RUIXIN INTERNATIONAL HOLDINGS LIMITED
瑞鑫國際集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 724)

ANNUAL REPORT 2019

Contents

Corporate Information

EXECUTIVE DIRECTORS
Ms. Li Yang *(Chairman)*
Mr. Lam Yat Keung
Mr. Huang Hanshui
Mr. Yang Junjie

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Ho Chi Fai
Mr. Zhang Jue

AUDIT COMMITTEE
Mr. Ho Chi Fai *(Chairman)*
Mr. Zhang Jue

REMUNERATION COMMITTEE
Mr. Zhang Jue *(Chairman)*
Mr. Ho Chi Fai

NOMINATION COMMITTEE
Mr. Ho Chi Fai
Mr. Zhang Jue

INVESTMENT COMMITTEE
Mr. Zhang Jue *(Chairman)*
Mr. Ho Chi Fai

COMPANY SECRETARY
Ms. Tsang Man Sze

AUDITOR
SHINEWING (HK) CPA Limited

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Stock Code: 724

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Results Overview and Financial Highlights

RESULTS OVERVIEW

For the year ended 31 December 2019 (the "Reporting Period"), Ruixin International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") reported revenue of approximately HK$332.7 million, representing a decrease of 25.4% as compared with approximately HK$445.9 million for the year ended 31 December 2018 (the "Corresponding Period").

Loss for the Reporting Period decreased to approximately HK$60.3 million from approximately HK$85.9 million for the Corresponding Period. Loss attributable to owners of the Company was approximately HK$60.3 million for the Reporting Period as compared with approximately HK$85.9 million for the Corresponding Period. The decrease in loss was mainly due to, among others, (i) the decrease in operating loss in the Reporting Period; and (ii) the decrease in imputed interest expenses on convertible notes in the Reporting Period, which was partly offset by the impairment loss on right-of-use assets. The decrease in operating loss in the Reporting Period was mainly due to the reduction in loss from the electronic products business as a result of, among others, the drop in cost and revenue was not in the same scale amid uncertainties arising from the continuation and escalation of the trade war during the Reporting Period although the first round of agreement was signed in January 2020.

The imputed interest expenses on convertible notes (the "Non-cash Item") arose as a result of accounting treatment under the provisions of the applicable accounting standards and was of non-cash nature. Before the Non-cash Item, the Group made a loss of approximately HK$46.3 million for the Reporting Period, as compared with a loss of approximately HK$68.9 million for the Corresponding Period.

FINANCIAL HIGHLIGHTS

	2019 **HK$'000**	2018 HK$'000
Revenue	**332,743**	445,933
Gross profit	**18,842**	2,187
Loss for the year	**(60,282)**	(85,881)
Imputed interest expenses on convertible notes	**(14,014)**	(16,941)
Loss for the year before imputed interest expenses on convertible notes	**(46,268)**	(68,940)

Management Discussion and Analysis

BUSINESS AND FINANCIAL REVIEW

The electronic products business reported a drop of approximately 25.4% in revenue from approximately HK$445.9 million in the Corresponding Period to approximately HK$332.7 million in the Reporting period. The tariff battle between China and the United States remained and became severer during the Reporting Period which affected the revenue generated by the Group although the first round of agreement was signed in January 2020. Attributable to effective cost control, the gross profit for the electronic products business during the Reporting Period was approximately HK$18.8 million, which was an increase from approximately HK$2.2 million in the Corresponding Period.

The Company is seeking and exploring business opportunities in Vietnam to improve the prospect of the Group. During the Reporting Period, Phoenix Asia Pacific Investment Company Limited ("PAPI"), the Company's indirect wholly owned subsidiary in Vietnam, signed and executed a consulting service contract in the amount of US$45,000. PAPI has expanded its business scope to construction and related services, and general trading, besides management consulting services. Subsequent to the Reporting Period, PAPI has signed a non-binding cooperation framework agreement with the main contractor of an offshore wind power project in Vietnam for subcontracting part of the project including procurement, installation, logistics, local labor supply and management, custom clearance and government coordination etc.. As at the date of this report, as far as the Company is aware, the parties have not yet entered into a formal legally binding agreement.

