the comparable market bank deposit interest rates.

The subscriptions of the Wealth Management Products were made for treasury management purpose to maximise the return on the unutilised funds of the Group after taking into account, among others, the level of risk, return on investment and term to maturity. The Group generally subscribed for standard short-term wealth management products issued by creditworthy banks with its temporary unused idle funds, on a revolving basis. Although the Wealth Management Products were marketed as wealth management products which were not principal protected nor with pre-determined or guaranteed return, the underlying investments were considered to have relatively low risk and be also in line with the internal risk management, cash management and investment policies of the Group as the Group had fully recovered the principal and received the expected returns upon the redemption of the Wealth Management Products in the past. In addition, the Wealth Management Products were with flexible redemption terms or relatively short terms of maturity, and which were considered to akin to placing deposits with banks whilst enabling the Group could also earn more lucrative returns than spot bank savings or time deposit interest rates. Also, in view of the low risk nature and the flexible redemption terms or relatively short terms of maturity of the Wealth Management Products, the Directors were of the view that the above-mentioned investments in the Wealth Management Products posed little risk to the Group and the terms and conditions of each of the subscriptions of the Wealth Management Products was fair and reasonable and was in the interests of the Company and Shareholders as a whole. The Group could maximise the overall returns to the Shareholders while maintaining the flexibility of the Group's treasury management.

Details of the subscriptions of the Wealth Management Products during the year ended 31 December 2020 which constituted notifiable transactions of the Company under Chapter 19 of the GEM Listing Rules were disclosed in the announcement of the Company dated 16 November 2020. Details of the subscriptions and/or redemptions of the Wealth Management Products during the year ended 31 December 2019 which constituted notifiable transactions of the Company under Chapter 19 of the GEM Listing Rules were disclosed in the announcement of the Company dated 16 July 2019.

As at 31 December 2020, the Group's investments in the Wealth Management Products issued by the said two banks were classified as financial assets at fair value through profit or loss in its consolidated statement of financial position, with an aggregate outstanding principal amounted to approximately RMB25,500,000 (2019: RMB15,601,000) and represented approximately 17.87% (2019: 9.56%) of its total assets. For the year ended 31 December 2020, the gain realised by the Group from the Wealth Management Products amounted to approximately RMB491,000 (2019: RMB778,000).

5. Principal risks and uncertainties

The Group has been operating in the domestic information and trading markets in the PRC. There was market uncertainty on whether the PRC economy growth would persist in the coming years. The Group's financial performance might be adversely affected if the domestic consumer market downturn occurred and the competition in the market continued to be intensified. The Group endeavoured to develop and transform its business towards mobile Internet industry application and services, aiming to diversify the risk of over reliance on one single business segment or product and cultivate new business and new products with more market competitiveness in order to replace the traditional uncompetitive business.

Other risks and uncertainties are set out in notes 4 to 6 to the consolidated financial statements.

6. Employees information

Continuing operations

As at 31 December 2020, the Group had approximately 152 (2019: 159 (restated)) employees in total. The total staff costs of the Group for the continuing operations for the reporting year amounted to approximately RMB29,291,000 (2019: RMB26,685,000 (Restated)).

The Group's human resources management strategy has been formulated in accordance with the Group's guidelines of development strategy on one hand and with the goals stipulated in the long term vision planning as its direction on the other. At the same time, incentive scheme has been linked with other human resources programs and promoted each other. The Group opened wide for recruitment channels, set up mechanisms for attracting human resources, grasped for the development of talent usability and formulated a good system in people deployment and incubation. The Group implemented an annual income target system which linked up staff performance appraisal with compensation system. Target annual income was confirmed and released in accordance with performance appraisal result. After a total assessment on employee's job performance, capability and work attitude, an integrated evaluation could be established for the employee which would be used as referencing standard. Through the integration of the two systems, the employees were effectively motivated and the attainment of the Group's goals was assured.

The Group attached great importance to staff development and ability improvement and provided them with various training opportunities on qualities and skills. In this way, employees would be more suitable for the Group's job requirements, and at the same time, they would be fully developed in their careers.

The Group did not issue any share options nor had any bonus plan.



7. Environment protection

The Group's business did not involve any direct environmental pollution emissions. The key environmental impacts from the Group's operations mainly related to paper and energy consumption. To achieve environment protection, the Group encouraged its employees to reduce paper, electricity and other resources consumption throughout all its operations. Moreover, some of the business products provided by the Group would help to improve social management efficiency and save paper, electricity and other resources consumption.

8. Compliance

During the year, the Group has complied with all relevant laws and regulations and has obtained all permits and business licences from various governmental authorities necessary to carry on its business.

REVIEW OF FINANCIAL PERFORMANCE AND POSITIONS

1. Financial performance

- For the year ended 31 December 2020, the Group's revenue from continuing operations amounted to approximately RMB237,630,000 (2019: RMB285,117,000 (restated)).
- For the year ended 31 December 2020, the Group achieved a profit margin from continuing operations of approximately 17.03% (2019: 11.09% (restated)).
- For the year ended 31 December 2020, the Group achieved a net profit attributable to owners of the Company from continuing operations of approximately RMB5,919,000 (2019: RMB4,574,000 (restated)).
- For the year ended 31 December 2020, the Group incurred a net loss attributable to owners of the Company from discontinued operation of approximately RMB894,000 (2019: profit of RMB40,000 (restated)).
- For the year ended 31 December 2020, the Group achieved a net profit attributable to owners of the Company from continuing and discontinued operations of approximately RMB5,025,000 (2019: RMB4,614,000).
- For the year ended 31 December 2020, the Group recorded earnings per share from continuing operations of approximately RMB1.17 cents (2019: RMB0.90 cents (restated)).
- For the year ended 31 December 2020, the Group recorded earnings per share from continuing and discontinued operations of approximately RMB0.99 cents (2019: RMB0.91 cents).

2. Financial positions

- The Group maintained creditable financial conditions. For the year ended 31 December 2020, the Group was mainly financed by proceeds generated from daily operations, other internal resources and bank borrowings.
- As at 31 December 2020, the Group had right-of-use assets of approximately RMB3,286,000 (2019: RMB1,287,000). The significant increase in the Group's right-of-use assets during the reporting year was mainly attributable to new leases of offices.
- As at 31 December 2020, the Group had inventories of approximately RMB8,642,000 (2019: RMB20,892,000). The Group focused on controlling the inventories balance of the trading of hardware and computer software business in the year, so the inventories balance at the end of the reporting year decreased significantly.
- As at 31 December 2020, the Group had trade receivables of approximately RMB43,438,000 (2019: RMB52,560,000). The decrease in the Group's trade receivables during the reporting year was mainly attributable to the decrease in trade receivables under the trading of hardware and computer software business segment.
- As at 31 December 2020, the Group had total prepayments and other receivables of approximately RMB10,677,000 (2019: RMB24,610,000). The Group focused on controlling the inventories balance of the trading of hardware and computer software business in the year, so the balance of prepayments made to suppliers at the end of the reporting year decreased significantly.
- As at 31 December 2020, the Group had contract assets of approximately RMB12,307,000 (2019: RMB5,331,000). The significant increase in the Group's contract assets during the reporting year was mainly attributable to the increase in number of projects under the provision of smart city solutions business segment which had retention periods.
- As at 31 December 2020, the Group's total bank balances and cash and financial assets at fair value through profit or loss (which represented the Wealth Management Products as detailed above) amounted to approximately RMB53,753,000 (2019: RMB47,938,000). The total bank balances and cash and financial assets at fair value through profit or loss to total assets and net assets ratio as at 31 December 2020 were approximately 37.67% (2019: 29.39%) and 47.77% (2019: 44.04%), respectively.
- As at 31 December 2020, the Group had trade and other payables of approximately RMB22,228,000 (2019: RMB41,405,000). The Group focused on controlling the inventories balance of the trading of hardware and computer software business in the year, so the trade payables balance at the end of the reporting year decreased significantly.

- As at 31 December 2020, the Group had contract liabilities of approximately RMB4,864,000 (2019: RMB2,433,000). The significant increase in the Group's contract liabilities during the reporting year was mainly attributable to the increase in advance payments from customers for services in respect of the provision of smart city solutions business segment.
- As at 31 December 2020, the Group had no bank borrowings (2019: RMB8,000,000). The decrease in the Group's bank borrowings during the reporting year was mainly attributable to the repayments of bank borrowings.
- As at 31 December 2020, the Group had total lease liabilities of approximately RMB3,041,000 (2019: RMB2,286,000). The increase in the Group's total lease liabilities during the reporting year was mainly attributable to the entering into of lease agreements in respect of renting offices.
- As at 31 December 2020, the Group had total assets of approximately RMB142,677,000 (2019: RMB163,124,000).
- As at 31 December 2020, the Group had current assets of approximately RMB128,199,000 (2019: RMB149,868,000).
- As at 31 December 2020, the Group had current liabilities of approximately RMB29,312,000 (2019: RMB53,677,000).
- As at 31 December 2020, the Group had non-current liabilities of approximately RMB848,000 (2019: RMB601,000).
- As at 31 December 2020, the Group had equity attributable to owners of the Company of approximately RMB112,517,000 (2019: RMB107,492,000).
- As at 31 December 2020, the Group had no non-controlling interests (2019: RMB1,354,000).
- As at 31 December 2020, the Group had a gearing ratio (i.e. the ratio of total liabilities to total assets) of approximately 21.14% (2019: 33.27%).
- As at 31 December 2020, the Group had a net current ratio (i.e. the ratio of current liabilities to current assets) of approximately 22.86% (2019: 35.82%).
- The Group's exposure to foreign currency risk related principally to its bank balances, trade receivables, other receivables, contract assets and trade and other payables denominated in foreign currencies other than the functional currency of relevant group entity. The Group did not have a foreign currency hedging policy. However, the Directors would continuously monitor the related foreign exchange exposure and would consider hedging significant foreign currency exposure should the need arise. Further information on the Group's currency risk is set out in note 6 to the consolidated financial statements.
- As at 31 December 2020, none of the Group's assets were pledged (2019: Nil).

CAPITAL STRUCTURE

There were no changes in the Company's capital structure during the year ended 31 December 2020 (2019: Nil). The registered capital of the Company was RMB50,654,617, comprising 244,421,170 domestic shares (the "**Domestic Shares**") of the Company of nominal value of RMB0.10 each and 262,125,000 H shares (the "**H Shares**") of the Company of nominal value of RMB0.10 each, as at 31 December 2020 and 2019.

LITIGATION

On 8 March 2021, the Company received a civil complaint and a court summons issued by the People's Court of Haidian District, Beijing to the Company with Case Number (2020) Beijing 0108 Min Chu No. 24340, under which Beijing Fortis Oriental Technology Co., Ltd.* (北京富通東方科技有限公司) sued the Company and three other defendants (collectively referred to as the "**Defendants**") on the ground of infringement of trade secrets disputes, requesting the payments of (i) compensation for financial losses of approximately RMB10,944,000 and related interest payment calculated for the period from 7 July 2008 to 30 April 2020, with total principal and interest amounting to approximately RMB18,096,000; (ii) related expenses for handling the case of RMB300,000; and (iii) all litigation costs, jointly by the Defendants (the "**Litigation**"). The case will be heard on 15 April 2021. Details of the Litigation were set out in the announcement of the Company dated 9 March 2021.

The Company has commenced to investigate into the Litigation and engaged a PRC legal representative to prepare for defence and search for relevant evidence to actively respond to the Litigation. Based on the legal opinion issued by the Company's PRC legal adviser, the Directors considered that due to the uncertainties of the Litigation and the Company had reasonable grounds in opposing the enforcement of any judgement of the said case against the Company, no provision has been made in the consolidated financial statements of the Group at this stage. However, due to the inherent uncertainties of the Litigation itself, the Company cannot predict whether the defence will succeed and whether it will bear some or all of the payment responsibilities. The Company will make further announcement(s) regarding any material development of the Litigation as and when appropriate.

In connection with the uncertainties of the Litigation, the Company's auditor, SHINEWING (HK) CPA Limited ("**SHINEWING**"), has included an emphasis of matter paragraph, without qualification, in the independent auditor's report on the Group's consolidated financial statements for the year as set out on pages 40 to 43 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

As described above, on 15 March 2021, the Group entered into the Equity Transfer Agreement to dispose of its 33% equity interests in Guifutong, an associate of the Group. Details of the Equity Transfer Agreement and disposal of 33% equity interests in Guifutong were set out in the announcement of the Company dated 15 March 2021. Save as disclosed herein, there were no significant events after the reporting period.

FUTURE PROSPECTS

1. Orders in hand/status in sales contract

During the reporting year, the Group's trading of hardware and computer software business maintained close cooperative relationships with well-known hardware and software vendors. Apart from the sales of computer storage servers and other products and services, it ventured into system integration services in the security sector, and sought to increase the proportion of system integration service contract revenue as part of its effort to gradually improve the business income structure and profitability. The Group's smart city solutions business's construction service contracts were being implemented in and outside of Zhejiang Province as planned, and it has established good cooperative relationships with local city customers. In response to customer demand, it has provided smart city solution products and services such as the "Digital Citizen and Citizen Card Service Platform* (數字市民及市民卡服務平台)". Business orders and contracts in many other cities in the country were explored, creating paths for subsequent new contracts and orders. The Group's e-commerce supply chain services business has cooperative relationships with a number of domestic e-commerce platforms, domestic and foreign brand manufacturers and merchants. However, business model restrictions and intensified market competition placed traditional cross-border e-commerce supply chain services under increased pressure. The promotion services of beauty branding and healthy food and the community marketing services to be cultivated were underway, and initial intention for cooperation has been reached with a number of potential partners to lay the foundation for rapid development in the next year. Due to business model limitations and policy factors, the Group's development of telecommunication value-added services business has lagged behind expectations. The business was disposed of by the Group during the reporting year. The Directors believed that the disposal would have no material adverse impact on the Group's financial and operating conditions.

2. Future prospects of new business and new products

The Group has continued to pursue business transformation and development. During the reporting year, business adjustments have achieved certain results and the direction of business development was gradually clarified, achieving a major step towards building a business ecosystem in line with the development of the Group. The Group will integrate its existing business and technological advantages to continue seeking new business opportunities, with the support of technological development and business innovation capabilities grasped by the provision of smart city solutions business, collaborating with other businesses, integrating resources, and developing innovative new businesses or products to build a business ecosystem with sustainable development capabilities.

On the one hand, the Group will follow the trend of promoting "digital governance (數字治理)" in the PRC and "digital reform (數字化改革)" in Zhejiang Province, make use of the technical advantages and customer resources in various cities accumulated in the provision of smart city solutions business, strengthen the innovation of solutions, provide "digital empowerment (數字賦能)" to customers, and, through the continuous improvement of the "Digital Citizen and Citizen Card Service Platform* (數字市民及市民卡服務平台)", especially enhance the innovative expansion of application scenarios and service functions of new applications of digital citizens (數字市民) based on the City Brain (城市數據大腦), such as further strengthening the development of applications like smart trade union, smart community, digital village and smart housekeeping services. The Group will grasp the opportunities arose from the deep reconsideration by the state and governments at all levels of social governance and city management service capabilities and efficiency, promote to customers in various cities better solutions, which possess perfect digital information services including "information dissemination, information collection, source tracing and behavioural management", for the improvement of their social governance and city management, and drive the development of new customers and excavation of old customers of the business.

On the other hand, the Group will continue to develop operation services, aiming to provide a variety of convenient and value-added services to the broad customer base of the “Digital Citizen and Citizen Card Service Platform* (數字市民及市民卡服務平台)” and maximise business value. Firstly, the Group will continue to promote the output of operation services in smart trade unions. While providing system solution development services, it will also enhance its value-added service capabilities and provide trade unions and their members with personalised value-added services and products. Secondly, the Group will also encourage the e-commerce supply chain services business to provide operation services for e-commerce platforms, further accumulate upstream and downstream channel resources to secure products and service capabilities with sufficient profit potential, and push forward the coordinated development with the operation services of the provision of smart city solutions business with better utilisation of resources.

Further, the Group will actively pursue for the transformation and development of other business sectors, accelerate the development of new projects, and effectively implement its various business plans enhancing the construction of its own business ecosystem. Firstly, to guide the trading of hardware and computer software business to continue to adjust sales strategies and sales structure, strengthen the expansion of system integration services, seek supporting service opportunities with the help of the smart city solutions business, and encourage useful exploration in other product sales services. Secondly, to accelerate the cultivation of e-commerce supply chain services business in brand promotion services and community marketing services, establish operation teams as scheduled, search for high-quality product supply chain channels, and build service platforms to achieve effective breakthroughs in transformation and development as soon as possible.

In order to achieve its strategic development goals, the Group has actively and steadily advanced related work in accordance with the above plan. The Board believes that the Group would seize the opportunity and, through adoption of effective measures and with the coordinated development of each business sector, the Group can build a business ecosystem with own characteristics with full and effective coverage from technology to service, from product to platform, from offline to online, and from B end to C end in the future. The Group’s sustainable profitability in the mobile Internet service sector will be created which will bring further value to the Shareholders.

During the reporting year, the business adjustments of the Group achieved certain results. The direction of business development has gradually become clear, which has been a big step forward to building a business ecosystem in line with the development of the Group. However, the Group still faces many challenges. It is still uncertain whether the Group can seize the opportunity in the fierce market competition, build up core competitiveness in its business, and achieve substantive breakthroughs. Looking forward, the Group will further carefully streamline the three existing business segments, follow the trend of the promotion of “digital governance (數字治理)” in the PRC and the “digital reform (數字化改革)” in Zhejiang Province, actively seize the development opportunities of the domestic mobile Internet industry and smart city construction, identify the main weakness of the industry to explore and seize the market demand, give full play to the advantages of business resources, and achieve effective breakthroughs in the Group’s business, so as to improve the comprehensive profitability of the Group. The Group will maintain stable growth of the traditional business base of its three existing business sectors, promote the effective implementation of new projects of various businesses such as new application solution services based on the City Brain (城市數據大腦), community marketing service projects, etc., strengthen internal systematic management, promote collaborated development, plan the “Fourteenth Five-Year” development strategy in a scientific manner, and hold accountable the responsible personnel at all levels to ensure the sustainable and healthy development of the Group, and create more business value for the Shareholders and give back to the society.