On 23 April 2019, the Company announced the proposed share consolidation on the basis that every twenty (20) issued and unissued existing ordinary shares of the Company with a par value of HK$0.01 each would be consolidated into one (1) consolidated share of the Company with a par value of HK$0.20 each (the "Share Consolidation"). The relevant ordinary resolution was duly passed at the special general meeting of the Company on 22 May 2019 and the Share Consolidation became effective on 23 May 2019. As a result of the Share Consolidation and under the terms and conditions of the convertible notes, the conversion price of the outstanding convertible notes was adjusted from HK$0.011 to HK$0.22 per share with effect from the close of business in Hong Kong on 22 May 2019 and the outstanding convertible notes in the principal amount of HK$158.4 million will be convertible into 720,000,000 consolidated shares. For details, please refer to the announcements of the Company dated 23 April 2019 and 22 May 2019, as well as the circular of the Company dated 6 May 2019. As at 31 December 2019 and the date of this report, the principal amount of convertible notes that remained outstanding was HK$158.4 million with a conversion price of HK$0.22 per share and the maturity date is 31 January 2022.

As at 31 December 2019, the Group had bank balances and cash of approximately HK$11.2 million and net assets of approximately HK$6.4 million, though its net current assets were approximately HK$107.6 million with a current ratio of 2.0 times. The Company believes the Group will need to improve its cash and financial position. To mitigate the liquidity risk, during the Reporting Period, the Company, through one of its indirect wholly-owned subsidiaries in Hong Kong, has signed a loan agreement with Mr. Li Weimin ("Mr. Li"), a substantial shareholder of the Company, for an unsecured and non-interest bearing loan of HK$20.0 million for a term of two years. PAPI has also signed a loan agreement with Mr. Li for an unsecured and non-interest bearing loan of VND7.3 billion (equivalent to approximately HK$2.5 million) for a term of one year (together, the "Shareholder Loans"). Pursuant to the loan agreements, Mr. Li should have advanced to the Group the loan amounts of approximately HK$16.5 million as at the date of this report and another HK$6.0 million before 26 July 2020. As at the date of this report, total amount of the Shareholder Loans received by the Company is approximately HK$3.3 million and as far as the Company is aware, that for PAPI is approximately VND2.5 billion (equivalent to approximately HK$0.9 million). The Company maintains continuous communication with Mr. Li on the grant of the Shareholder Loans according to the loan agreements signed. Amid the impact from the coronavirus outbreak, the progress in the advance of the Shareholder Loans and cash flows generated from operations will affect the liquidity and going concern of the Group.

The Company's auditor has issued a disclaimer of opinion on the basis of material uncertainty relating to the going concern of the Group. For the going concern issue of the Group and the disclaimer of opinion by the Company's auditor, please refer to the paragraphs headed "Going Concern Basis" in the Corporate Governance Report on page 27 of this report, note 1 to the consolidated financial statements, and the Independent Auditor's Report on pages 49 to 51 of this report. The Group has been considering various alternatives including the sourcing of funds to more permanently improve its cash and financial position.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group mainly finances its business operations with internally generated cash flows and other sources.

As at 31 December 2019, the Group had bank balances and cash of approximately HK$11.2 million (2018: HK$30.7 million). The Group's current ratio (measured as total current assets to total current liabilities) was 2.0 times (2018: 5.1 times).

As at 31 December 2019, the Company had outstanding zero coupon convertible notes due on 31 January 2022 with an aggregate principal amount of HK$158.4 million (2018: HK$158.4 million) and a conversion price of HK$0.22 (2018: HK$0.011) per share. During the Reporting Period, as a result of the Share Consolidation and under the terms and conditions of the convertible notes, the conversion price was adjusted from HK$0.011 per share to HK$0.22 per share. Based on the adjusted conversion price of HK$0.22 per share, the outstanding convertible notes with an aggregate principal amount of HK$158.4 million will be convertible into 720,000,000 shares. Details are set out in notes 29 and 31 to the consolidated financial statements and the paragraphs headed "Business and Financial Review" in the Management Discussion and Analysis on pages 4 and 5 of this report.