On behalf of the Board
Qi Jinsong
Chairman

19 March 2021
Hangzhou City, the PRC

* For identification purposes only

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographical details of the Directors, supervisors (the “**Supervisors**”) of the Company and senior management of the Group as at 19 March 2021, the date of this annual report, are set out as follows:

DIRECTORS

Executive Directors

Mr. Qi Jinsong (戚金松) (formerly Mr. Qi Jinsong (戚金崧)), aged 56, is the chairman (the “**Chairman**”) of the Company. Mr. Qi completed a two-year online professional course for economics offered by China University of Geosciences (Wuhan) (中國地質大學(武漢)) in April 2005. Mr. Qi was appointed as the general manager and president of the board of Zhejiang Shenghua Qiang Ci Materials Company Limited* (浙江升華強磁材料有限公司) (currently known as Zhejiang Long Hua Shu Furniture Company Limited* (浙江龍華樹家具有限公司)) (“**Shenghua Qiang Ci Materials**”) from January 2009 to February 2012. From February 2012 to April 2013, he was the deputy general manager and later general manager of Shenghua Estate Group Company Limited* (升華地產集團有限公司) (“**Shenghua Estate**”). From April 2013 to July 2013, he was appointed as the deputy general manager of Zhejiang Shenghua Biok Biology Co., Ltd. (浙江升華拜克生物股份有限公司) (“**Shenghua Biok Biology**”), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600226). From July 2013 to June 2014, he was the deputy general manager of Meidu Group Company Limited* (美都集團股份有限公司) (“**Meidu Group**”). Mr. Qi was appointed as the executive vice president (from June 2014 to July 2016) and director (from May 2015 to July 2016) of Meidu Energy Company Limited* (美都能源股份有限公司) (“**Meidu Energy**”), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600175). Mr. Qi joined the Company since February 2017 and has been appointed as an executive Director of the current Board since June 2020.

Mr. Guan Zilong (管子龍), aged 33, is the financial controller of the Company. Mr. Guan is also a director of Increator Technology and Shenghua Scitech Information Limited, both wholly-owned subsidiaries of the Company, and Dianshi Technology, a 41% owned subsidiary of the Company. Mr. Guan graduated from China Jiliang College* (中國計量學院) (currently known as China Jiliang University (中國計量大學)) and obtained a bachelor’s degree in management majoring in financial management in June 2011. Mr. Guan is a non-practising member (非執業會員) of Zhejiang Institute of Certified Public Accountants (浙江省註冊會計師協會). Between July 2011 and May 2016, he was with Pan-China Certified Public Accountants LLP* (天健會計師事務所 (特殊普通合夥)) and mainly handled annual audit works for listed companies and initial public offering works for proposed listing applicants. Mr. Guan joined the Company since June 2016 and has been appointed as an executive Director of the current Board since June 2020.

Mr. Xu Jianfeng (徐劍鋒), aged 34, is the secretary of the Board, authorised representative (the “**Authorised Representative**”) and compliance officer (the “**Compliance Officer**”) of the Company. Mr. Xu is also a director of Increator Technology and Hangzhou Increator Smart Union Technology Co., Ltd.* (杭州創建智工科技有限公司), both wholly-owned subsidiaries of the Company. Mr. Xu graduated from Jiangxi University of Finance and Economics (江西財經大學) majoring in tourism management and finance (second degree) in July 2009 and obtained a bachelor’s degree in management and a bachelor’s degree in economics. Since July 2009 till May 2017, Mr. Xu has been appointed as the secretary to the president (總裁秘書) of Shenghua Group Holdings Co., Ltd.* (升華集團控股有限公司) (“**Shenghua Group Holdings**”). Mr. Xu joined the Company since May 2017 and has been appointed as an executive Director of the current Board since June 2020.

Non-Executive Director

Mr. Chen Ping (陳平), aged 56, is the vice chairman (the “**Vice Chairman**”) of the Company. Mr. Chen is an advisor to students seeking their masters’ degree and an associate professor at Zhejiang University (浙江大學). Mr. Chen graduated from the Department of Computer Science and Technology at Zhejiang University (浙江大學) with a bachelor’s degree and a master’s degree in computer applications in July 1987 and December 1989, respectively. Since graduation from Zhejiang University (浙江大學), Mr. Chen has been involved in the research and development of computer networking and communication platforms, particularly in wireless data communication platforms and was awarded the Zhejiang Province Science and Technology Advancement Second Prize and Third Prize (浙江省科學技術進步二等獎及三等獎) issued by the Zhejiang Provincial People’s Government in 1993. Mr. Chen had previously conducted classroom lectures in the Department of Computer Science and Technology at Zhejiang University (浙江大學) for seven years up to 1997. Mr. Chen published two computer networking academic textbooks and a number of academic research papers in the PRC. Mr. Chen joined the Company since May 1997. Mr. Chen has been appointed as an executive Director of the current Board since June 2020 and was redesignated as a non-executive Director since August 2020.

Independent Non-Executive Directors

Mr. Cai Jiamei (蔡家楨), aged 74, is the chairman of the remuneration committee (the “**Remuneration Committee**”) of the Company. Mr. Cai graduated from the Physics Department of Fudan University (復旦大學) majoring in semiconductor in August 1970. From May 2010 to January 2015, Mr. Cai was appointed as an independent non-executive director of Hangzhou New Century Information Technology Co., Ltd.* (杭州新世紀信息技術股份有限公司) (currently known as Hangzhou Liaison Interactive Information Technology Co., Ltd.* (杭州聯絡互動信息技術股份有限公司)), a company listed on the Shenzhen Stock Exchange (stock code: 002280). From August 2011 to August 2017, Mr. Cai was appointed as an independent non-executive director of B-Soft Company Limited* (創業軟件股份有限公司) (currently known as B-Soft Co., Ltd.* (創業慧康科技股份有限公司) (“**B-Soft**”), a company listed on the Shenzhen Stock Exchange (stock code: 300451). From July 2013 to January 2020, he was appointed as an independent non-executive director of Sunwave Telecommunication Company Limited* (三維通信股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002115). From January 2014 to January 2019, he was appointed as an independent non-executive director of Hangzhou Xianlin Sanwei Technology Company Limited* (杭州市先臨三維科技股份有限公司), a company listed on the National Equities Exchange and Quotations (stock code: 830978). Since June 2018, he has been appointed as an independent non-executive director of Xihu Zhongbao Co., Ltd.* (新湖中寶股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600208). Since October 2020, he has been appointed as an independent non-executive director of B-Soft. Mr. Cai was elected as the chairman of the second and third session of the council of Zhejiang Software Industry Association* (浙江省軟件行業協會) in 2008 and 2012, respectively. Mr. Cai was appointed as the dean of the College of Information Engineering* (信息工程學院) (from October 2000 to August 2004), the College of Software* (軟件學院) (from April 2002 to May 2006) and the College of Software Vocational Skills* (軟件職業技術學院) (from April 2002 to May 2006) of Zhejiang University of Technology (浙江工業大學). Mr. Cai joined the Company since May 2017 and has been appointed as an independent non-executive Director of the current Board since June 2020.

Ms. Huang Lianxi (黃廉熙), aged 58, is the chairman of the nomination committee (the “**Nomination Committee**”) of the Company. Ms. Huang graduated from East China College of Political Science and Law (華東政法學院) (currently known as East China University of Political Science and Law (華東政法大學)) in August 1983 majoring in law. Ms. Huang furthered her legal study at Shanghai College of International Business and Economics (上海對外貿易學院) (currently known as Shanghai University of International Business and Economics (上海對外貿易大學)) in 1984 and graduated in July 1986. From 1991 to 1992, Ms. Huang attended a one-year course in United Kingdom Practical Training Scheme for Lawyers of the People’s Republic of China at University of London and obtained a certificate of completion. From September 1984 to September 2003, Ms. Huang worked at Zhejiang Economy Law Firm* (浙江省經濟律師事務所) (currently known as Zhejiang Zhe Jing Law Firm* (浙江浙經律師事務所)) as a lawyer, deputy head officer (副主任) and partner successively. Ms. Huang is a partner of Zhejiang Tiance Law Firm* (浙江天冊律師事務所) and she joined the firm since September 2003. In October 2008, Ms. Huang was recognised as Outstanding Lawyer (全國優秀律師) for the years 2005 to 2007 by All China Lawyers Association* (中華全國律師協會). In February 2013 and January 2018, Ms. Huang was appointed as a member of the Twelfth and Thirteenth National Committee for Chinese People’s Political Consultative Conference* (中國人民政治協商會議第十二屆、第十三屆全國委員會), respectively. Ms. Huang is an arbitrator of the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會). Ms. Huang had been the vice-president of the Lawyers Association of Zhejiang* (浙江省律師協會). Ms. Huang was an independent non-executive director of Zhejiang Zhenyuan Company Limited (浙江震元股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000705), from June 2008 to August 2014. From April 2008 to April 2014, Ms. Huang was appointed as an independent non-executive director of Sunny Loan Top Company Limited (香溢融通控股集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600830). From April 2009 to April 2015, Ms. Huang was appointed as an independent non-executive director of Shenghua Biok Biology. She was an independent non-executive director of China Calxon Group Company Limited* (嘉凱城集團股份有限公司) (formerly known as Hunan Yahua Holdings Group Company Limited* (湖南亞華控股集團股份有限公司)), a company listed on the Shenzhen Stock Exchange (stock code: 000918), from August 2009 to March 2016. From July 2013 to November 2018, Ms. Huang was appointed as an independent non-executive director of Zhejiang Kangsheng Co., Ltd. (浙江康盛股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002418). From April 2014 to April 2020, Ms. Huang was appointed as an independent non-executive director of Zuoli Kechuang Micro-finance Company Limited (佐力科創小額貸款股份有限公司), a company listed on the main board of the Stock Exchange (stock code: 6866). Ms. Huang has been an independent non-executive director of Zhejiang Youpon Ceiling Company Limited* (浙江友邦吊頂股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002718), since March 2016. Ms. Huang has been an independent non-executive director of Hanjia Design Group Co., Ltd.* (漢嘉設計集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300746), since March 2019. Ms. Huang has been an independent non-executive director of Zhejiang Walrus New Material Co., Ltd. (浙江海象新材料股份有限公司), a company listed on the Shenzhen Stock Exchange (listed in September 2020) (stock code: 003011), since December 2018. Ms. Huang joined the Company since May 2017 and has been appointed as an independent non-executive Director of the current Board since June 2020.

Mr. Shen Haiying (沈海鷹), aged 49, is the chairman of the audit committee (the “**Audit Committee**”) of the Company. Mr. Shen completed a two-year professional course for accounting jointly offered by The Broadcast and Television University of China* (中央廣播電視大學) (currently known as The Open University of China (國家開放大學)) and Beijing Technology and Business University (北京工商大學) in January 2005. From November 1999 to March 2007, Mr. Shen was a director of Deqing Tianqin Accountants’ Firm Company Limited* (德清天勤會計師事務所有限責任公司). From April 2007 to March 2011, Mr. Shen was the executive director and general manager of Huzhou Tianqin Assets Appraisal Company Limited* (湖州天勤資產評估有限公司). From June 2008 to May 2014, he was appointed as an independent non-executive director of Shenghua Biok Biology. Since April 2011 till March and September 2019, Mr. Shen was the general manager and vice chairman of the board of Zuo Li Group Holdings Company Limited* (佐力控股集團有限公司), respectively. Since October 2007 to September 2018, Mr. Shen was a director of Zhejiang Top Medicine Co., Ltd. (浙江拓普藥業股份有限公司), a company listed on National Equities Exchange and Quotations (stock code: 837631). Mr. Shen is a senior accountant (高級會計師) awarded by the Review Committee of Senior Accountant Qualification of Zhejiang Province* (浙江省高級會計師資格評審委員會). He is also a certified tax agent of Zhejiang Province (浙江省註冊稅務師). Mr. Shen joined the Company since May 2017 and has been appointed as an independent non-executive Director of the current Board since June 2020.

SUPERVISORS

Shareholder Representative Supervisors

Mr. Lu Weifeng (盧偉鋒), aged 41, is the chairman of the supervisory committee (the “**Supervisory Committee**”) of the Company. Mr. Lu completed the undergraduate study at University of Chongqing (重慶大學) majoring in professional public service management in July 2010. Since July 1999 till present, Mr. Lu has been employed by and is the director and assistant to the president (總裁助理) of Shenghua Group Holdings. Since March 2015 till present, Mr. Lu has been a director and manager of Zhejiang Zheke Shenghua Venture Capital Co., Ltd.* (浙江浙科升華創業投資有限公司). Since June 2016 till present, Mr. Lu has been a director of Bailida Solar Co., Ltd.* (百力達太陽能股份有限公司). Since June 2016 till present, Mr. Lu has been a director of Hangzhou Tiandi Digital Technology Co., Ltd.* (杭州天地數碼科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300743). Since September 2018 till present, Mr. Lu has been a director of Zhejiang Shenghua Yunfeng New Materials Co., Ltd.* (浙江升華雲峰新材股份有限公司). Since December 2019 till present, Mr. Lu has been a chairman of the supervisory committee of Zhejiang Shenghua Holdings Group Company Limited* (浙江升華控股集團有限公司) (“**Zhejiang Shenghua**”). Mr. Lu joined the Company since May 2019 and has been appointed as a Supervisor of the current Supervisory Committee since June 2020.

Ms. Shen Xiaofen (沈小芬), aged 48, completed the specialist study at The Broadcast and Television University of China* (中央廣播電視大學) (currently known as The Open University of China (國家開放大學)) majoring in professional accounting in January 2008. From January 1999 to August 2009, Ms. Shen served successively as the staff and deputy manager of the finance department of Shenghua Biok Biology. From August 2009 to July 2017, Ms. Shen was the cost manager of the finance department of Zhejiang Yunda Wind Power Co., Ltd.* (浙江運達風電股份有限公司). Since July 2017 and July 2020, Ms. Shen has served as the deputy general manager and general manager, respectively, of the audit and compliance department of Shenghua Group Holdings. Ms. Shen joined the Company since May 2019 and has been appointed as a Supervisor of the current Supervisory Committee since June 2020.

Employee Representative Supervisor

Ms. Shen Rujia (沈儒佳), aged 32, graduated from Jiaying University (嘉興學院) in June 2011, majoring in architecture and accounting (second degree), with a bachelor’s degree in engineering and a bachelor’s degree in management. Ms. Shen obtained the intermediate accounting professional and technical qualification certificate approved by the Ministry of Human Resources and Social Security and Ministry of Finance of the PRC. From July 2011 to July 2018, Ms. Shen worked as an accountant in Shenghua Estate. Ms. Shen has worked as an accountant in the Company since August 2018 and has been appointed as a Supervisor of the current Supervisory Committee since June 2020.

SENIOR MANAGEMENT

Mr. Qi Jinsong (戚金松) (formerly Mr. Qi Jinsong (戚金崧)), aged 56, is the Chairman. Mr. Qi completed a two-year online professional course for economics offered by China University of Geosciences (Wuhan) (中國地質大學 (武漢)) in April 2005. Mr. Qi was appointed as the general manager and president of the board of Shenghua Qiang Ci Materials from January 2009 to February 2012. From February 2012 to April 2013, he was the deputy general manager and later general manager of Shenghua Estate. From April 2013 to July 2013, he was appointed as the deputy general manager of Shenghua Biok Biology. From July 2013 to June 2014, he was the deputy general manager of Meidu Group. Mr. Qi was appointed as the executive vice president (from June 2014 to July 2016) and director (from May 2015 to July 2016) of Meidu Energy. Mr. Qi joined the Company since February 2017.

Mr. Xu Yin (徐寅), aged 34, is the chief executive officer (the “**Chief Executive Officer**”) of the Company. Mr. Xu graduated from Southeast University (東南大學) and obtained a bachelor’s degree and master’s degree in engineering in July 2008 and March 2013, respectively, majoring in software engineering. From April 2015 to November 2017, Mr. Xu served as the deputy minister of the research and development department of Nanjing Panda Information Industry Co., Ltd.* (南京熊貓信息產業有限公司). From November 2017 to January 2019, Mr. Xu was the deputy chief engineer of the Company. From February 2019 to May 2019, Mr. Xu was the assistant to general manager of the information technology department of Zhejiang Shenghua. From June 2019 to November 2020, Mr. Xu has served as the deputy general manager of the information technology department of Zhejiang Shenghua. Mr. Xu has been a director (since February 2018) and chairman of the board of directors (since March 2020) of Increator Technology, a wholly-owned subsidiary of the Company. Mr. Xu has extensive experience in the information technology industry of the PRC. Mr. Xu joined the Company since November 2020.

Mr. Guan Zilong (管子龍), aged 33, is the financial controller of the Company. Mr. Guan graduated from China Jiliang College* (中國計量學院) (currently known as China Jiliang University (中國計量大學)) and obtained a bachelor degree in management majoring in financial management in June 2011. Mr. Guan is a non-practising member (非執業會員) of Zhejiang Institute of Certified Public Accountants (浙江省註冊會計師協會). Between July 2011 and May 2016, he was with Pan-China Certified Public Accountants LLP* (天健會計師事務所 (特殊普通合伙)) and mainly handled annual audit works for listed companies and initial public offering works for proposed listing applicants. Mr. Guan joined the Company since June 2016.

Mr. Xu Jianfeng (徐劍鋒), aged 34, is the secretary of the Board, Authorised Representative and Compliance Officer. Mr. Xu graduated from Jiangxi University of Finance and Economics (江西財經大學) majoring in tourism management and finance (second degree) in July 2009 and obtained a bachelor’s degree in management and a bachelor’s degree in economics. Since July 2009 till May 2017, Mr. Xu has been appointed as the secretary to the president (總裁秘書) of Shenghua Group Holdings. Mr. Xu joined the Company since May 2017.

Mr. Wu Benlin (吳本林), aged 46, is the president of Increator Technology, a wholly-owned subsidiary of the Company. Mr. Wu graduated from He Fei University of Technology (合肥工業大學) with a bachelor’s degree in communication engineering. Mr. Wu has devoted to the development of computer software application system, especially the development of application in industry such as social security, city card (城市一卡通), smart city based on J2EE structure, and has extensive experience in the field of city informatisation and smart city. Mr. Wu was awarded the Zhejiang Province Science and Technology Advancement First Prize (浙江省科技進步一等獎) in 2008 and qualification certifications of Information System Project Management Professional (信息系統項目管理師), OCP, Microsoft Senior Project Management Training (高級項目經理培訓) and Senior Software Development Supervisor Training Program (高級軟件研發主管研修計劃), and honoured with the qualification such as IBM Certified Structuralist (認證架構師). Mr. Wu joined the Group since February 2018.

Mr. Luo An (羅安), aged 57, is an engineer and the general manager of Hangzhou Huaguang Computer Engineering Co., Ltd.* (杭州華光計算機工程有限公司), a wholly-owned subsidiary of the Company. Mr. Luo is a graduate of master in software computing and theoretical science of Zhejiang University (浙江大學). Mr. Luo had worked at management positions in Zhejiang Tian Cheng Group High-Tech Development Company* (浙江天昌集團高科技開發公司) and Huzhou Jun Pu Computer Company* (湖州軍普電腦公司). Mr. Luo has over twenty years of management experience in the field of information technology. Mr. Luo joined the Company since September 2009.

Mr. Fork Siu Lun Tommy (霍兆麟), aged 58, is the company secretary (the “**Company Secretary**”) of the Company and Authorised Representative. Mr. Fork graduated from University of Hong Kong with a bachelor’s degree in science in November 1984. He has been a member of the Hong Kong Institute of Certified Public Accountants since September 1987 and a fellow member of The Chartered Association of Certified Accountants since October 1992. Mr. Fork joined the Company since May 2017.

* For identification purposes only

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Group recognised the importance of achieving and monitoring high standard of corporate governance in realising the need and requirements of its business and best interest of all Shareholders. The Group has been fully committed to doing so. Throughout the year ended 31 December 2020, the Company has adopted and complied with the code provisions as set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 15 to the GEM Listing Rules, except for the deviation from CG Code Provision A.2.1 as explained below. The Board will continue to review regularly and take appropriate actions to comply with the CG Code.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code Provision A.2.1 stipulates that the roles of the chairman and chief executive should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

For the period from 1 January 2020 to 12 November 2020, Mr. Qi Jinsong is both the Chairman and Chief Executive Officer who is responsible for managing the Board and Group’s business. The Board considered that, with the then Board structure and scope of business of the Group, vesting the roles of the Chairman and Chief Executive Officer in the same person enabled more effective and efficient planning and implementation of business plans and the Board believed that the balance of power and rights has been adequately ensured. With effect from 13 November 2020, Mr. Qi Jinsong has resigned as the Chief Executive Officer and continued to act as an executive Director and the Chairman, while Mr. Xu Yin has been appointed by the Company as the Chief Executive Officer in order to further enhance the effectiveness of the Group’s corporate governance structure and to enable more efficient implementation of business plans.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31 December 2020. Having made specific enquiry with all Directors, the Company confirmed that all Directors had complied with the required standard of dealings and code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2020.

BOARD OF DIRECTORS

During the year and up to the date of this report, the composition of the Board is as follows:

Executive Directors

Mr. Qi Jinsong
Mr. Guan Zilong
Mr. Xu Jianfeng

Non- Executive Director

Mr. Chen Ping (*redesignated on 14 August 2020*)

Independent Non-Executive Directors

Mr. Cai Jiamei
Ms. Huang Lianxi
Mr. Shen Haiying

The biographical details of the Directors are set out on pages 19 to 21 of this annual report.

The term of appointment of the non-executive Director, Mr. Chen Ping, is from 14 August 2020 to the expiry date of the term of office of the current Board, i.e., until 29 June 2023.

The Board’s primary responsibilities were to formulate the Group’s long-term corporate strategy, oversee the management of the Group, evaluate the performance of the Group and enhance long-term Shareholder value. The management of the Group was responsible for executing the strategies adopted by the Board and managing the day-to-day activities of the Group.

The composition of the Board was well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. All executive Directors, non-executive Director and independent non-executive Directors has brought a variety of experience and expertise to the Group.

During the year, the Board complied at all times with the requirement of the GEM Listing Rules relating to the appointment of at least three independent non-executive directors and at least one of them had appropriate professional qualifications or accounting or related financial management expertise.

During the year, the Board adopted a board diversity policy setting out the approach to achieve diversity on the Board. The Company considered diversity of Board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All future Board appointments will be based on meritocracy, and the candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The list of Directors and their role and function has been published on the GEM website.

Each Director has ensured that he/she could give sufficient time, commitments and attention to the affairs of the Group for the year.

The Board has been provided with monthly financial summaries which contained year-to-date key figures of the Group. The monthly financial summaries have given a balanced and understandable assessment of the Group's performance, financial position and prospects in sufficient detail.

Pursuant to the CG Code, the Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board is made with thorough and necessary information. The Company would provide introduction and information to newly appointed Directors on their legal and other responsibilities as directors and their functions. As part of an ongoing process of directors' training, the Directors were updated with latest developments regarding the GEM Listing Rules and other applicable regulatory requirements from time to time to ensure compliance of the same by all Directors. All Directors have been encouraged to attend external and internal forums or training courses on relevant topics which may count towards continuous professional development training. The Company has devised a training record to assist the Directors to record the training they have undertaken. During the year, all Directors have participated in appropriate continuous professional development activities either by attending training courses or by reading materials relevant to the Group's business or to the Directors' duties and responsibilities.

The following table shows the attendance of individual Directors at the meetings of the Board, Board committees and Shareholders held during the year:

Director	Board	Audit committee	Meeting attended Remuneration committee	Nomination committee	Shareholders
Executive Directors					
Mr. Qi Jinsong	7/7	–	1/1	5/5	1/1
Mr. Guan Zilong	7/7	–	–	–	1/1
Mr. Xu Jianfeng	7/7	–	–	–	1/1
Non- Executive Director					
Mr. Chen Ping (<i>redesignated on 14 August 2020</i>)	7/7	–	–	–	–/1
Independent Non-Executive Directors					
Mr. Cai Jiamei	7/7	4/4	1/1	5/5	–/1
Ms. Huang Lianxi	7/7	4/4	–	5/5	1/1
Mr. Shen Haiying	7/7	4/4	1/1	–	–/1

In addition, the Company has maintained a procedure for the Directors to seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company.

Moreover, the Company Secretary prepared minutes and kept records of matters discussed and decisions resolved at all Board meetings. The Company Secretary also kept the Board minutes, which were open for inspection at any reasonable time on reasonable notice by any Director.

Appointment and re-election of Directors shall be approved by meetings of the Shareholders. The term of each Director is three years and can be re-elected in succession. According to the stipulations of its articles of association (the "**Articles of Association**"), the Company cannot terminate the office of a Director without course.

The resignation and termination of a Director should need reasonable explanation. The Articles of Association stipulates that the terms of all Directors are three years and can continue to hold office when re-elected. Any Director to be appointed for replacing in vacancy must be thereafter elected in the next meeting of the Shareholders. The Company does not require the rotation of Directors in three years. Instead, Directors are re-elected by meeting of the Shareholders upon the expiry of their three-year terms, and can be re-appointed.

BOARD COMMITTEES

To maintain a high level of corporate governance standard, the Board has set up three committees as follows:

- **Audit Committee**

The Company has the Audit Committee with written terms of reference in compliance with the requirements as set out in the CG Code. The Audit Committee is currently composed of three independent non-executive Directors, namely, Mr. Shen Haiying, Mr. Cai Jiamei and Ms. Huang Lianxi; and is chaired by Mr. Shen Haiying.

The primary duties of the Audit Committee are to review the Group's annual report and audited consolidated financial statements, annual results, half-yearly report and quarterly reports and to advise and comment thereon to the Board. The Audit Committee is also responsible for reviewing and supervising the financial reporting process and risk management and internal control systems of the Group. In the course of doing so, the Audit Committee has had detail discussions with the management and external auditor during the year ended 31 December 2020. The Audit Committee has reviewed, among other things, the audited consolidated financial statements and annual report of the Group for the year ended 31 December 2020.

- **Remuneration Committee**

The Company has the Remuneration Committee with written terms of reference in alignment with the provisions as set out in the CG Code. The Remuneration Committee currently comprises two independent non-executive Directors, namely, Mr. Cai Jiamei and Mr. Shen Haiying, and one executive Director, Mr. Qi Jinsong, the Chairman; and is chaired by Mr. Cai Jiamei.

The main responsibilities of the Remuneration Committee are to review and endorse the remuneration policies of the Directors and senior management and to make recommendations to the Board for the remuneration of the Directors and senior management. During the year, the Remuneration Committee discussed with the Chairman on its proposals relating to the remuneration of the Directors and senior management and has ensured that no Director is involved in deciding his/her own remuneration.

- **Nomination Committee**

The Company has the Nomination Committee with written terms of reference in alignment with the provisions as set out in the CG Code. The Nomination Committee currently comprises two independent non-executive Directors, namely, Ms. Huang Lianxi and Mr. Cai Jiamei, and one executive Director, Mr. Qi Jinsong, the Chairman; and is chaired by Ms. Huang Lianxi.

The responsibilities of the Nomination Committee include reviewing the structure, composition and diversity of the Board; identifying individuals, in accordance with the Board diversity and nomination policy of the Company, suitably qualified to become members of the Board and selecting or making recommendations to the Board on selection of individuals nominated for directorships; assessing the independence of the independent non-executive Directors; making recommendations to the Board on the appointment or reappointment of the Directors and succession planning for the Directors, in particular the Chairman; setting out relevant information in the general meeting circular and/or documents relating to any proposed resolution to elect an independent non-executive Director at the general meeting; and determining the policy for nomination of the Directors, which involving the consideration on the past performance, qualification and general market conditions in selecting and recommending prospective candidates for directorships.

CORPORATE GOVERNANCE FUNCTION

The Company's corporate governance function was carried out by the Board pursuant to a set of terms of reference adopted by the Board in compliance with the CG Code, including (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report. During the year, the Board has reviewed the corporate governance policy of the Company and duties of the Board and its committees. The Board has also reviewed the corporate governance report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has the overall responsibility for maintaining sound risk management and internal control systems and reviewing their effectiveness.

Measures have been established to provide an effective risk management system to identify, evaluate and manage significant risks, which included a defined organisational structure with clear lines of responsibility and authority, an appropriate management reporting system and a periodic risk self-assessment conducted by major business units to ensure the proper monitoring of significant risks and adequacy of relevant risk mitigation plans. The aforementioned measures also ensured the proper handling and dissemination of inside information.

Risk management and internal control systems have been designed for managing the Group's significant risks, safeguarding the Group's assets, maintaining proper accounting records, ensuring compliance with relevant laws and regulations, and providing reasonable assurance against material misstatement, loss or fraud. The purpose of the Group's risk management and internal control systems was to provide reasonable, but not absolute assurance, against material misstatement or loss and to manage rather than eliminate risks of failure in operational system in order to achieve the Group's business objectives.

The Board has employed an ongoing process to review the effectiveness of the risk management and internal control systems, which consisted mainly of enquiry, discussion and validation through observation and inspection. During the reporting year, the Board held one meeting to appraise the validity of the Group's risk management and internal control systems in an all-round way, with the Supervisors and part of the senior executives seated in the meeting. The Board's annual review for the year ended 31 December 2020 as aforementioned has satisfactorily covered the adequacy of resources, qualifications and experience, training programs and budget of the Group's accounting and financial reporting functions. The Board was of the view that the risk management and internal control systems were effective and adequate; and there were no irregularities, improprieties, fraud or other deficiencies that suggested material deficiency in the Group's risk management and internal control systems.

The Board has established an internal audit function, which has effectively carried out the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems.

FINANCIAL REPORTING

The Directors acknowledged their responsibility for the preparation of consolidated financial statements which give a true and fair view, on a going concern basis. In preparing consolidated financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is the independent auditor's responsibility to form an independent opinion, based on their audit, on those consolidated financial statements and to report their opinion to the Shareholders. The responsibilities of the independent auditor are set out in the independent auditor's report on pages 40 to 43 of this annual report.

AUDITOR'S REMUNERATION

During the year, the Group incurred approximately RMB600,000 (2019: RMB647,000) and RMB9,000 (2019: RMB9,000) for remunerations in respect of audit services and non-audit services provided by the Company's auditor, respectively.

COMPANY SECRETARY

Mr. Fork Siu Lun Tommy is the Company Secretary and he is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Chartered Association of Certified Accountants. He reported to the Board and assisted the Board in functioning effectively and efficiently. During the year, Mr. Fork undertook not less than 15 hours of professional training to update his skill and knowledge.

CHANGE IN THE ARTICLES OF ASSOCIATION

Pursuant to the special resolution passed by the Shareholders at their annual general meeting and class meetings held on 30 June 2020, the Articles of Association was amended to accommodate the updates on relevant regulatory requirements, reflect, among others, the actual situation of the Company and its operation and development needs, and to improve the flexibility and efficiency of the Company's operations. Details of the amendments in the Articles of Association were set out in the circular of the Company dated 14 May 2020.

INVESTOR RELATIONS

The Company disclosed all necessary information to the Shareholders in compliance with the GEM Listing Rules. The Company also replied to enquires from the Shareholders timely. The Directors hosted the annual general meeting held during the reporting year to meet the Shareholders and answer to their enquiries.

DIVIDEND POLICY

The Board has adopted a dividend policy (the "**Dividend Policy**") as set out below:

When the Board recommends or declares dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future business growth.

The Board has the discretion to declare and distribute dividends to the Shareholders, subject to the Articles of Association and all applicable laws and regulations and the factors set out below.

The Board shall also take into account the following factors of the Company and its subsidiaries when considering the declaration and payment of dividends, including financial results, cash flow situation, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans, interests of the Shareholders, distributable profit and reserves, any restrictions on the payment of dividends and any other factors that the Board may consider relevant.

Depending on the financial conditions of the Group and the conditions and factors as set out above, dividends may be proposed and declared by the Board for a financial year or period as interim dividend, final dividend and any distribution of dividend that the Board may deem appropriate.

The Company may declare and pay dividends by way of cash or scrip or cash combined stock or by other means that the Board considers appropriate.

Any declaration and payment of dividends will be subject to Shareholders' approval and in compliance with the law of the PRC and the Articles of Association.

The Board will review the Dividend Policy as appropriate from time to time, and there is no guarantee that any particular amount of dividends will be proposed or declared in any particular period in the future.

SHAREHOLDERS' RIGHTS

1. Convene an extraordinary general meeting and make proposals at general meetings

Two or more Shareholders (the "**Eligible Shareholders**") holding at the date of deposit of the requisition an aggregate of 10% or more of the shares (the "**Shares**") carrying the right of voting of the Company shall at all times have the right, by written requisition to the Company, to convene an extraordinary general meeting of the Shareholders.

The written requisition signed by the Eligible Shareholders should be deposited at (i) the principal place of business of the Company in the PRC at 11/F., Building 1, Xitou Innocentre, 239 Shuanglong Street, Xihu District, Hangzhou City, Zhejiang Province, the PRC for the attention of the secretary of the Board (for the holders of the Domestic Shares); or (ii) the principal place of business of the Company in Hong Kong at Room 1505, 15/F., Fullerton Centre, 19 Hung To Road, KwunTong, Kowloon, Hong Kong for the attention of the Company Secretary (for the holders of the H Shares).

The requisition must state clearly the name of the Eligible Shareholders concerned, their shareholding, the reason to convene an extraordinary general meeting, the agenda proposed to be included as well as the details of the business proposed to be transacted in the extraordinary general meeting.

When the Company convenes an annual general meeting of the Shareholders, Shareholders holding more than 3% (including 3%), in aggregate or alone, of total voting Shares are entitled to propose new resolutions to the Company in written form. The Company shall include those matters which are within the scope of duties of the general meeting into the agenda of such meeting.

2. Send enquiries to the Board

Shareholders may send their enquiries and concerns to the Board to (i) the principal place of business of the Company in the PRC for the attention of the secretary of the Board (for the holders of the Domestic Shares); or (ii) the principal place of business of the Company in Hong Kong for the attention of the Company Secretary (for the holders of the H Shares), at the addresses set out in the paragraph above. In addition, the Company's website provides fax number and telephone number by which enquiries may be put to the Board.

On behalf of the Board

Qi Jinsong
Chairman

19 March 2021
Hangzhou City, the PRC

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Board is pleased to present the environmental and social responsibilities report of the Group for the year ended 31 December 2020, which covers the Company and its principal subsidiaries as set out in note 43 to the consolidated financial statements. The information on the governance aspect of the Group is set out in the section headed “Corporate Governance Report” on pages 24 to 29 of this annual report.

For the year ended 31 December 2020, the Group has complied with the “comply or explain” provisions set out in the Environmental, Social and Governance Reporting Guide contained in Appendix 20 to the GEM Listing Rules and the relevant information is set out below.

ENVIRONMENTAL

1. Emissions

During the reporting year, the Group has been principally engaged in the trading of hardware and computer software, provision of smart city solutions, provision of e-commerce supply chain services, and provision of telecommunication value-added services (which business has been ceased by the Group in the last quarter of the reporting year). The Group’s business has not directly involved any environmental pollution emissions.

2. Use of resources

The key environmental impacts from the Group’s operations mainly related to paper and energy consumption and related emissions. To achieve environmental protection, the Group encouraged its employees to reduce paper, electricity and other resources consumption throughout all its operations.