As at 31 December 2019, the Group had no outstanding bank borrowings (2018: nil) and loans from a substantial shareholder of approximately HK$2,950,000 (2018: nil) which is unsecured, non-interest bearing and repayable on maturity. The gearing ratio, which is calculated by total interest bearing borrowings to total equity, was nil as at 31 December 2019 and 2018.

As at 31 December 2019, the Group had capital expenditure commitments of approximately HK$191,000 (2018: nil) in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements.

SIGNIFICANT INVESTMENTS

The Group did not have any significant investments during the Reporting Period.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not have any material acquisitions or disposals of subsidiaries and associated companies during the Reporting Period.

CHARGE ON GROUP'S ASSETS

As at 31 December 2019, the Group did not have any assets pledged (2018: nil).

FOREIGN EXCHANGE EXPOSURES

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

CONTINGENT LIABILITY

Details of the contingent liability of the Group are set out in note 40 to the consolidated financial statements.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2019, the Group had 367 (2018: 522) full time employees in Hong Kong, the People's Republic of China (the "PRC" or "China") (including 321 (2018: 478) subcontractor's staff for the outsourced production of electronic products) and Vietnam. Total staff costs (including directors' remuneration) for the Reporting Period amounted to approximately HK$30.4 million (2018: HK$28.5 million). The employees are remunerated with reference to the qualification, experience, responsibility and performance of the individual, the performance of the Group and the market practices. Apart from the basic remuneration package, the mandatory provident fund scheme, the central provident scheme in the PRC and the state pension scheme in Vietnam, the Company also operates a share option scheme based on which the board (the "Board") of directors (the "Director(s)") of the Company may, at its discretion, grant options to eligible employees of the Group.

Management Discussion and Analysis

FUTURE OUTLOOK

According to the International Monetary Fund (the "IMF"), after a mark slowdown last year, global economic activity is expected to moderately strengthen in 2020. In its January 2020 forecast, the IMF projected that global growth, estimated at 2.9% in 2019, will increase to 3.3% in 2020 (before accounting for the impact from the coronavirus outbreak) and inch up further to 3.4% in 2021. Market sentiment has been boosted by tentative signs that manufacturing activity and global trade are bottoming out, a broad-based shift toward accommodative monetary policy, intermittent favorable news on U.S.-China trade negotiations, and diminished fears of a no-deal Brexit. The early signs of stabilisation could persist, leading to favorable dynamics between still-resilient consumers spending and improved business spending. The projected recovery in global growth, however, is seen as fragile and shallow. Downside risks remain prominent which could derail the short-term global recovery including further spread of the coronavirus, rising geopolitical tensions (notably between the U.S. and Iran), intensifying social unrest, and further worsening of relations between the U.S. and its trading partners.

China's economy grew by 6.1% in 2019, the lowest rate since 1990 though meeting the government's target range of between 6.0% and 6.5%. According to a report dated 17 January 2020 in the financial times (the "FT"), the growth rate disappointed analysts' expectations and revealed an economy under pressure from weak consumer spending, rising unemployment and problems in the financial system despite a truce in the painful U.S.-China trade war. The question looming over China's economy in 2020 is whether the damage of the trade dispute has largely run its course, or as some experts fear, domestic troubles in banking, manufacturing and property have yet to take full effect. Before accounting for the impact from the coronavirus outbreak, the IMF projected that growth in China will inch down to 6.0% in 2020 and 5.8% in 2021. According to the IMF, the envisaged partial rollback of past tariffs and pause in additional tariff hikes as part of a "Phase One" trade deal with the U.S. is likely to alleviate near-term cyclical weakness. However, unresolved disputes on broader U.S.-China economic relations as well as needed domestic financial regulatory strengthening are expected to continue weighing on activity.