The actual numerical results for the Group’s paper and energy consumption for the year under review are set out below:

	2020	2019
Paper consumption:	approximately 180,000 pieces	approximately 185,000 pieces
Energy consumption:	approximately 230,000 kWh	approximately 220,000 kWh

The Group’s paper and energy consumption for the year has been maintained at a level similar to that of the year 2019 as a result of the strict implementation of the Group’s environmental protection policy.

3. The environment and national resources

The Group has committed to environmental responsibility through minimising adverse effects on the community, environment and natural resources while safeguarding the health and safety of the public. Although the Group’s business did not involve any direct environmental pollution emissions, the Group executed practices that minimise its indirect impact on its environment and the natural resources, such as emissions associated with the production of papers and generation of energy. The Group raised environmental awareness for its employees and encouraged its employees to reduce paper, electricity and other resources consumption by shifting to e-statement or scanning; rationalising the daily use of all computers and office equipment, electrical lighting and air-conditioners; switching them off when the office is closed at the end of the day; and promoted daily business trips in an eco-friendly way, and etc.. The Group also promoted related solution products and city convenience services and enhanced government service capabilities, thereby improving social operation efficiency and reducing resource consumption and emissions.

SOCIAL

1. Employment and labour practices

(i) Employment

The Group considered that employees were valuable assets of the Group and has committed to building an amicable and rewarding relationship with its employees. The Group has also actively effected the bonding and lubrication role of the union between the employees and Company.

Employees were remunerated with salary packages commensurate with their job nature, qualification, experience and performance. A brief description of the Group’s remuneration policy is set out in the sub-section headed “Review of Operations” under the section headed “Management Discussion and Analysis” on pages 5 to 18 of this annual report.

(ii) Working conditions, health and safety

The Group also worked its best to cultivate a harmonious workplace, provided free physical health-check-ups for the employees and bought accidental and health insurance for the employees. In addition, the Group strived to provide a safe and healthy work environment which enhanced employee performance and company-employee relationship. During the year under review, no serious work-related injuries on staff members resulted from the Group's operation (2019: Nil).

(iii) Development and training

Training was provided to employees to enhance job performance and progression within the Group. A brief description of the Group's staff development and training policy is set out in the sub-section headed "Review of Operations" under the section headed "Management Discussion and Analysis" on pages 5 to 18 of this annual report.

(iv) Labour standards

During the year under review, the Group has complied with labour laws and other related government regulations in the PRC. The Group had not employed any staff who is below 18 years of age. No employee has been paid less than the minimum wage or had been required to work over the maximum working hour specified by the government regulations. Details of the retirement benefit schemes of the Group are set out in note 40 to the consolidated financial statements.

2. Operating practices**(i) Supply chain management**

The Group strived to be the national strategic business partners of its customers by providing products and services that meet or exceed customers' requirements for quality, reliability and value. In accomplishing this goal, the Group endeavoured to build long-term and mutually beneficial relationships with its suppliers, which played a crucial role in providing high quality products and ensuring reliable delivery to its customers.

(ii) Product responsibility

During the reporting year, the Group has been principally engaged in the trading of hardware and computer software, provision of smart city solutions, provision of e-commerce supply chain services, and provision of telecommunication value-added services (which business has been ceased by the Group in the last quarter of the reporting year). As such, the Group has not had significant impacts in relation to product responsibility. During the year under review, the Group has not been involved in any significant claims or litigations relating to its business, operation and products (2019: Nil). Subsequent to the year end, the Group was involved in the Litigation relating to infringement of trade secrets disputes, the details of which are set out in the sub-section headed "Litigation" under the section headed "Management Discussion and Analysis" on pages 5 to 18 of this annual report.

(iii) Anti-corruption

The Group committed to maintain a high standard of business ethics and has implemented policies and practices to prohibiting bribery and corruption. During the year under review, no bribery or corruption cases were reported relating to the business and operation of the Group (2019: Nil).

(iv) Community

The Group took pride in participating in community events and volunteer activities as a key component of its commitment to corporate responsibility. The Group encouraged its employees to involve in relevant engagements and organised charitable donation activities, which provided opportunities for the Group and its employees to contribute to improving local communities.

On behalf of the Board

Qi Jinsong
Chairman

19 March 2021
Hangzhou City, the PRC

REPORT OF THE DIRECTORS

The Board is pleased to present its annual report for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the trading of hardware and computer software, provision of e-commerce supply chain services and investment holding. The businesses of the Company's principal subsidiaries are set out in note 43 to the consolidated financial statements. The Group has ceased the operation of the provision of telecommunication value-added services business in the last quarter of the year ended 31 December 2020.

An analysis of the Group's revenue and profit before tax for the year from continuing operations on business segment activities basis has been set out in note 10 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2020 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 3 and 4 and pages 5 to 18 of this annual report, respectively.

RESULTS AND APPROPRIATIONS

The Group's results for each of the two years ended 31 December 2020 and its state of affairs as at 31 December 2020 and 2019 are set out in the consolidated financial statements on pages 44 to 107 of this annual report.

The Board does not recommend the payment of a final dividend for the year (2019: Nil).

RESERVES AVAILABLE FOR DISTRIBUTION

At 31 December 2020, the Group did not have reserves available for distribution to owners of the Company (2019: Nil).

PLANT AND EQUIPMENT

Details of movements in the plant and equipment of the Group during each of two years ended 31 December 2020 are set out in note 18 to the consolidated financial statements.

BORROWINGS

Details of the Group's bank borrowings at the end of each of the two years ended 31 December 2020 are set out in note 31 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital at the end of each of the two years ended 31 December 2020 are set out in note 33 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group during each of the two years ended 31 December 2020 are set out in the consolidated statement of changes in equity on page 47 of this annual report.

RETIREMENT PLAN

Details of the retirement benefit schemes of the Group are set out in note 40 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for approximately 56.59% (2019: 41.03%) of the Group's revenue and the largest customer of the Group accounted for approximately 26.25% (2019: 20.02%) of the Group's revenue for the year.

The five largest suppliers of the Group in aggregate accounted for approximately 67.73% (2019: 57.19%) of the Group's direct purchases and the largest supplier of the Group accounted for approximately 25.10% (2019: 19.24%) of the Group's direct purchases for the year.

None of the Directors, their respective associates, or any Shareholders, which to the knowledge of the Directors own more than 5% of the Company's issued share capital, had any interest in any of the five largest customers and five largest suppliers of the Group for each of the two years ended 31 December 2020.

FINANCIAL SUMMARY

A summary of the Group's results for each of the five years ended 31 December 2020 and the Group's assets and liabilities as at 31 December 2016, 2017, 2018, 2019, and 2020 is set out on page 108 of this annual report.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the year and up to the date of this report were:

Executive Directors

Mr. Qi Jinsong
Mr. Guan Zilong
Mr. Xu Jianfeng

Non- Executive Director

Mr. Chen Ping (*redesignated on 14 August 2020*)

Independent Non-Executive Directors

Mr. Cai Jiamei
Ms. Huang Lianxi
Mr. Shen Haiying

Supervisors

Mr. Lu Weifeng
Ms. Shen Xiaofen
Ms. Shen Rujia

The Company has received from each independent non-executive Director an annual confirmation of his/her independence pursuant to the GEM Listing Rules and the Company considered all independent non-executive Directors to be independent.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each Director and Supervisor has entered into a three-year service agreement with the Company expiring on 29 June 2023. All appointments are subject to termination in certain circumstances as stipulated in the relevant service agreements.

Saved as disclosed above, none of the Directors or Supervisors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and senior management of the Group are set out on pages 19 to 23 of this annual report.

DIRECTORS' AND SUPERVISORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

The Group has adopted an emolument policy as set out in the sub-section headed "Review of Operations" under the section headed "Management Discussion and Analysis" on pages 5 to 18 of this annual report. The Directors', Supervisors' and senior management's emoluments were determined by the Board with reference to their duties, responsibilities, performance and recommendations by the Remuneration Committee.

Details of the remuneration of the Directors and Supervisors and that of the highest paid employees are set out in notes 11 and 12 to the consolidated financial statements, respectively.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

Save as disclosed below, as at 31 December 2020, none of the Directors, Supervisors or Company's chief executives had an interest in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future ordinance (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange:

Long position in Shares

Name	Capacity and nature of interest	Number of Shares held	Percentage of beneficial interests in the Company's share capital
<i>Director and Vice Chairman</i> Mr. Chen Ping	Beneficial owner	27,294,240 Domestic Shares	5.39%

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or Supervisor had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2019: Nil).

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES

During the year ended 31 December 2020, none of the Directors, Supervisors or Company's chief executives was granted options to subscribe for the Shares (2019: Nil). As at 31 December 2020, none of the Directors, Supervisors or Company's chief executives or any of their spouses and children under 18 years of age had any interest in, or had been granted any interest in, or had been granted, or exercised, had any rights to subscribe for the Shares (or warrants or debentures, if applicable) or to acquire the Shares (2019: Nil).

COMPETING INTERESTS

None of the Directors or management Shareholders and their respective associates (as defined under the GEM Listing rules) had any interest in a business which competed or might compete with the business of the Group.

INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, so far as was known to any Directors, Supervisors or Company's chief executives, as at 31 December 2020, there were no persons or companies (other than the interests as disclosed above in respect of the Directors) who had equity interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO; or who were deemed to be directly or indirectly interested in 10% or more of the nominal value of any class of share capital of the Company carrying rights to vote in all circumstances at general meetings of the Company; or who were Shareholders as recorded in the register maintained under section 336 of the SFO:

Long position in Shares

Name	Capacity and nature of interest	Number of Shares held	Percentage of beneficial interests in the Company's share capital
<i>Substantial Shareholders</i>			
Zhejiang Shenghua	Beneficial owner and interest of a controlled corporation	168,846,930 Domestic Shares (Note 1) and 93,130,000 H Shares (Note 2)	51.72%
Rise Sea Limited ("Rise Sea")	Beneficial owner	93,130,000 H Shares (Note 2)	18.39%
Deqing Huisheng Investment Company Limited* (德清匯升投資有限公司) ("Deqing Huisheng")	Interest of a controlled corporation	168,846,930 Domestic Shares (Note 1) and 93,130,000 H Shares (Note 2)	51.72%
Mr. Xia Shilin	Interest of a controlled corporation	168,846,930 Domestic Shares (Note 1) and 93,130,000 H Shares (Note 2)	51.72%
Ms. Qian Xiaomei	Interest of spouse	168,846,930 Domestic Shares and 93,130,000 H Shares (Note 3)	51.72%
<i>Other persons</i>			
Mr. Zhang Xuguang	Beneficial owner	20,320,000 Domestic Shares and 20,320,000 H Shares	8.02%

Name	Capacity and nature of interest	Number of Shares held	Percentage of beneficial Interests in the Company's share capital
Ms. He Yan	Interest of spouse	20,320,000 Domestic Shares and 20,320,000 H Shares (Note 4)	8.02%
Mr. Wu Menggen	Beneficial owner	21,000,000 Domestic Shares and 12,800,000 H Shares	6.67%
Ms. Dai Jihong	Interest of spouse	21,000,000 Domestic Shares and 12,800,000 H Shares (Note 5)	6.67%
Fong For	Beneficial owner	15,285,000 H Shares	3.02%

Notes:

- (1) Zhejiang Shenghua, a limited company established in the PRC, is directly interested in these 168,846,930 Domestic Shares. Zhejiang Shenghua is owned as to approximately 69.54% by Deqing Huisheng, a limited liability company established in the PRC, which in turn is owned as to 75% by Mr. Xia Shilin. For the purposes of the SFO, Deqing Huisheng and Mr. Xia Shilin are each deemed to be interested in the 168,846,930 Domestic Shares owned by Zhejiang Shenghua.
- (2) These 93,130,000 H Shares are beneficially owned by Rise Sea. Rise Sea is a limited liability company incorporated in Hong Kong and is wholly-owned by Zhejiang Shenghua. Zhejiang Shenghua is owned as to approximately 69.54% by Deqing Huisheng, which in turn is owned as to 75% by Mr. Xia Shilin. For the purposes of the SFO, Zhejiang Shenghua, Deqing Huisheng and Mr. Xia Shilin are each deemed to be interested in the 93,130,000 H Shares owned by Rise Sea.
- (3) Ms. Qian Xiaomei is the spouse of Mr. Xia Shilin and therefore she and Mr. Xia Shilin are deemed to be interested in each other's Shares under the SFO.
- (4) Ms. He Yan is the spouse of Mr. Zhang Xuguang and therefore she and Mr. Zhang Xuguang are deemed to be interested in each other's Shares under the SFO.
- (5) Ms. Dai Jihong is the spouse of Mr. Wu Menggen and therefore she and Mr. Wu Menggen are deemed to be interested in each other's Shares under the SFO.

CONNECTED TRANSACTIONS

On 9 December 2020, the Company entered into the Rights Transfer Agreement with Mr. Zhang Jing, Mr. Jin Liang-fu and the other shareholders of Lan Chuang for the transfer to Mr. Zhang Jing its rights relating to 85% equity interests in Lan Chuang, together with all benefits and title therein, for a consideration of RMB7,200,000. Lan Chuang was then a 85% owned subsidiary of the Company (through a variable interest entity structure in the form of contractual arrangements with Mr. Jin Liang-fu being the registered owner for the Company). As at the date of signing of the Rights Transfer Agreement, Mr. Jin Liang-fu was a director and the registered owner of 85% registered capital of Lan Chuang and was therefore regarded as a connected person under the definitions of the GEM Listing Rules. Accordingly, the Rights Transfer Agreement constituted a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. Details of the Rights Transfer Agreement and transfer of the rights relating to 85% equity interests in Lan Chuang were set out in the announcement of the Company dated 9 December 2020. Save as disclosed herein, the Group had no transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules during each of the two years ended 31 December 2020.

SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") conditionally approved by a resolution of the Shareholders dated 20 April 2002 had expired on 20 April 2012. No options had been granted by the Company under the Share Option Scheme.

COMPLIANCE OFFICER AND COMPANY SECRETARY

With effect from 14 August 2020, Mr. Chen Ping has ceased to act as the Compliance Officer and Mr. Xu Jianfeng was appointed as the Compliance Officer. Mr. Fork Siu Lun Tommy is the Company Secretary and he is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2020 (2019: Nil).

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive rights in the Articles of Association.

AUDIT COMMITTEE

The Company established the Audit Committee in November 2001 with written terms of reference in compliance with the requirements as set out in the GEM Listing Rules. The primary duties of the Audit Committee are to review the Group's annual report and audited consolidated financial statements, annual results, half-year report and quarterly reports and to provide advice and comments thereon to the Board, and to review and to provide supervision over the financial reporting process and risk management and internal control systems of the Group. The current Audit Committee comprises three independent non-executive Directors, Mr. Shen Haiying, Mr. Cai Jiamei and Ms. Huang Lianxi, whereas Mr. Shen Haiying is the chairman. During the year, the Audit Committee reviewed the first quarterly report, half-year report, third quarterly report of the Group for the year 2020 and annual report of the Group for the year 2019. The Audit Committee has also reviewed the annual report of the Group for the year 2020.

REPORT OF THE DIRECTORS

AUDITOR

During the year, SHINEWING was re-appointed as auditor of the Company. The consolidated financial statements of the Group for each of the three years ended 31 December 2020 were audited by SHINEWING.

On behalf of the Board

Qi Jinsong

Chairman

19 March 2021

Hangzhou City, the PRC

* For identification purposes only

REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee is pleased to present its annual report for the year ended 31 December 2020.

SUPERVISORY COMMITTEE OPERATION REVIEW

During the reporting year, 5 meetings of the Supervisory Committee were held to review, among other things, the operating results of the Group. During the year, the Supervisory Committee has examined the legitimacy and validity, pursuant to the investiture of the Shareholders' meeting and Articles of Association, upon the convocation and voting procedures of meetings of the Board. We inspected whether the resolutions passed by the Board corresponded with the PRC laws and stipulations of the Articles of Association or not, and adduced feasible proposals. The Supervisory Committee considered that the convocation and voting procedures of meetings of the Board corresponded with the PRC laws and Articles of Association. The resolutions passed by the meetings of the Shareholders have been executed effectively. The Supervisory Committee has obtained the respect and its suggestions have been accepted.

FINANCIAL POSITION OF THE GROUP

During the reporting year, the Supervisory Committee has supervised and inspected the operating results of the Group. It is considered that the report issued by the auditor of the Company presented truly, precisely and fairly the operating results of the Group. The consolidated financial statements of the Group were prepared in accordance with International Financial Reporting Standards and has complied with the PRC statutory regulations correlated with accounting matters.

ETHICS OF THE DIRECTORS AND SENIOR MANAGEMENT

During the reporting year, the Supervisory Committee executed its obligations and supervised on the ethics of the Directors and senior management, in order to raise the Directors' and senior management's onus to perform their duties with good faith and due diligence and avoid the operational risk incurable to the Group or damages to the interest of the Shareholders because of personal fault.

During the reporting year, the Supervisory Committee inspected and found that the Directors and managers had not violated the PRC laws, regulations, and Articles of Association when executing their duties. The Directors and senior management have performed their duties and there was no occurrence of impairment to the interest of the Shareholders either.

On behalf of the Supervisory Committee

Lu Weifeng

Chairman of the Supervisory Committee

19 March 2021

Hangzhou City, the PRC

INDEPENDENT AUDITOR'S REPORT



SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS OF SHENGHUA LANDE SCITECH LIMITED

浙江升華蘭德科技股份有限公司

(established as a joint stock limited company in the People's Republic of China)

OPINION

We have audited the consolidated financial statements of Shenghua Lande Scitech Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 44 to 107, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (the "IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants (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 these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

EMPHASIS OF MATTER

Without modifying our opinion, we draw attention to note 44 to the consolidated financial statements which describes the significant uncertainty related to the outcome of the lawsuit filed against the Company.

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 those matters.

KEY AUDIT MATTERS (Continued)**Impairment assessment of trade receivables and contract assets**

Refer to notes 24 and 26 to the consolidated financial statements and the accounting policies on pages 63 to 65.

The key audit matter

As at 31 December 2020, the Group had trade receivables and contract assets of approximately RMB43,438,000 and RMB12,307,000 representing approximately 34% and 10% of the Group's total current assets respectively. Expected credit loss model using the provision matrix has been adopted for estimating the impairment loss on trade receivables and contract assets, which involved significant management judgement on the key inputs and assumptions including the historical loss rates and forward-looking information taking into account both current and forecast general economic conditions.

We have identified the impairment assessment of trade receivables and contract assets as a key audit matter because the loss allowance involves significant degree of management estimation.

OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

How the matter was addressed in our audit

Our procedures were designed to review the management's process of determination of historical loss rates and forward-looking information in assessing the loss allowance and challenge the reasonableness of the methods and assumptions used to estimate the loss allowance.

We have assessed, on a sample basis, whether items in the trade receivables ageing report were classified within the appropriate ageing category by comparing individual items in the report with the relevant sales invoices; tested the accuracy of the historical default data by evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information and tested the subsequent settlements of trade receivables and contract assets as at 31 December 2020.



RESPONSIBILITIES OF THE DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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.

Audit Committee of the Company ("Audit Committee") is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body, in accordance with our agreed terms of engagement, 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.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

(Continued)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Wong Hon Kei, Anthony.

SHINEWING (HK) CPA Limited*Certified Public Accountants***Wong Hon Kei, Anthony**

Practising Certificate Number: P05591

Hong Kong
19 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000 (Restated)
Continuing operations			
Revenue	7	237,630	285,117
Cost of sales		(197,157)	(253,510)
Gross profit		40,473	31,607
Other operating income, net gains or losses	8	1,154	5,854
Distribution and selling expenses		(6,786)	(7,760)
General and administrative expenses		(19,066)	(20,247)
Research and development expenditure		(9,922)	(4,907)
Share of result of an associate	21	125	34
Finance costs	9	(300)	(731)
Profit before tax		5,678	3,850
Income tax credit (expenses)	13	241	(132)
Profit and total comprehensive income for the year from continuing operations	14	5,919	3,718
Discontinued operation	15		
(Loss) profit for the year from discontinued operation		(1,050)	37
Profit and total comprehensive income for the year		4,869	3,755

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	2020 RMB'000	2019 RMB'000 (Restated)
Profit (loss) and total comprehensive income (expense) for the year attributable to owners of the Company			
– from continuing operations		5,919	4,574
– from discontinued operation		(894)	40
Profit and total comprehensive income for the year attributable to owners of the Company		5,025	4,614
Loss and total comprehensive expense for the year attributable to non-controlling interests			
– from continuing operations		–	(856)
– from discontinued operation		(156)	(3)
Loss and total comprehensive expense for the year attributable to non-controlling interests		(156)	(859)
		4,869	3,755
Earnings per share	17		
From continuing and discontinued operations			
Basic and diluted (RMB)		0.99 cents	0.91 cents
From continuing operations			
Basic and diluted (RMB)		1.17 cents	0.90 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Non-current assets			
Plant and equipment	18	514	729
Deposit paid for acquisition of plant and equipment		233	–
Right-of-use assets	19	3,286	1,287
Intangible assets	20	625	925
Interest in an associate	21	6,759	6,634
Deferred tax assets	32	587	362
Goodwill	22	1,856	1,856
Other receivables	25	618	1,463
		14,478	13,256
Current assets			
Inventories	23	8,642	20,892
Trade receivables	24	43,438	52,560
Prepayments and other receivables	25	10,059	23,147
Contract assets	26	12,307	5,331
Financial assets at fair value through profit or loss	27	25,500	15,601
Bank balances and cash	28	28,253	32,337
		128,199	149,868
Current liabilities			
Trade and other payables	29	22,228	41,405
Contract liabilities	30	4,864	2,433
Bank borrowings	31	–	8,000
Income tax payable		27	154
Lease liabilities	19	2,193	1,685
		29,312	53,677
Net current assets		98,887	96,191
Total assets less current liabilities		113,365	109,447
Non-current liability			
Lease liabilities	19	848	601
		112,517	108,846
Capital and reserves			
Paid-in capital	33	50,655	50,655
Reserves	34	61,862	56,837
		112,517	107,492
Equity attributable to owners of the Company		–	1,354
Non-controlling interests			
Total equity		112,517	108,846

The consolidated financial statements on pages 44 to 107 were approved and authorised for issue by the board of directors on 19 March 2021 and are signed on its behalf by:

Mr. QI Jinsong
Director

Mr. GUAN Zilong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to owners of the Company				Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
	Paid-in capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000 (note 34)	Accumulated losses RMB'000			
At 1 January 2019	50,655	101,336	11,515	(60,628)	102,878	2,213	105,091
Profit (loss) and total comprehensive income (expenses) for the year	-	-	-	4,614	4,614	(859)	3,755
Transfer to statutory reserve	-	-	1,117	(1,117)	-	-	-
At 31 December 2019 and at 1 January 2020	50,655	101,336	12,632	(57,131)	107,492	1,354	108,846
Profit and total comprehensive income for the year	-	-	-	5,025	5,025	(156)	4,869
Deregistration of a subsidiary	-	-	(535)	535	-	(1)	(1)
Disposal of a subsidiary (Note 35)	-	-	-	-	-	(1,197)	(1,197)
Transfer to statutory reserve	-	-	707	(707)	-	-	-
At 31 December 2020	50,655	101,336	12,804	(52,278)	112,517	-	112,517

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000 (Restated)
OPERATING ACTIVITIES			
Profit before tax from continuing operations		5,678	3,850
Loss before tax from discontinued operation	15	(1,050)	23
Profit before tax		4,628	3,873
Adjustments for:			
Share of result of an associate		(125)	(34)
Amortisation of intangible assets		300	300
Write-back of other payables		(33)	(1,097)
Government grants		(2,405)	(7,079)
Interest income from banks		(518)	(824)
Finance costs		308	737
Depreciation of plant and equipment		432	527
Depreciation of right-of-use assets		1,224	1,589
Loss on written off of plant and equipment		-	3
Gain on disposal of plant and equipment		-	(11)
Gain on disposal of a subsidiary	35	(420)	-
Gain on deregistration of subsidiary		(1)	-
Impairment loss on right-of-use assets		-	1,039
Loss on termination of right-of-use assets		3	-
(Reversal on) impairment loss on inventories		(112)	364
Impairment loss on other receivables		45	281
Impairment loss on trade receivables, net		1,185	2,108
Operating cash flows before movements in working capital		4,511	1,776
Decrease (increase) in inventories		12,362	(12,156)
Decrease (increase) in trade receivables		7,787	(23,385)
Decrease in prepayments and other receivables		13,576	6,161
Increase in contract assets		(6,976)	(3,748)
(Decrease) increase in trade and other payables		(18,999)	20,994
Increase (decrease) in contract liabilities		2,431	(870)
Cash from (used in) operations		14,692	(11,228)
Income tax paid		(125)	(118)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		14,567	(11,346)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020 RMB'000	2019 RMB'000 (Restated)
INVESTING ACTIVITIES			
Purchases of financial assets at fair value through profit or loss		(21,899)	(21,601)
Net cash outflow from disposal of a subsidiary	35	(399)	–
Purchase of plant and equipment		(251)	(202)
Deposits paid for acquisition of plant and equipment		(233)	–
Proceeds on financial assets at fair value through profit or loss		12,000	33,300
Interests received		518	824
Proceeds from disposal of plant and equipment		–	42
Investment in an associate		–	(6,600)
		(10,264)	5,763
FINANCING ACTIVITIES			
Repayment of borrowings		(8,000)	(17,000)
Repayment of capital element of lease liabilities		(2,484)	(1,594)
Interests paid on bank borrowings		(259)	(641)
Repayment of interest element of lease liabilities		(49)	(96)
Government grants received		2,405	7,079
New borrowings raised		–	15,000
		(8,387)	2,748
		(4,084)	(2,835)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR			
		32,337	35,172
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash			
		28,253	32,337

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL

The Company was established in the People's Republic of China (the "PRC") as a joint stock 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 place of business of the Company are disclosed in the corporate information section of the annual report.

The Company is principally engaged in the trading of hardware and computer software, provision of e-commerce supply chain services and investment holding. The principal activities of its subsidiaries are set out in note 43.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company and its subsidiaries (collectively referred to as the "Group").

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(S)")

In the current year, the Group has applied, for the first time, the Amendments to References to the Conceptual Framework in International Financial Reporting Standards ("IFRSs") and the following amendments to IFRSs (which include all the International Reporting Standards, International Accounting Standards ("IAS") and Interpretations) issued by the International Accounting Standards Board (the "IASB") which are effective for the Group's financial year beginning 1 January 2020:

Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in IFRSs and the amendments to IFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

New and amendments to IFRSs issued but not yet effective

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

IFRS 17	Insurance Contracts and related Amendments ⁵
Amendments to IFRS 3	Reference to Conceptual Framework ³
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current ⁵
Amendments to IAS 16	Property, plant and Equipment: Proceeds before Intended Use ³
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract ³
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2 ¹
Amendment to IFRS 16	COVID-19-Related Rent Concessions ⁴
Amendment to IFRSs	Annual Improvements to IFRSs 2018 – 2020 cycle ³
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combinations ⁶

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or after 1 January 2022

⁴ Effective for annual periods beginning on or after 1 June 2020

⁵ Effective for annual periods beginning on or after 1 January 2023

⁶ Effective for common control combinations that occur on or after the beginning of the first annual reporting period beginning on or after 1 January 2022

The directors of the Company (the "Directors") anticipate that, the application of the new and amendments to IFRSs will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (i.e. its subsidiaries).

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns.

The Company reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control of the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising from a business combination is carried at cost less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating unit ("CGU") (or groups of CGU) that is expected to benefit from the synergies of the combination.

A CGU (or groups of CGU) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or groups of CGU) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit (or groups of CGU). Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

The Group's policy for goodwill relating to an associate that included in the carrying amount of the investment is set out in "interests in an associate" below.

Investments in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less accumulated impairment loss.

Investment in an associate

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

The Group's investment in an associate is accounted for in the consolidated financial statements using the equity method. Under the equity method, investment in an associate is initially recognised at cost. The Group's share of the profit or loss and changes in the other comprehensive income of the associate is recognised in profit or loss and other comprehensive income respectively after the date of acquisition. If the Group's share of losses of an associate equals or exceeds its interest in the associate, which determined using the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group discontinues recognising its share of further losses. Additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

If an associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made to make the associate's accounting policies conform to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate is recognised as goodwill and is included in the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised in profit or loss in the period in which the investment is acquired.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in an associate (Continued)

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the net investment subsequently increases.

Gains and losses resulting from transactions between the Group and its associate are recognised in consolidated financial statements only to the extent of unrelated investors' interests in the associate. The Group's share in the associate's gains or losses resulting from these transactions is eliminated.

The Group applies IFRS 9, including the impairment requirements, to long-term interests in an associate to which the equity method is not applied and which form part of the net investment in the investee. In applying IFRS 9 to long-term interests, the Group does not take into account adjustments to their carrying amount required by IAS 28 (i.e. adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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

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

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

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Contract assets and contract liabilities

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

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Revenue recognition** (Continued)**Contract assets and contract liabilities** (Continued)

The Group recognised revenue from the following major sources:

- Trading of hardware and computer software
- Provision of telecommunication value-added services
- Provision of smart city solutions
- Provision of e-commerce supply chain services

(i) Trading of hardware and computer software

Revenue is recognised at a point in time when the control of goods is transferred to the customers, generally on delivery of goods to the customer's specified location, which is the point of time when the customer has the ability to direct the use of these products and obtain substantially all of the remaining benefits from these products.

Advance payment from customers on revenue recognition is recognised as contract liabilities in the consolidated statement of financial position.

(ii) Provision of telecommunication value-added services

The performance obligation of provision of telecommunication value-added services, such as business cards sharing and precise marketing through telecommunication channel, is satisfied at a point in time. Revenue from the service rendered is recognised at a point in time when service rendered to the customers.

(iii) Provision of smart city solutions

Revenue from provision of smart city solutions is recognised over time.

The provision of smart city solutions included a comprehensive set of professional services namely system maintenance service, system enhancement service and software development, sourcing and system installation service.

For the system maintenance services, the customer simultaneously receives and consumes the benefits provided by the Group's performance. Revenue from provision of such services is recognised over time on a straight-line basis over the period of the service.

For the system enhancement services and software development, sourcing and system installation services, the Group provides system upgrading and modification services to the customer's existing system. Revenue from provision of such services is recognised over time as the Group's performance creates or enhances an asset that the customer controls as the system is created and enhanced.

The progress towards complete satisfaction of a performance obligation is measured based on output method on achievement of a specified milestone.

The Group's contracts with customers include payment schedules which require stage payments over the contract period once milestones are reached. The Group requires certain customers to provide upfront deposits ranging from 10% to 50% of total contract sum as part of its credit risk management policies and this has resulted in a contract liability at early stages. The Group also typically provides warranty to ensure that services performed comply with agreed-upon specifications for a specified period and, therefore agrees to a retention money of certain percentage of the contract value. This amount is included in contract assets until the end of the retention period as the Group's entitlement to this final payment is conditional on the Group's work satisfactorily passing the warranty period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Contract assets and contract liabilities (Continued)

(iv) Provision of e-commerce supply chain services

The provision of e-commerce supply chain services included supplying and trading of goods through e-commerce platforms owned and managed by third parties.

Revenue from trading of goods through e-commerce platforms is recognised at a point in time when the control of goods is transferred to customers.

For certain transactions, based on the terms of the agreements entered into between the customers, vendors and the Group, the Group does not obtain control of goods before the goods are sold to e-commerce platforms. As such, the Group recognises revenue in such arrangements on a net basis.

Leasing

Definition of a lease

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

The Group as lessee

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease, at inception of the contract or modification date or acquisition date, as appropriate. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

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

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

Definition of a lease (Continued)

Lease liabilities (Continued)

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

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

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

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

Retirement benefit costs

Payments to state-managed retirement benefit schemes are recognised as expenses when employees have rendered service entitling them to the contributions.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Taxation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Taxation** (Continued)

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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

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

Current and deferred tax are recognised in profit or loss.

Plant and equipment

Plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

An item of 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 disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired separately

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

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

Internally-generated intangible assets – research and development expenditure

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured on the same basis as intangible assets acquired separately.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives.

Inventories

Inventories are stated at the lower of cost or net realisable value. Costs of inventories are calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less costs necessary to make the sale.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and deposits with an original maturity of within three months.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances and cash as defined above.

Financial instruments

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

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

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets at initial recognition. The Group's financial assets are classified as financial assets at amortised cost and financial assets at FVTPL. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at amortised cost (debt instruments)

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

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

Financial asset at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "other operating income, net gains or losses" line item.



3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Financial instruments** (Continued)**Financial assets** (Continued)*Financial assets at FVTPL*

The Group's wealth management products are classified as financial assets at FVTPL as they do not meet the criteria for being measured at amortised cost or financial assets at fair value through other comprehensive income.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship.

Impairment of financial assets and other items subject to impairment assessment under IFRS 9

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

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

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

Significant increase in credit risk

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

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

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)

Significant increase in credit risk (Continued)

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

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

Definition of default

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

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

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

Credit-impaired financial assets

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

- significant financial difficulty of the issuer or the borrower; or
- a breach of contract, such as a default or past due event; or
- 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; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 36 months past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

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

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount through a loss allowance account.

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost, using the effective interest method or at FVTPL.

Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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

Impairment losses on property, plant and equipment, right-of-use assets and intangible assets (other than impairment of goodwill set out in accounting policy above)

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Impairment losses on property, plant and equipment, right-of-use assets and intangible assets (other than impairment of goodwill set out in accounting policy above)** (Continued)

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

Fair value measurement

When measuring fair value, except for the net realisable value of inventories and value-in-use of plant and equipment, goodwill and intangible asset for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follows:

Level 1:	Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2:	Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3:	Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make, estimates and assumptions about amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimates (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(Continued)

Critical judgement in applying accounting policies (Continued)

Principal versus agent consideration

The Group engages in provision of e-commerce supply chain services of which involved trading of goods. The Group assessed whether the Group should recognise revenue on gross basis based on the requirements in IFRS 15. The Group concluded that the Group acts as the principal for such transactions if it controls the specified good before it is transferred to the customer after taking into consideration indicators.

Key sources of estimation uncertainty

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

Impairment of goodwill and intangible asset

Determining whether goodwill and intangible asset are impaired requires an estimation of the recoverable amount of the CGU to which goodwill and intangible asset have been allocated. Recoverable amount is the higher of the value-in-use and fair value less cost of disposal. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. The future cash flow is estimated based on past performance and expectation for market development, including but not limited to the impacts of COVID-19 pandemic. As the current environment is uncertain, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainty. As at 31 December 2020, the carrying amount of goodwill and intangible assets are approximately RMB1,856,000 and RMB625,000 respectively (2019: RMB1,856,000 and RMB925,000 respectively). No impairment loss has been recognised on goodwill and intangible assets during year ended 31 December 2020. Details of the recoverable amount calculation for goodwill and intangible assets are disclosed in notes 22 and 20 respectively.

Estimated impairment of plant and equipment and right-of-use assets

Plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs.

Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts.

As at 31 December 2020, the carrying amounts of plant and equipment and right-of-use assets were approximately RMB514,000 and RMB3,286,000 (2019: RMB729,000 and RMB1,287,000) respectively. Details of the impairment of plant and equipment and right-of-use assets are disclosed in notes 18 and 19, respectively.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(Continued)

Key sources of estimation uncertainty (Continued)

Provision of ECL for trade receivables and contract assets

The Group uses a provision matrix to calculate the ECL for trade receivables and contract assets. The provision rates are based on days past due as groupings of various debtors that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking information are considered. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2020, the carrying amount of trade receivables and contract assets were approximately RMB43,438,000 and RMB12,307,000 (2019: RMB52,560,000 and RMB5,331,000), net of accumulated impairment of approximately RMB2,781,000 and nil (2019: RMB1,937,000 and nil) respectively. During the year ended 31 December 2020, impairment loss of approximately RMB1,714,000 and nil (2019: RMB2,118,000 and nil) has been recognised for the year ended 31 December 2020. Details of trade receivables and contract assets are disclosed in notes 24 and 26, respectively.