According to reports by the IMF in February 2020, the coronavirus, a human tragedy, is disrupting economic activity in China as production has been halted and mobility around affected regions limited. Spillovers to other countries are likely, and a wider and more protracted outbreak or lingering uncertainty about contagion could intensify supply chain disruptions and depress confidence more persistently, making the global impact more severe. While the impact of the epidemic continued to unfold and the uncertainties were too great to permit reliable forecasting, the IMF assumed in its baseline scenario that China's economy would return to normal in the second quarter and 2020 growth for China would be 5.6% while global growth would be 3.2%. A Reuters poll predicted China's annual growth in the first quarter of 2020 to slump to 4.5% from 6.0% in the previous quarter. Chinese manufacturing activity plunged to an all-time low in February 2020, with the official manufacturing purchasing managers' index falling to 35.7 from 50.0 in January 2020 and 50.2 in December 2019. The outbreak has severally hit the manufacturing sector, as many factories remain relatively labour intensive in China. The collapse in manufacturing activity confirmed fears over the impact on the Chinese economy and showed the severity of the problem faced by China in restarting its economy (according to reports dated 31 January 2020, 14, 19 and 29 February 2020 in the South China Morning Post and 29 February 2020 in the FT).

With the signing of the first round of the trade agreement between China and the United States in January 2020, it is expected to reduce uncertainties in the market. However, the outbreak and continuing of the coronavirus in early 2020 worsened the world economy. Business activities in the world have been greatly affected. China, Japan and South Korea, where many of the Group's customers and suppliers of the electronic products business are located, have reported huge number of confirmed cases of the disease. It is expected to have adverse impact on the supplies of raw materials and the demands of products from customers in the first half of 2020. The Group will take extra caution in observing the development of both the tariff battle and the coronavirus, and respond to the change in the market from time to time in order to minimise its impact on the Group.

Biographical Details of Directors

EXECUTIVE DIRECTORS

Ms. Li Yang ("Ms. Li"), aged 27, was appointed as an executive Director and the chairman of the Board (the "Chairman") on 22 January 2020. Ms. Li graduated from the University of Sussex in 2015 with a bachelor's degree in law. She obtained a Master of Laws degree in international corporate governance and financial regulation from the University of Warwick in 2016. Ms. Li worked as a paralegal at a large law firm in the PRC from November 2017 to May 2019. She was also the chairman of PAPI, a subsidiary of the Company in Vietnam, from June 2018 to August 2019 and she has been a director of a subsidiary of the Company in Hong Kong since June 2019. Ms. Li is the daughter of Mr. Li Weimin, a substantial shareholder (as defined in the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) of the Company.

Mr. Lam Yat Keung ("Mr. Lam"), aged 62, was appointed as an executive Director on 13 December 2003. Mr. Lam was the president of the Company from 13 December 2003 to 2 March 2010 and from 1 December 2012 to 1 December 2015. Mr. Lam has over 30 years of experience in business development, strategic planning, policy making and research and development in the manufacturing industry in Hong Kong and the PRC, particularly in the consumer products and electronic components sectors. Mr. Lam and his wife, Ms. Lam Pik Wah, are currently the directors of certain subsidiaries of the Company.

Mr. Huang Hanshui ("Mr. Huang"), aged 49, was appointed as an executive Director on 9 March 2010. Mr. Huang holds a Master of Business Administration (MBA) degree from the National University of Singapore and a Bachelor of Arts degree from Xiamen University. Mr. Huang has over 24 years of experience in various areas, including financial and compliance management, equity research, strategic management, human resources services and sales & marketing. Prior to joining the Company, he worked as an equity analyst in Nomura Securities and Standard & Poor's. Mr. Huang is currently the chief financial officer of the Company and a director of certain subsidiaries of the Company.

Mr. Yang Junjie ("Mr. Yang"), aged 43, was appointed as an executive Director on 24 June 2019. Mr. Yang graduated from the Party School of Luohe Municipal Committee of Henan Province*（河南省漯河市委黨校）with a diploma in computer science in July 1996 and was awarded the degree of Executive Master of Business Administration at the Euro-China International Business College in July 2009. He worked as a department manager in CITIC Logistics Company Limited*（中信物流有限公司）("CITIC Logistics") from April 1999 to January 2006. He was assigned by CITIC Logistics to serve as the deputy general manager of Ningbo Lingxin Logistics Company Limited*（寧波菱信物流有限公司）, being a company held as to 40% by CITIC Logistics, from January 2006 to December 2013. The Company indirectly held 90% of the entire equity interest in CITIC Logistics from November 2011 to December 2012. Mr. Yang was the manager of Vietex Company Limited（越南快運有限公司*）, being a company indirectly held as to 49% by Mr. Li Weimin and his associate(s) (as defined under the Listing Rules), from April 2015 to March 2017. Mr. Yang was the legal representative and general manager of PAPI from March 2017 to August 2019 and he is currently the chairman of PAPI.

* *For identification purpose only*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Chi Fai ("Mr. Ho"), aged 63, was appointed as an independent non-executive Director on 15 January 2004. Mr. Ho graduated from the Hong Kong Polytechnic University in 1979 with a Higher Diploma in Accountancy. Prior to joining the Company, he had over 20 years of experience working in an international bank with particular expertise in money market operations and accounting and was the financial controller of a computer manufacturer and an electronic components manufacturer.

Mr. Zhang Jue ("Mr. Zhang"), aged 34, was appointed as an independent non-executive Director on 20 February 2016. Mr. Zhang obtained a bachelor's degree with a major in Financial Management from Shanghai University of Finance and Economics in 2007 and a Master's degree of Accounting from Tsinghua University in 2015. Mr. Zhang has over 12 years of experience in various areas, including investment, financial management, market research and auditing. Mr. Zhang worked as a senior manager from December 2012 to December 2013 and as the financial controller from December 2013 to June 2014 in China New Town Development Company Limited, the shares of which is listed on the main board of the Stock Exchange (stock code: 1278). From December 2012 to June 2017, he served as a vice president in Beijing Black Eagle Fu Cheng Investment Management Co. Ltd.*（北京黑鷹富成投資管理有限公司）and/or its related companies. Since July 2017, he served as a vice general manager of Beijing Qingkong Xinye Investment Management Co. Ltd. *（北京青控新業投資管理有限公司）. Mr. Zhang is currently a director of CCL Cold Storage Logistics Co., Ltd.*（北京中冷物流股份有限公司）and Shanghai Shaohua Culture Communication Co. Ltd.*（上海韶華文化傳播股份有限公司）, the shares of which are quoted on the National Equities Exchange and Quotations of the PRC (stock code: 835382 and 871677, respectively).

* *For identification purpose only*

Report of the Directors

The Board presents their report and the audited consolidated financial statements of the Company and its subsidiaries for the Reporting Period.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries as at 31 December 2019 are set out in note 41 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the Reporting Period are set out in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income on pages 52 and 53 of this report.

The Board does not recommend the payment of final dividend for the Reporting Period (2018: nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the past five financial years is set out on page 138 of this report.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Reporting Period are set out in note 31 to the consolidated financial statements.

CONVERTIBLE NOTES

Details of movements in the convertible notes of the Company during the Reporting Period are set out in note 29 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the Reporting Period are set out in the consolidated statement of changes in equity and note 33 to the consolidated financial statements, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company did not have any reserves available for distribution, as computed in accordance with the Companies Act 1981 of Bermuda (2018: nil). The Company's share premium account of HK$2,374,265,000 (2018: HK$2,374,265,000) could be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the bye-laws of the Company ("Bye-law(s)") or the laws in Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company ("Shareholder(s)").

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

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Reporting Period are set out in note 17 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the largest customer and the five largest customers of the Group accounted for 26.09% and 47.46%, respectively, of the total revenue of the Group for the Reporting Period.

The aggregate purchases attributable to the largest supplier and the five largest suppliers of the Group accounted for 31.21% and 62.77%, respectively, of the total purchases of the Group for the Reporting Period.

None of the Directors, their associates or any Shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in the five largest customers or suppliers.

Report of the Directors

DIRECTORS

The Directors during the Reporting Period and up to the date of this report were:

Executive Directors

Ms. Li Yang	*(appointed on 22 January 2020)*
Mr. Wang Zhaofeng	*(resigned on 24 June 2019)*
Mr. Lam Yat Keung	
Mr. Huang Hanshui	
Mr. Yang Junjie	*(appointed on 24 June 2019)*

Independent non-executive Directors

Mr. Ho Chi Fai	
Ms. Liu Yanfang	*(resigned on 1 January 2020)*
Mr. Zhang Jue	

Pursuant to Bye-law 86, Ms. Li Yang and Mr. Yang Junjie will hold office until the forthcoming annual general meeting of the Company (the "2020 AGM") and, being eligible, will offer themselves for re-election at the 2020 AGM. In accordance with Bye-law 87, Mr. Huang Hanshui and Mr. Zhang Jue will retire by rotation at the 2020 AGM and, being eligible, will offer themselves for re-election at the 2020 AGM.