Allowance for inventories

The management of the Group reviews ageing analysis at the end of each reporting period and makes allowance for obsolete and slow-moving inventory items identified. The management also estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions which involve judgement in respect of the expectation about the market condition and the future demand for such items in inventory. As at 31 December 2020, the carrying amount of inventories was approximately RMB8,642,000 (2019: RMB20,892,000), net of accumulated allowance of approximately RMB258,000 (2019: RMB370,000).

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the Company, comprising paid in capital and reserves.

The Directors review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the new share issues as well as the issue of new debt.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2020 RMB'000	2019 RMB'000
Financial assets		
Financial assets at amortised cost	76,103	92,694
Financial assets measured at FVTPL	25,500	15,601
	101,603	108,295
Financial liabilities		
At amortised cost	19,487	47,620

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, financial assets at FVTPL, bank balances and cash, trade and other payables and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Market risk

Currency risk

The Group's exposure to foreign currency risk relates principally to its bank balances, trade receivables, other receivables and trade and other payables denominated in foreign currencies other than the functional currency of relevant group entity.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Hong Kong Dollar ("HKD")	13	209	-	-
United States Dollar ("USD")	16,861	22,007	679	3,936
Euro ("EUR")	5,819	1,249	476	191
Japanese Yen ("JPY")	791	541	-	-

The Group currently does not have a foreign currency hedging policy. However, the Directors continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

6. FINANCIAL INSTRUMENTS (Continued)**(b) Financial risk management objectives and policies** (Continued)**(i) Market risk** (Continued)*Currency risk* (Continued)*Sensitivity analysis*

The following table details the Group's sensitivity to a 5% (2019: 5%) increase and decrease in exchange rates of the relevant foreign currencies against the respective group entity's functional currency. 5% (2019: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% (2019: 5%) change in foreign currency rates.

A positive number below indicates an increase (2019: increase) in post-tax profit (2019: post-tax profit) where the respective functional currencies of the group entity weaken 5% (2019: 5%) against the relevant foreign currencies. For a 5% (2019: 5%) strengthening of the respective functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	2020 RMB'000	2019 RMB'000
Impact on post-tax profit for the year		
HKD	1	8
USD	607	678
EUR	200	40
JPY	30	20

Interest rate risk

The Group's exposure to cash flow interest rate risk is through the impact of rate changes on interest-bearing financial assets. Interest bearing financial assets is mainly balances with banks which are all short-term in nature. The management monitors the movement in market interest rates and reviews such impact on the Group on a continuous basis to ensure that any future variations in interest rate will not have a significant adverse impact on the results of the Group.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for bank balances and financial assets at FVTPL at the end of reporting period. The analysis is prepared assuming bank balances and financial assets at FVTPL outstanding at the end of reporting period was outstanding for the whole year. A 50 basis point (2019: 50 basis point) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit (2019: post-tax profit) for the year ended 31 December 2020 would increase/decrease (2019: increase/decrease) by approximately RMB202,000 (2019: RMB180,000). This is mainly attributable to the Group's exposure to interest rates on bank balances.

6. FINANCIAL INSTRUMENTS (Continued)

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

(ii) Credit risk

As at 31 December 2020 and 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The credit risk of the Group mainly arises from bank balances and cash, trade and other receivables, contract assets and financial assets at FVTPL. The carrying amounts of these balances represent Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverability of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

For trade receivables and contract assets, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

For other non-traded related receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The Group's exposure to credit risk

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is drawn from the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit-impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

6. FINANCIAL INSTRUMENTS (Continued)**(b) Financial risk management objectives and policies** (Continued)**(ii) Credit risk** (Continued)

The Group's exposure to credit risk (Continued)

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

As at 31 December 2020	Internal credit rating	12-month or lifetime ECL	2020			2019		
			Gross carrying amount RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000	Gross carrying amount RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000
Trade receivables	Note	Lifetime ECL (simplified approach)	46,219	(2,781)	43,438	54,497	(1,937)	52,560
Contract assets	Note	Lifetime ECL (simplified approach)	12,307	-	12,307	5,331	-	5,331
Other receivables	Performing	12-month ECL	4,412	-	4,412	7,797	-	7,797
Other receivables	Default	Lifetime ECL (credit-impaired)	133	(133)	-	132	(132)	-
				<u>(2,914)</u>			<u>(2,069)</u>	

Note: For trade receivables and contract assets, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix, grouped by past due status. No loss allowance has been made on contract assets as the amount involved is insignificant.

The Group's concentration of credit risk by geographical location is solely in the PRC, which accounted for 100% of trade receivables as at 31 December 2020 and 2019. As at 31 December 2020, the Group had concentration of credit risk as 21% (2019: 16%) and 43% (2019: 41%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

While bank balances are also subject to impairment assessment under IFRS 9, no loss allowance is made as the credit risk is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. FINANCIAL INSTRUMENTS (Continued)

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

(iii) Liquidity risk

In the 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. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations. The Directors are satisfied that the Group will be able to meet in full its financial obligations as and when fall due in the foreseeable future.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities and lease liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities and lease liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

	Weighted average interest rate %	On demand or within 1 year RMB'000	More than 1 year but less than 2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2020					
Trade and other payables		19,487	–	19,487	19,487
Lease liabilities	3.85%	2,272	862	3,134	3,041
As at 31 December 2019					
Trade and other payables		39,620	–	39,620	39,620
Bank borrowings	4.15%	8,332	–	8,332	8,000
		47,952	–	47,952	47,620
Lease liabilities	4.15%	1,723	604	2,327	2,286

The Group's contractual maturity for all its financial liabilities, based on the agreed repayment terms and the undiscounted cash flows on the earliest date the Group can be required to pay, is within one year.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

6. FINANCIAL INSTRUMENTS (Continued)**(c) Fair values of financial assets and financial liabilities**

The following table provides an analysis of financial instruments that are measured at fair value at the end of each reporting period for recurring and non-recurring measurement, grouped into Levels 1 to 3 based on the degree to which the fair value is observable in accordance to the Group's accounting policy.

	Fair value hierarchy	Valuation techniques and key inputs	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Financial assets at FVTPL				
Wealth management products	Level 3	Discounted cash flow method with estimated yield rate as the key input	25,500	15,601

During the years ended 31 December 2020 and 2019, the Group purchased and redeemed the wealth management products with approximately RMB21,899,000 (2019: RMB21,601,000) and RMB12,000,000 (2019: RMB33,300,000) respectively.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements as at 31 December 2020 and 2019 are not materially different from their fair values due to their short maturities.

7. REVENUE**Continuing operations**

Revenue comprises income from trading of hardware and computer software, provision of smart city solutions and provision of e-commerce supply chain services during the year.

	2020 RMB'000	2019 RMB'000 (Restated)
Trading of hardware and computer software	120,025	138,725
Provision of smart city solutions	42,245	41,333
Provision of e-commerce supply chain services	75,360	105,059
	237,630	285,117

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

7. REVENUE (Continued)

Continuing operations (Continued)

Disaggregation of revenue by timing of recognition:

	2020 RMB'000	2019 RMB'000 (Restated)
Timing of revenue recognition		
At a point in time	195,385	243,784
Overtime	42,245	41,333
Total revenue from contracts with customers	237,630	285,117

As at 31 December 2020, the aggregate amounts of transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) is approximately RMB31,632,000 (2019: RMB20,438,000) and approximately RMB2,939,000 (2019: RMB2,433,000) represent revenue expected to be recognised in the future from the provision of smart city solutions and trading of hardware and computer software respectively. The Group will recognise this revenue as the service is completed, which is expected to occur over the next 12-18 months as at years ended 31 December 2020 and 2019.

8. OTHER OPERATING INCOME, NET GAINS OR LOSSES

Continuing operations

	2020 RMB'000	2019 RMB'000 (Restated)
Government grant (note)	2,405	7,075
Exchange loss, net	(1,070)	(390)
Bank interest income	516	821
Reversal (provision) of impairment loss of inventories	112	(364)
Impairment loss on provision of trade receivables, net	(1,185)	(2,094)
Impairment loss on provision of other receivables, net	(45)	(291)
Gain on disposal of a subsidiary	420	–
Gain on deregistration of a subsidiary	1	–
Write back of other payables	–	1,097
	1,154	5,854

Note: Government grants received during the years ended 31 December 2020 and 2019 related to rebate of value-added tax and government subsidies. There were no unfulfilled conditions or contingencies relating to those grants.

9. FINANCE COSTS

Continuing operations

	2020 RMB'000	2019 RMB'000 (Restated)
Interests on:		
Bank borrowings	259	641
Lease liabilities	41	90
	300	731

10. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the chief operating decision maker (the "CODM"), being the executive directors of the Company, are for the purpose of resource allocation and performance assessment. The Directors have chosen to organise the Group around differences in products and services. No operating segments identified by the CODM have been aggregated in arriving at the reportable segment of the Group.

Specifically, the Group's reportable segments are as follows:

1. Provision of smart city solutions
2. Trading of hardware and computer software
3. Provision of e-commerce supply chain services

An operating segment regarding the provision of telecommunication value-added services was discontinued during the year ended 31 December 2020. The segment information reported in this note did not include any amounts for this discontinued operation, which was described in more detail in notes 15 and 35.

**(a) Segment revenue and results
Continuing operations**

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

	Provision of smart city solutions		Trading of hardware and computer software		Provision of e-commerce supply chain services		Consolidated	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000 (Restated)
For the year ended 31 December								
Segment revenue – external customers	42,245	41,333	120,025	138,725	75,360	105,059	237,630	285,117
Segment results	8,568	5,509	5,696	407	44	745	14,308	6,661
Unallocated other operating income, gains or losses							306	6,142
Unallocated expenses							(8,936)	(8,953)
Profit before tax (continuing operations)							5,678	3,850

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

Segment results represents the result from each segment without allocation of central administration costs, Directors' emoluments and certain other operating income, net gains or losses. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10. SEGMENT INFORMATION (Continued)

(b) Segment assets and liabilities

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

	Provision of smart city solutions		Trading of hardware and computer software		Provision of e-commerce supply chain services		Consolidated	
	2020	2019	2020	2019	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December								
Segment assets	47,475	39,965	26,865	55,592	6,007	9,644	80,347	105,201
Unallocated assets							62,330	55,244
Assets relating to discontinued operation							-	2,679
Total assets							142,677	163,124
Segment liabilities	16,478	14,448	8,775	24,429	1,839	4,673	27,092	43,550
Unallocated liabilities							3,068	10,054
Liabilities relating to discontinued operation							-	674
Total liabilities							30,160	54,278

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than certain plant and equipment, right-of-use assets, bank balances and cash, financial assets at FVTPL, certain prepayments and other receivables and deferred tax assets which are unable to allocate to reportable segments; and
- all liabilities are allocated to reportable segments other than certain other payables, bank borrowings, income tax payable and lease liabilities.

10. SEGMENT INFORMATION (Continued)

(c) Other segment information
Continuing operations

	Provision of smart city solutions		Trading of hardware and computer software		Provision of e-commerce supply chain services		Unallocated		Consolidated	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000 (Restated)
Amounts included in the measure of segment profit or loss or segment assets:										
Addition to plant and equipment	25	23	27	18	-	8	170	50	222	99
Depreciation of plant and equipment	31	69	46	21	24	24	180	320	281	434
(Reversal on) impairment loss on inventories	-	-	(112)	364	-	-	-	-	(112)	364
Amortisation of intangible assets	300	300	-	-	-	-	-	-	300	300
Provision of (reversal on provision of) trade receivables, net	1,454	1,634	(269)	460	-	-	-	-	1,185	2,094
Write-back of other payables	-	(821)	-	(276)	-	-	-	-	-	(1,097)
Share of result in associate	125	34	-	-	-	-	-	-	125	34
Impairment loss on other receivables	45	226	-	-	-	-	-	-	45	226
Deposit paid for acquisition of plant and equipment	233	-	-	-	-	-	-	-	233	-
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss:										
Addition to right-of-use assets	-	-	-	-	-	-	3,602	512	3,602	512
Depreciation of right-of-use assets	-	-	-	-	-	-	1,037	1,503	1,037	1,503
Impairment loss on right-of-use assets	-	-	-	-	-	-	-	1,039	-	1,039
Interest income	-	-	-	-	-	-	(516)	(821)	(516)	(821)
Finance costs	-	-	-	-	-	-	300	731	300	731

(d) Geographical information

Both revenue and non-current assets of the Group are derived from or located in the PRC. Accordingly, no geographical information is presented.

(e) Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2020 RMB'000	2019 RMB'000
Customer A ¹	38,164	N/A ³
Customer B ²	62,387	58,352

¹ Customer to the trading of hardware and computer software segment.

² Customer to the provision of e-commerce supply chain services.

³ Contributed less than 10% of total sales.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

11. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS

The details of emoluments of each of seven (2019: seven) directors, including chief executive, Mr Qi Jinsong, and three (2019: three) supervisors for the years ended 31 December 2020 and 2019 are set out below:

For the year ended 31 December 2020	Executive directors			Non- executive director	Independent non-executive directors			Sub-total RMB'000
	Mr. Qi Jinsong RMB'000 (Note a)	Mr. Guan Zilong RMB'000	Mr. Xu Jianfeng RMB'000	Mr. Chen Ping RMB'000 (Note b)	Mr. Cai Jiamei RMB'000	Ms. Huang Lianxi RMB'000	Mr. Shen Haiying RMB'000	
Emoluments paid or receivable in respect of a person's services as a director/supervisor, whether of the Company or its subsidiary undertaking								
Fees	-	-	-	-	50	50	50	150
Emoluments paid or receivable in respect of other services in connection with the management of the affairs of the Company or its subsidiary undertaking								
Salaries and other benefits	321	86	88	120	-	-	-	615
Contributions to retirement benefits scheme	49	38	26	-	-	-	-	113
Discretionary bonus	144	112	36	-	-	-	-	292
	514	236	150	120	50	50	50	1,170
	Supervisors							
For the year ended 31 December 2020	Ms. Shen Xiaofen RMB'000	Mr. Lu Weifeng RMB'000	Ms. Shen Rujia RMB'000	Sub-total RMB'000	Total RMB'000			
Emoluments paid or receivable in respect of a person's services as a director/supervisor, whether of the Company or its subsidiary undertaking								
Fees	-	-	-	-	-	-	150	
Emoluments paid or receivable in respect of other services in connection with the management of the affairs of the Company or its subsidiary undertaking								
Salaries and other benefits	-	-	65	65	65	680		
Contributions to retirement benefits scheme	-	-	12	12	12	125		
Discretionary bonus	-	-	3	3	3	295		
	-	-	80	80	80	1,250		

11. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS (Continued)

For the year ended 31 December 2019	Executive directors				Independent non-executive directors			Sub-total RMB'000
	Mr. Chen Ping RMB'000	Mr. Qi Jinsong RMB'000	Mr. Guan Zilong RMB'000	Mr. Xu Jianfeng RMB'000	Mr. Cai Jiamei RMB'000	Ms. Huang Lianxi RMB'000	Mr. Shen Haiying RMB'000	
Emoluments paid or receivable in respect of a person's services as a director/supervisor, whether of the Company or its subsidiary undertaking								
Fees	-	-	-	-	50	50	50	150
Emoluments paid or receivable in respect of other services in connection with the management of the affairs of the Company or its subsidiary undertaking								
Salaries and other benefits	120	319	90	77	-	-	-	606
Contributions to retirement benefits scheme	-	49	35	21	-	-	-	105
Discretionary bonus	-	225	79	36	-	-	-	340
	120	593	204	134	50	50	50	1,201

For the year ended 31 December 2019	Supervisors			Sub-total RMB'000	Total RMB'000
	Ms. Shen Xiaofen RMB'000 (Note c)	Mr. Lu Weifeng RMB'000 (Note c)	Ms. Shen Rujia RMB'000 (Note c)		
Emoluments paid or receivable in respect of a person's services as a director/supervisor, whether of the Company or its subsidiary undertaking					
Fees	-	-	-	-	150
Emoluments paid or receivable in respect of other services in connection with the management of the affairs of the Company or its subsidiary undertaking					
Salaries and other benefits	3	3	65	71	677
Contributions to retirement benefits scheme	-	-	12	12	117
Discretionary bonus	-	-	16	16	356
	3	3	93	99	1,300

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For the year ended 31 December 2020

11. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS (Continued)

Notes:

- (a) During the year ended 31 December 2020, Mr. Qi Jinsong was resigned as the Chief Executive Officer, and remained as an executive Director and the chairman of the Group.
- (b) During the year ended 31 December 2020, Mr. Chen Ping was resigned as the executive director and appointed as the non-executive director.
- (c) During the year ended 31 December 2019, Ms. Shen Xiaofen, Mr. Lu Weifeng and Ms. Shen Rujia were appointed as supervisors.
- (d) None of the directors or supervisors waived or agreed to waive any emoluments paid by the Group for the years ended 31 December 2020 and 2019.
- (e) No emoluments were paid or payable to any directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office for the years ended 31 December 2020 and 2019.
- (f) The discretionary bonus is determined by the Remuneration Committee having regard to their performance and the Company's performance and profitability and the prevailing market conditions.

12. EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals include one (2019: one) director, whose emoluments have been included in note 11 above. The emoluments of the remaining four (2019: four) individuals were as follows:

	2020 RMB'000	2019 RMB'000
Salaries and other benefits	1,273	1,873
Contributions to retirement benefits scheme	71	46
	1,344	1,919

The emoluments of each of these individuals for both years were less than HK\$1,000,000 (equivalent to approximately RMB889,000 (2019: RMB895,000)).

No emoluments were paid or payable to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the years ended 31 December 2020 and 2019.