None of the Directors being proposed for re-election at the 2020 AGM has a director service contract with the Company which is not determinable by the Company within one year without payment of compensations, other than statutory compensation.

Save as disclosed above, there is no other information regarding Directors that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Reporting Period.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or their respective associates had an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' remuneration and those of the five highest paid individuals in the Group are set out in notes 15 and 16 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, the interests and short positions of the Directors and chief executives of the Company (the "Chief Executives") in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (ii) to be entered in the register pursuant to Section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, were as follows:

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

Name of Director	Capacity	Number of shares and underlying shares held	Percentage of shareholding
Mr. Huang Hanshui (Note)	Beneficial owner	4,341,394	0.52%

Note: Mr. Huang Hanshui, an executive Director, has a derivative interest in 4,341,394 shares pursuant to share options granted to him on 6 December 2010.

Save as disclosed above, as at 31 December 2019, none of the Directors, the Chief Executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO), or which had to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the paragraphs headed "Directors' and Chief Executives' interests in shares and underlying shares" above and "Share option scheme" as set out in note 32 to the consolidated financial statements, at no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and neither the Directors nor the Chief Executives, or any of their spouses or children under the age of 18, had any rights to subscribe for the equity or debt securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, the register of substantial Shareholder maintained by the Company pursuant to Section 336 of the SFO shows that the following Shareholder had notified the Company of relevant interests in the issued share capital of the Company.

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

Name of substantial Shareholder	Capacity	Number of shares and underlying shares held	Percentage of shareholding
Mr. Li Weimin (Note)	Beneficial owner	952,863,576	113.41%

Note: Mr. Li is interested in 952,863,576 shares, consisting of (i) an interest in 232,863,576 shares beneficially owned and held in his own name; and (ii) a derivative interest in 720,000,000 conversion shares to be allotted and issued upon full conversion of the outstanding convertible notes issued to him by the Company with an aggregate principal amount of HK$158,400,000.

Save as disclosed above, the Company had not been notified any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 31 December 2019.

SHARE OPTION SCHEME

At the Company's annual general meeting held on 8 June 2012, the Company terminated the old share option scheme and adopted a new share option scheme. Details are set out in note 32 to the consolidated financial statements.

MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business were entered into or existed during the Reporting Period.

CONNECTED TRANSACTION

During the Reporting Period, there were no connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent Shareholders' approval requirements under the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

SHINEWING (HK) CPA Limited will retire and, being eligible, will offer themselves for re-appointment as auditor of the Company at the 2020 AGM.

On behalf of the Board

Li Yang
Chairman

Hong Kong, 27 March 2020

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance. During the Reporting Period, the Company has applied the principles of and complied with the code provisions ("Code Provision(s)") set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Listing Rules except for the following deviations:

Under the Code Provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The duties and responsibilities of the chief executive were shared among the members of the Board during the Reporting Period. In view of the size of operation of the Group, the Board considers that it will be suitable for implementing the Company's strategies under this arrangement. The Board shall review this arrangement from time to time to ensure appropriate and timely action is taken to meet changing circumstances. Following the resignation of Mr. Wang Zhaofeng as an executive Director and the Chairman with effect from 24 June 2019, the duties and responsibilities of the Chairman were shared among the members of the Board. Subsequent to the Reporting Period, Ms. Li Yang was appointed as an executive Director and the Chairman on 22 January 2020.

Moreover, under the Code Provision A.2.7 of the CG Code, the chairman should at least annually hold meetings with the independent non-executive directors without the presence of other directors. Since the duties and responsibilities of the Chairman were shared among the members of the Board following the resignation of Mr. Wang Zhaofeng, there was no chairman to hold such meeting during the Reporting Period. However, the independent non-executive Directors could communicate with the Company directly at any time through other means (such as telephone or email) to give their opinions and share their views on the Company's affairs. The Company would arrange to set up follow-up meetings with the independent non-executive Directors, whenever necessary.