13. INCOME TAX (CREDIT) EXPENSES

Continuing operations

	2020 RMB'000	2019 RMB'000 (Restated)
Current tax expense		
PRC Enterprise Income Tax	120	216
Over provision in prior year	(122)	–
	(2)	216
Deferred tax (note 32)	(239)	(84)
	(241)	132

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC enterprises was 25% for the years ended 31 December 2020 and 2019. One of the subsidiaries was subject to EIT at a rate of 15% for the years ended 31 December 2020 and 2019 as it was classified as a High and New Technology Enterprise.

No provision for Hong Kong Profits Tax has been made for the subsidiary established in Hong Kong as the subsidiary did not have any assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2020 and 2019.

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

	2020 RMB'000	2019 RMB'000 (Restated)
Continuing operations		
Profit before tax	5,678	3,850
Tax at the domestic income tax rate of 25% (2019: 25%) (note)	1,420	963
Income tax on concessionary tax rate	(624)	(926)
Tax effect of expenses not deductible for tax purpose	371	1,168
Tax effect of income not taxable for tax purpose	(578)	(304)
Tax effect of super deduction on research and development expense	(1,057)	(1,169)
Tax effect of tax losses not recognised	1,110	472
Utilisation of previously unrecognised tax losses	(761)	(72)
Over provision in prior years	(122)	–
Income tax (credit) expense for the year	(241)	132

Note: The PRC EIT rate of 25% (2019: 25%) was used as it was the domestic tax rate where the results and operation of the Group is substantially derived from during the year ended 31 December 2020 and 2019.

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For the year ended 31 December 2020

14. PROFIT FOR THE YEAR Continuing operations

Profit for the year has been arrived at after charging (crediting):

	2020 RMB'000	2019 RMB'000 (Restated)
Continuing operations		
Salaries and other benefits	27,537	23,575
Contributions to retirement benefits scheme	1,754	3,110
Total staff costs (including directors', chief executive's and supervisors' emoluments)	29,291	26,685
Auditors' remuneration	600	647
Depreciation of plant and equipment	281	434
Depreciation of right-of-use assets	1,037	1,503
Amortisation of intangible assets	300	300
Impairment loss recognised on right-of-use assets	–	1,039
Impairment loss on trade receivables	1,714	2,104
Reversal on provision of trade receivables	(529)	(10)
Impairment loss on other receivables	45	291
Expense relating to short-term leases	412	327
(Reversal of) impairment loss on inventories (included in cost of sales)	(112)	364
Cost of inventories recognised as an expense	180,693	230,835

15. DISCONTINUED OPERATION

On 9 December 2020, the Company entered a sale and purchase agreement (the "Sales and Purchase Agreement") which agreed to dispose of its entire 85% of equity interest in 浙江蘭創通信有限公司 (the "蘭創"), one of its subsidiaries together with all benefits and title therein at consideration of RMB7,200,000 to an independent third party. The disposal of 蘭創 was completed on 14 December 2020. Details of the disposal are set out in note 35.

Following the completion of the disposal of 蘭創, the Group discontinued all its provision of telecommunication value-added services.

The (loss) profit for the year from the discontinued operation was set out below.

	2020 RMB'000	2019 RMB'000
(Loss) profit of the discontinued operation for the year	(1,050)	37

15. DISCONTINUED OPERATION (Continued)

The results of the discontinued operation for the period from 1 January 2020 to 14 December 2020, which have been included in the consolidated statement of profit or loss and other comprehensive income, were as follows:

	For the period ended 14 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Revenue	2,655	6,371
Cost of sales	(2)	(463)
Gross Profit	2,653	5,908
Other operation income, net gains or losses	56	660
Distribution and selling expenses	(1,674)	(2,796)
General and administrative expenses	(2,077)	(3,743)
Finance costs	(8)	(6)
(Loss) profit before tax	(1,050)	23
Income tax expenses	-	14
(Loss) profit for the period/year	(1,050)	37

Income tax expenses from the discontinued operation included the following:

	For the period ended 14 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Current tax expense		
PRC Enterprise Income Tax	-	-
Deferred tax (note 32)	-	(14)
	-	(14)

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15. DISCONTINUED OPERATION (Continued)

Loss for the period/year from the discontinued operation included the following:

	For the period ended 14 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Salaries and other benefits (including directors', chief executive's and supervisors' emoluments)	1,065	1,619
Contributions to retirement benefits scheme	89	317
Total staff costs	1,154	1,936
Interest Income from banks	(2)	(3)
Depreciation of plant and equipment	151	93
Depreciation of right-of-use assets	187	86
Impairment loss on trade receivables	-	14
Impairment loss on other receivables	-	45
Reversal on provision of other receivables	-	(55)
Expense relating to short-term leases	-	409
Write-back of other payables	(33)	-

During the year, the provision of telecommunication value-added services contributed approximately RMB7,045,000 (2019: RMB361,000) to the Group's net operating cash flows, paid approximately RMB29,000 (2019: RMB13,000) in respect of investing activities and paid approximately RMB1,167,000 (2019: RMB132,000) in respect of financing activities.

16. DIVIDEND

No dividend was paid or proposed during the years ended 31 December 2020, nor has any dividend been proposed since the end of the reporting period (2019: Nil).

17. EARNINGS PER SHARE**From continuing and discontinued operations**

The calculations of the basic earnings per share are based on profit for the year attributable to owners of the Company of approximately RMB5,025,000 (2019: RMB4,614,000) and the weighted average number of approximately 506,546,000 (2019: 506,546,000) shares in issue during the year ended 31 December 2020.

Diluted earnings per share was the same as basic earnings per share for the years ended 31 December 2020 and 2019 as there were no potential ordinary shares existed during both years.

From continuing operations

The calculation of the basic and diluted earnings per share from continuing operations attributable to the owners of the Company is based on the following data:

Earnings figures are calculated as follows:

	2020 RMB'000	2019 RMB'000 (Restated)
Profit for the year attributable to the owners of the Company	5,025	4,614
Add (less): loss (profit) for the year from discontinued operation	894	(40)
Earnings for the purpose of basic and diluted earnings per share for the year attributable to the owners of the Company from continuing operations	5,919	4,574
	2020 '000	2019 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	506,546	506,546

From discontinued operation

Basic and diluted loss per share for the discontinued operation is RMB0.18 cents per share (2019: basic and diluted profit per share of RMB0.01 cents per share (restated)), based on the loss for the year from discontinued operation of approximately RMB894,000 (2019: profit for the year of approximately RMB40,000) and the denominators detailed above for both basic and diluted loss per share.

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For the year ended 31 December 2020

18. PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Motor vehicles RMB'000	Office furniture, fixtures and other equipment RMB'000	Total RMB'000
COST				
At 1 January 2019	962	1,277	1,886	4,125
Additions	51	–	151	202
Disposal	–	–	(985)	(985)
Written off	–	–	(116)	(116)
At 31 December 2019 and 1 January 2020	1,013	1,277	936	3,226
Additions	170	–	81	251
Disposal of a subsidiary (note 35)	–	(95)	(592)	(687)
Written offs	–	(646)	–	(646)
Disposals	–	–	(104)	(104)
At 31 December 2020	1,183	536	321	2,040
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
At 1 January 2019	477	1,058	1,502	3,037
Provided for the year	269	51	207	527
Eliminated on written off	–	–	(113)	(113)
Eliminated on disposals	–	–	(954)	(954)
At 31 December 2019 and 1 January 2020	746	1,109	642	2,497
Provided for the year	180	121	131	432
Disposal of a subsidiary (note 35)	–	(83)	(570)	(653)
Eliminated on written off	–	(646)	–	(646)
Eliminated on disposals	–	–	(104)	(104)
At 31 December 2020	926	501	99	1,526
CARRYING VALUES				
At 31 December 2020	257	35	222	514
At 31 December 2019	267	168	294	729

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, as follows:

Leasehold improvements	Over the shorter of term of the lease or 3-6 years
Motor vehicles	5-8 years
Office furniture, fixtures and other equipment	3-5 years

19. LEASES**(i) Right-of-use assets**

	2020 RMB'000	2019 RMB'000
Office premises	3,286	1,287

The Group has lease arrangements for office premises. The lease terms are generally ranged from one to two years.

Additions to the right-of-use assets for the year ended 31 December 2020 amounted to approximately RMB3,602,000 (2019: RMB512,000), due to new leases of offices.

Reduction to the right-of-use asset during the year ended 31 December 2020 amounted to RMB116,000 (2019: nil), due to the disposal of a subsidiary (note 35).

(ii) Lease liabilities

	2020 RMB'000	2019 RMB'000
Non-current	848	601
Current	2,193	1,685
	3,041	2,286

	2020 RMB'000	2019 RMB'000
Amounts payable under lease liabilities		
Within one year	2,193	1,685
After one year but within two years	848	601
	3,041	2,286
Less: Amount due for settlement within 12 months (shown under current liabilities)	(2,193)	(1,685)
Amount due for settlement after 12 months	848	601

During the year ended 31 December 2020, the Group entered into the lease agreements in respect of renting offices and recognised lease liabilities of approximately RMB3,602,000 (2019: RMB512,000).

Reduction to the lease liabilities during the year ended 31 December 2020 amounted to RMB103,000 (2019: nil), due to the disposal of a subsidiary (note 35).

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For the year ended 31 December 2020

19. LEASES (Continued)

(iii) Amounts recognised in profit or loss

	2020 RMB'000	2019 RMB'000
Depreciation expense on right-of-use assets	1,224	1,589
Impairment loss recognised on right-of-use assets	–	1,039
Interest expense on lease liabilities	49	96
Expense relating to short-term leases	412	736

During the year ended 31 December 2019, as a result of the continuous decline in the performance of the certain subsidiaries, the Directors carried out a review of amount of value-in-use of the certain subsidiaries' assets. The calculation uses cash flow projections approved by Directors and a pre-tax discount rate of 20%. The review led to the recognition of impairment losses of approximately RMB1,039,000, which have been recognised in consolidated statement of profit or loss and other comprehensive income. No reversal of impairment or further impairment loss was recognised during the year ended 31 December 2020.

(iv) Others

During the year ended 31 December 2020, the total cash outflow for leases amount to approximately RMB2,945,000 (2019:RMB2,426,000).

During the year ended 31 December 2020, the Group terminated the lease of office and derecognised right-of-use assets and lease liabilities of approximately RMB263,000 and RMB260,000 respectively, resulting in a loss on termination of lease of approximately RMB3,000 being recognised in profit or loss for the year and included in "General and administrative expenses".

20. INTANGIBLE ASSETS

	Patents RMB'000	Computer software RMB'000	Self- developed software RMB'000	Total RMB'000
COST				
At 31 December 2019, 1 January 2020 and 31 December 2020	250	11,774	12,860	24,884
ACCUMULATED AMORTISATION AND IMPAIRMENT				
At 1 January 2019	250	11,774	11,635	23,659
Provided for the year	–	–	300	300
At 31 December 2019 and 1 January 2020	250	11,774	11,935	23,959
Provided for the year	–	–	300	300
At 31 December 2020	250	11,774	12,235	24,259
CARRYING VALUES				
At 31 December 2020	–	–	625	625
At 31 December 2019	–	–	925	925

20. INTANGIBLE ASSETS (Continued)

The above intangible assets have finite useful lives. Such intangible assets are amortised on straight-line basis over their estimated useful lives as follows:

Patents	5 to 10 years
Computer software	3 to 10 years
Self-developed software	3 to 10 years

21. INTEREST IN AN ASSOCIATE

	2020 RMB'000	2019 RMB'000
Cost of investment in an associate	6,600	6,600
Share of post-acquisition losses and other comprehensive income	159	34
	6,759	6,634

An associate was established on 12 August 2019. The associate is principally engaged in the provision of smart city solutions. Registered capital amounted to RMB50,000,000 and the Group entitled RMB16,500,000 which represented 33% of shareholdings.

Details of the associate as at 31 December 2020 and 2019 are as follows:

Name of entity	Form of entity	Place of incorporation establishment and operation	Class of shares held	Proportion of ownership interests or participating shares held by the Group		Principal activity
				2020	2019	
貴服通網絡科技有限責任公司("貴服通")	Incorporated	PRC	Ordinary	33%	33%	Provision of smart city solutions

Summarised financial information in respect of the Group's associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs.

The associate is accounted for using the equity method in these consolidated financial statements.

	2020 RMB'000	2019 RMB'000
Current assets	29,892	39,087
Non-current assets	25,549	12,709
Current liabilities	34,960	31,695
	2020 RMB'000	2019 RMB'000
Revenue	6,557	2,153
Profit for the year	380	102
Total comprehensive income for the year	380	102

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21. INTEREST IN AN ASSOCIATE (Continued)

The reconciliation of the summarised financial information presented above to the carrying amount of the interest in the associate is set out below:

	2020 RMB'000	2019 RMB'000
Net assets of the associate	20,481	20,102
Proportion of the Group's ownership interest in 貴服通	33%	33%
Carrying amount of the Group's interest in 貴服通	6,759	6,634

22. GOODWILL

RMB'000

COST

At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020

2,812

ACCUMULATED IMPAIRMENT

At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020

956

CARRYING AMOUNTS

At 31 December 2020

1,856

At 31 December 2019

1,856

For the purposes of impairment testing, the carrying value of goodwill set out above has been allocated to one CGU, comprising a subsidiary in the provision of smart city solutions.

The basis of the recoverable amount of the above CGU and the major underlying assumptions are summarised below:

The recoverable amount of this CGU has been determined based on a value-in-use calculation with reference to a valuation performed by the management. The calculation uses cash flow projections based on financial budgets approved by management of the Group covering a 5-years (2019: 5-years) period and a pre-tax discount rate of 20% (2019: 20%) per annum. Cash flows have been extrapolated using a steady growth rate of approximately 1.0% (2019: 1.5%). This growth rate is based on relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of CGU to exceed the aggregate recoverable amount of CGU. As a result, no impairment loss has been recognised during the years ended 31 December 2020 and 2019.

23. INVENTORIES

	2020 RMB'000	2019 RMB'000
Computer software and hardware	8,571	20,623
Finished goods held for resale under provision of e-commerce supply chain services	71	269
	8,642	20,892

During the year ended 31 December 2020, there were sales of finished goods previously written down. As a result, a reversal of provision for write-down of finished goods of approximately RMB12,000 (2019: nil) were recognised and included in cost of sales.

24. TRADE RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables at amortised cost	46,219	54,497
Less: allowance for impairment loss	(2,781)	(1,937)
	43,438	52,560

As at 31 December 2020, the gross amount of trade receivable arising from contracts with customers amounted to approximately RMB46,219,000 (2019: RMB54,497,000).

There were no specific credit period granted to customers except for an average credit period of 30 – 90 days (2019: 30 – 90 days) to its trade customers under trading of hardware and computer software segment. Ageing analysis of the trade receivables net of allowance for impairment loss as at the end of reporting period, presented based on the invoice date which approximate to revenue recognition date, is as follows:

	2020 RMB'000	2019 RMB'000
0 to 60 days	32,603	37,260
61 to 90 days	713	5,546
91 to 180 days	43	1,224
Over 180 days	10,079	8,530
	43,438	52,560

The Group does not hold any collateral over its trade receivables. Based on past experience, management considers the unimpaired balances are fully recoverable as relevant customers have a good track record and are of a good credit standing.

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The ECL on trade receivables are estimated using a provision matrix by reference to past default experience and creditworthiness of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

24. TRADE RECEIVABLES (Continued)

As at 31 December 2020, gross amount of trade receivables amounting to approximately RMB20,000 was arose from a shareholder of the Company, of which related to the revenue arose from provision of e-commerce supply chain service. The balance is not past due or past due less than 1 year. No loss allowance was made on the balances not yet due, or overdue less than 3 years as the loss rate is close to zero.

As at 31 December 2019, gross amount of trade receivables amounting to approximately RMB166,000 arose from provision of telecommunication value-added services, of which approximately RMB58,000 are not past due or past due less than 1 year. For balances past due for more than 3 years amounting of RMB108,000, the Group recognised a loss allowance of approximately RMB108,000 based on a loss rate of 100%. No loss allowance was made on the balances not yet due, or overdue less than 3 years as the loss rate is close to zero.

In respect of the remaining trade receivables, as the Group's historical credit loss experience and creditworthiness of the debtors does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The Group recognised lifetime ECL for the remaining trade receivables based on the ageing of customers as follows:

As at 31 December 2020	Weighted average expected loss rate	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	*	35,416	-
Within 1 year past due	*	1,533	-
1 to 2 years past due	30%	9,270	2,781
		46,219	2,781
<hr/>			
As at 31 December 2019	Weighted average expected loss rate	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	*	28,827	-
Within 1 year past due	*	21,440	-
1 to 2 years past due	45%	4,064	1,829
		54,331	1,829

* The weighted average expected loss rate is close to zero and therefore no loss allowance is made.

Generally, trade receivables are written off if past due for more than 36 months and are not subject to enforcement activity. The Group does not hold collateral as security.

24. TRADE RECEIVABLES (Continued)

The movement in the loss allowance of trade receivables is set out below:

	2020 RMB'000	2019 RMB'000
At the beginning of the year	1,937	532
Impairment loss recognised on trade receivables	1,714	2,118
Amount recovered during the year	(529)	(10)
Amounts written off as uncollectible	(233)	(703)
Amounts written off as disposal of a subsidiary	(108)	–
At the end of the year	2,781	1,937

25. PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2020 RMB'000	31 December 2019 RMB'000
Non-current Deposits	618	1,463
Current Prepayments to suppliers	6,265	16,813
Deposits	3,539	5,329
Advances to employees	57	545
Other receivables	331	592
	10,192	23,279
Less: Impairment losses	(133)	(132)
Prepayments and other receivables	10,059	23,147

Included in prepayments and other receivables is an amount of approximately RMB2,744,000 (2019: RMB4,788,000) representing deposit paid to customers for securing the Group's due performance of contracts, of which an amount of approximately RMB333,000 (2019: RMB1,463,000) is expected to be recovered upon completion of contracts after one year from the end of the reporting period.

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25. PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Movement in the impairment losses on prepayments and other receivables:

	2020 RMB'000	2019 RMB'000
At the beginning of the financial year	132	24
Impairment loss recognised	45	281
Amounts written off as disposal of a subsidiary	(44)	–
Amounts written off as uncollectible	–	(173)
Balance at the end of the year	133	132

Note: During the year ended 31 December 2020, a lifetime ECL of approximately RMB45,000 (2019: RMB281,000) is made in respect of other receivables with gross carrying amount of approximately RMB45,000 (2019: RMB281,000) as they are determined to be credit impaired. For the remaining balance of other receivables, it has low risk of default or has not been a significant increase in credit risk since initial recognition and no impairment loss is recognised.

Amounts written off as uncollectible are as follows:

	2020 RMB'000	2019 RMB'000
Fund advances to employees	–	173
Prepayments to suppliers	–	–
Amounts written off as uncollectible	–	173

26. CONTRACT ASSETS

Contract assets are initially recognised for certain amount of revenue earned from provision of smart city solutions as receipt of consideration is conditional on successful completion of retention period ranging from 1-3 years. The contract assets are transferred to trade receivables when the rights become unconditional. Upon completion of retention period, the amounts recognised as contract assets are reclassified to trade receivables.

As at 31 December 2020, contract assets of approximately RMB8,924,000 (2019: RMB2,540,000) are expected to be recovered after one year from the end of reporting period.

The significant increase in contract assets in 2020 is the result of the increase in the number of projects in the segment of provision of smart city solutions which has retention period.

The Group has applied the simplified approach permitted by IFRS 9 to measure the allowance for credit losses at lifetime ECL. The contract assets are assessed for ECL by using the same basis and approach as trade receivables. There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for contract assets.

There are no impairment losses recognised on any contract assets during the year ended 31 December 2020 and 2019. Impairment assessment of contract assets is set out in note 6(b)(ii).

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2020 and 2019, financial assets at FVTPL represented wealth management products placed at a bank with no fixed maturity period. The deposit is non-guaranteed with expected return of around 2.40% – 3.20% (2019: 2.80% – 3.50%) per annum.

28. BANK BALANCES AND CASH

Bank balances carried interest rate at prevailing market rates for both years.

29. TRADE AND OTHER PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables	15,988	34,072
Other tax payables	2,711	1,750
Accrued wages and salaries	2,233	2,199
Accrued expenses and other payables	1,296	3,384
	22,228	41,405

Ageing analysis of the trade payables presented based on the invoice date is as follows:

	2020 RMB'000	2019 RMB'000
Less than 1 year	9,654	29,720
Over 1 year but less than 2 years	2,440	753
Over 2 years but less than 3 years	333	1,624
More than 3 years	3,561	1,975
	15,988	34,072

There was no specific credit period for payment granted by suppliers. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

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30. CONTRACT LIABILITIES

	2020 RMB'000	2019 RMB'000
Current	4,864	2,433

The following table sets out the revenue recognised that was included in the contract liabilities balance at the beginning of the year.

	2020 RMB'000	2019 RMB'000
Provision of smart city solutions	–	1,301
Trading of hardware and computer software	2,433	2,002
	2,433	3,303

As at 31 December 2020, the balance represents advance payment from customers of approximately RMB2,939,000 (2019: RMB2,433,000) for bulk purchase in respect of the trading of hardware and software segment and approximately RMB1,925,000 (2019: nil) for service in respect of the smart city solutions.

31. BANK BORROWINGS

	2020 RMB'000	2019 RMB'000
Carrying amount repayable (based on scheduled repayment dates set out in the loan agreements):		
– Guaranteed borrowing repayable within one year	–	8,000

During the year ended 31 December 2019, the bank borrowings carried at a fixed interest rate of 0.48% per month. The bank borrowings were guaranteed by an independent third party.

32. DEFERRED TAX

The followings are the major deferred tax (liabilities) assets recognised and movements thereon during the current years:

	Impairment loss on inventory RMB'000	Impairment loss on trade receivables and other receivables RMB'000	Fair value adjustments RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January 2019	–	–	(184)	448	264
Credited (charged) to profit or loss (note 14)	92	409	45	(448)	98
At 31 December 2019 and 1 January 2020	92	409	(139)	–	362
(Charged) credited to profit or loss (note 14)	(28)	222	45	–	239
Disposal of a subsidiary (note 35)	–	(14)	–	–	(14)
At 31 December 2020	64	617	(94)	–	587

At 31 December 2020, the Group had unused tax losses amounted to approximately RMB11,935,000 (2019: RMB22,657,000) available for offset against future profits. No deferred tax asset has been recognised in respect of these remaining unused tax losses due to the unpredictability of future profit streams. During the year ended 31 December 2020, unrecognised tax losses of the Group decreased by approximately RMB2,490,000 (2019: RMB1,000) and RMB9,626,000 (2019: RMB9,790,000) due to disposal/deregistration of a subsidiary and expiry of tax losses. The entire tax losses can be carried forward for five years from the respective years in which the loss arose.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary from 1 January 2008 onwards. Deferred tax has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiary amounting to approximately RMB26,527,000 (2019: RMB21,040,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

33. PAID-IN CAPITAL

	Number of shares		Amount	
	2020 '000	2019 '000	2020 RMB'000	2019 RMB'000
Registered, issued and fully paid:				
Domestic shares with par value of RMB0.1 each				
At 1 January and 31 December	244,421	244,421	24,442	24,442
Overseas public shares ("H shares") with par value of RMB0.1 each				
At 1 January and 31 December	262,125	262,125	26,213	26,213
Total	506,546	506,546	50,655	50,655

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34. RESERVES

Statutory surplus reserve

In accordance with the Company Law in the PRC and the Articles of Association of the Company and its subsidiaries, the Company and its subsidiaries are required to appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve.

When the balance of the statutory surplus reserve reaches 50% of the paid-in capital/share capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses, if any, or to increase capital after properly approved. However, except for offset prior years' losses, such statutory surplus reserve must be maintained at a minimum of 25% of paid-in capital/share capital after such usage.

The transfer to statutory reserve is based on the net profit under the financial statements prepared in accordance with the PRC accounting standards.

35. DISPOSAL OF A SUBSIDIARY

As described in note 15, the Group entered into a Sales and Purchase Agreement with an independent third party in respect of the disposal of all the assets of the subsidiary, 蘭創 and all the liabilities, obligations and indebtedness due by 蘭創. The disposal was completed on 14 December 2020. The net assets of 蘭創 at the date of disposal were as follows:

		RMB'000
Cash consideration received arising on disposal of a subsidiary		7,200
Analysis of assets and liabilities over which control was lost:		
	Notes	RMB'000
Plant and equipment	18	34
Right-of-use assets	19	116
Deferred tax assets	32	14
Trade receivables		150
Prepayments and other receivables		312
Bank balances and cash		7,599
Other payables		(145)
Lease liabilities	19	(103)
Net assets disposed of		7,977

35. DISPOSAL OF A SUBSIDIARY (Continued)

Gain on disposal of a subsidiary:

	RMB'000
Cash consideration received arising on disposal	7,200
Net assets disposed of	(7,977)
Non-controlling interest	1,197
	<hr/>
Gain on disposal of a subsidiary	420
	<hr/>
Net cash outflow arising on disposal of a subsidiary:	
	RMB'000
Cash consideration received	7,200
Less: bank balances and cash disposed of	(7,599)
	<hr/>
	(399)
	<hr/>

36. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2020, the Group entered into new arrangements in respect of office premises. Right-of-use assets and lease liabilities of approximately RMB3,602,000 (2019: RMB512,000) were recognised at the commencement of the leases.

During the year ended 31 December 2020, the Group has terminated the office premise. Right-of-use assets and lease liabilities of approximately RMB263,000 and RMB260,000 respectively were recognised at the commencement of the leases were derecognised.

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	1 January 2020 RMB'000	Financing cash flows RMB'000	Non-cash changes			Finance costs incurred RMB'000	31 December 2020 RMB'000
			New lease arrangements RMB'000	Termination of lease RMB'000	Disposal of a subsidiary RMB'000 (Note 35)		
Bank borrowings (note 31)	8,000	(8,000)	-	-	-	-	-
Lease liabilities (note 19)	2,286	(2,533)	3,602	(260)	(103)	49	3,041
Interest payable	-	(259)	-	-	-	259	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	10,286	(10,792)	3,602	(260)	(103)	308	3,041
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (Continued)

	1 January 2019 RMB'000	Financing cash flows RMB'000	Non-cash change		31 December 2019 RMB'000
			New lease arrangements RMB'000	Finance costs incurred RMB'000	
Bank borrowings (note 31)	10,000	(2,000)	–	–	8,000
Lease Liabilities (note 19)	3,368	(1,690)	512	96	2,286
Interest payable	–	(641)	–	641	–
	13,368	(4,331)	512	737	10,286

38. RELATED PARTY TRANSACTIONS

(a) Transaction with a related party

Save as disclosed elsewhere in the consolidated financial statements, the Group entered into transaction with related parties as follows:

Related party	Nature of transaction	2020 RMB'000	2019 RMB'000
湖州鹿山塢建材料科技有限公司	Sale of goods	78	–
升華集團控股有限公司	Sale of goods	52	–
浙江升華德豐投資有限公司	Sale of goods	16	–
浙江雲峰莫干山家居用品有限公司	Sale of goods	–	143

Notes:

- The above related companies held by the same beneficial shareholder.
- The sale of goods was made at normal business term.

(b) Compensation of key management personnel

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

	2020 RMB'000	2019 RMB'000
Short-term benefits	3,714	3,312
Post-employment benefits	340	345
	4,054	3,657

The remuneration of directors, supervisors and key management was determined by the remuneration committee having regard to the performance of individual and market trends.

39. CAPITAL COMMITMENT

At the end of the reporting period, the Group had the following contracted for but not provided other commitment:

	2020 RMB'000	2019 RMB'000
Acquisition of plant and equipment contracted but not yet provided in the consolidated financial statements	614	–
Contribution to a subsidiary (note)	4,100	–
	4,714	–

Note: The Company committed a contribute to registered capital of RMB4,100,000 which representing 41% equity interest to a new company, of which is considered as a subsidiary of the Company.

40. RETIREMENT BENEFITS SCHEME

The employees of the Group are required to participate in a central pension scheme operated by the PRC local municipal governments. The companies in the Group are required to contribute a specified percentage of its payroll costs to the central pension scheme. The contributions are charged to the consolidated statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the central pension scheme.

The total cost charged to consolidated statement of profit or loss and other comprehensive income of approximately RMB1,843,000 (2019: RMB3,427,000) represents contributions payable to this scheme by the Group in respect of the current accounting period.

41. EVENT AFTER THE REPORTING PERIOD

On 15 March 2021, 浙江創建科技有限公司, the wholly-owned subsidiary of the Company, entered into an equity transfer agreement with an independent third party, to sell 33% equity interest in an associate, 貴服通 at the consideration of approximately RMB7,219,000 with an estimated gain on disposal of approximately RMB460,000. 貴服通 will cease to be an associate of the Group upon the completion of disposal. Details of which are set out in the announcement of the Company dated 15 March 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2020 RMB'000	2019 RMB'000
Non-current assets			
Plant and equipment		322	389
Investments in subsidiaries	(a)	49,239	53,849
		49,561	54,238
Current assets			
Inventories		122	248
Trade receivables		1	663
Prepayments and other receivables		96	12,264
Amounts due from subsidiaries	(b)	32,025	42,616
Financial assets at fair value through profit or loss		36	–
Bank balances and cash		689	418
		32,969	56,209
Current liabilities			
Trade and other payables		1,067	1,045
Amounts due to subsidiaries	(b)	3,540	19,949
Bank borrowings		–	8,000
Lease liabilities		471	452
		5,078	29,446
Net current assets		27,891	26,763
Total assets less current liabilities		77,452	81,001
Non-current liability			
Lease liabilities		–	471
		77,452	80,530
Capital and reserves			
Paid-in capital		50,655	50,655
Reserves	(c)	26,797	29,875
Total equity		77,452	80,530

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

Notes:

(a) Investments in subsidiaries

	2020 RMB'000	2019 RMB'000
Unlisted investments, at cost	55,907	64,957
Accumulated impairment losses	(6,668)	(11,108)
	49,239	53,849

(b) The amounts due from/to subsidiaries are unsecured, repayable on demand and interest income/expense charged according to the terms of the agreements entered into between the parties.

(c) Reserves

	Attributable to owners of the Company			Total RMB'000
	Share premium RMB'000	Statutory surplus reserve RMB'000	Accumulated losses RMB'000	
At 1 January 2019	101,336	7,934	(76,725)	32,545
Loss and total comprehensive expense for the year	–	–	(2,670)	(2,670)
At 31 December 2019 and 1 January 2020	101,336	7,934	(79,395)	29,875
Loss and total comprehensive expense for the year	–	–	(3,078)	(3,078)
At 31 December 2020	101,336	7,934	(82,473)	26,797

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2020 and 2019 are as follows:

Name	Form of business	Place of establishment/ operations	Issued share capital/ Paid up issued registered share capital	Proportion of ownership interest held by Company (2020)		Proportion of ownership interest held by Company (2019)		Principal activities
				Directly	Indirectly	Directly	Indirectly	
浙江蘭創通信有限公司	Private Limited	The PRC	Registered capital of RMB10,000,000	- (Note a)	-	85%	-	Provision of telecommunication related services
杭州華光計算機工程有限公司	Private Limited	The PRC	Registered capital of RMB10,000,000	100%	-	100%	-	Trading of hardware and computer software
升華科訊有限公司	Private Limited	Hong Kong	Registered capital of HKD800,000	100%	-	100%	-	Provision of e-commerce supply chain services
浙江創建科技有限公司	Private Limited	The PRC	Registered capital of RMB40,000,000	100%	-	100%	-	Provision of smart city solution
杭州創建智工科技有限公司	Private Limited	The PRC	Registered capital of RMB400,000	-	100%	-	100%	Provision of smart city solution

Note:

(a) The subsidiary was disposed on 14 December 2020.

All subsidiaries are limited liability companies.

The above table lists the major subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during both years.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. The principal activities of these subsidiaries are summarised as follows:

Principal activities	Incorporation place	Number of subsidiaries	
		2020*	2019
Inactive	The PRC	1	1

* A subsidiary of the Company, 杭州群思特通信服務有限公司 that is not material to the Group was deregistered on 23 June 2020 and a new subsidiary of the Company, 浙江典石科技有限公司, was incorporated on 29 December 2020 and remains inactive.

None of the subsidiaries have non-controlling interests that are material to the Group.

44. LITIGATION

On 8 March 2021, the Company was served a writ of summons issued by the People's Court of Haidian District (the "Haidian District Court") in respect of the infringement of trade secret disputes arising from a preferential framework agreement (the "Litigation"). The Haidian District Court decided to begin hearing on 15 April 2021. The Company is one of the co-defendants in the case. The Company is subject to jointly compensation to the plaintiff for financial losses of approximately RMB10,944,000 and related interest payment calculated for the period from 7 July 2008 to 30 April 2020, with total principal and interest amounting to approximately RMB18,096,000, expenses incurred in handling the case of RMB300,000 and the corresponding litigation costs.

The Company has commenced to investigate the Litigation, and engaged a legal representative to prepare for defence and search for relevant evidence to actively respond to the litigation. Based on the legal opinion issued by the Company's legal adviser, the Directors considered that due to the uncertainties of the Litigation and the Company has reasonable grounds in opposing the enforcement of any judgement of the said case against the Company, no provision has been made in the consolidated financial statements. Details of which are set out in the Company's announcement dated 9 March 2021.

45. COMPARATIVES

Certain items related to the discontinued operation during the year ended 31 December 2019 have been restated to conform to current year's presentation. As such reclassification adjustment has no impact to the consolidated statement of financial position, the consolidated statement of financial position as at 1 January 2020 is not presented.

FINANCIAL SUMMARY

CONSOLIDATED RESULTS (Continuing and discontinued operations)

	2020 RMB'000	Year ended 31 December			
		2019 RMB'000 (Restated)	2018 RMB'000	2017 RMB'000	2016 RMB'000
Continuing operations					
Revenue	237,630	285,117	217,107	173,076	140,486
Cost of sales	(197,157)	(253,510)	(179,305)	(159,556)	(125,308)
Gross profit	40,473	31,607	37,802	13,520	15,178
Other operating income, net gains or losses	1,154	5,854	3,564	2,690	3,812
Distribution and selling expenses	(6,786)	(7,760)	(9,129)	(7,180)	(10,675)
General and administrative expenses	(19,066)	(20,247)	(19,102)	(15,216)	(12,388)
Research and development expenditure	(9,922)	(4,907)	(4,700)	–	–
Share of result of an associate	125	34	–	–	–
Finance costs	(300)	(731)	(212)	–	–
Profit before tax	5,678	3,850	8,223	(6,186)	(4,073)
Income tax credit (expenses)	241	(132)	(286)	1,615	140
Profit and total comprehensive income for the year from continuing operations	5,919	3,718	7,937	(4,571)	(3,933)
Discontinued operation					
(Loss) profit for year from discontinued operation	(1,050)	37	–	–	–
Profit (loss) and total comprehensive income (expense) for the year	4,869	3,755	7,937	(4,571)	(3,933)
Attributable to:					
– owners of the Company	5,025	4,614	8,393	(4,392)	(3,530)
– non-controlling interests	(156)	(859)	(456)	(179)	(403)
	4,869	3,755	7,937	(4,571)	(3,933)
Earnings (loss) per share from continuing and discontinued operations					
– Basic and diluted (RMB cents)	0.99	0.91	1.66	(0.87)	(0.70)

CONSOLIDATED ASSETS AND LIABILITIES

	2020 RMB'000	At 31 December			
		2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Total assets	142,677	163,124	139,958	102,550	112,354
Total liabilities	(30,160)	(54,278)	(34,867)	(5,310)	(10,543)
Non-controlling interests	–	(1,354)	(2,213)	(2,755)	(2,934)
Shareholders' equity	112,517	107,492	102,878	94,485	98,877