Furthermore, under the Code Provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. Mr. Ho Chi Fai, an independent non-executive Director, is not appointed for a specific term but his directorship is subject to retirement by rotation and re-election in accordance with the Bye-laws and the Listing Rules. Under the Bye-laws, one-third of the directors shall retire from office by rotation at each annual general meeting. According to the Listing Rules, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

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

BOARD OF DIRECTORS

As at the date of this report, the Board comprises a balanced composition of Directors who possess a wide spectrum of relevant skills and experience, including four executive Directors and two independent non-executive Directors. All Directors are expressly identified in all corporate communications. The biographical details of each Director are set out on pages 10 to 11 of this report. The Board has established four Board committees, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Investment Committee (together the "Board Committees").

During the Reporting Period, the attendance of the Directors at the Board meetings, Audit Committee meetings, Remuneration Committee meetings, Nomination Committee meetings, Investment Committee meetings and the Company's special general meeting held on 22 May 2019 ("2019 SGM") and the Company's annual general meeting held on 10 June 2019 ("2019 AGM") is given below and their respective responsibilities are discussed later in this report.

		No. of meetings attended/held						
		2019 SGM	2019 AGM	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	Investment Committee meetings
Executive Directors								
Mr. Wang Zhaofeng	(resigned on 24 June 2019)	1/1	1/1	6/11	N/A	N/A	2/4	N/A
Mr. Lam Yat Keung		1/1	1/1	11/11	N/A	N/A	N/A	N/A
Mr. Huang Hanshui		1/1	1/1	11/11	N/A	N/A	N/A	N/A
Mr. Yang Junjie	(appointed on 24 June 2019)	N/A	N/A	5/11	N/A	N/A	N/A	N/A
Independent non-executive Directors								
Mr. Ho Chi Fai		1/1	1/1	11/11	2/2	5/5	1/4 (note)	2/2
Ms. Liu Yanfang	(resigned on 1 January 2020)	1/1	1/1	11/11	2/2	5/5	4/4	2/2
Mr. Zhang Jue		1/1	1/1	11/11	2/2	5/5	4/4	2/2

Note: Mr. Ho Chi Fai was appointed as a member of the Nomination Committee with effect from 24 June 2019.

Corporate Governance Report

The Board is accountable to Shareholders for the performance and activities of the Company and is primarily responsible for setting directions, formulating strategies, monitoring performance and managing risks of the Group. The day-to-day management, operation and administration of the Company are delegated to the management executives while certain key matters such as making recommendation of dividend or other distributions and appointment of Directors are reserved for the approval by the Board.

The Board held meetings from time to time whenever necessary. Notice of at least fourteen days has been given to all Directors for all regular board meetings and the Directors can include matters for discussion in the agenda if necessary. Agenda and accompanying board papers in respect of regular Board meetings are sent to all Directors within reasonable time before the meeting. Minutes of Board meetings and meetings of the Board Committees are kept by the secretary of the meetings and all Directors have access to board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it.

In case a Director has a material interest in the subject matter to be considered by the Board, a Board meeting should be held and such Director must abstain from voting and not being counted towards the quorum in respect of the subject matter of the meeting.

All Directors are regularly updated on governance and regulatory matters. There is an established procedure for Directors to obtain independent professional advice at the expense of the Company in discharge of their duties.

During the Reporting Period, the Board complies at all times with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors and one of them has appropriate professional qualifications or accounting or related financial management expertise. Subsequent to the Reporting Period, following the resignation of Ms. Liu Yanfang with effect from 1 January 2020, the number of independent non-executive Directors was reduced to two which is below the minimum number prescribed under Rule 3.10(1) of the Listing Rules. The Board is currently identifying a suitable candidate to fill the vacancy of the independent non-executive Director as soon as practicable, as set out in the Company's announcement dated 31 December 2019.

The Company has received from each independent non-executive Director an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company is of the opinion that the independent status of them remains intact as at 31 December 2019.

DIRECTORS' TRAINING

Under the Code Provision A.6.5 of the CG Code, all directors should participate in continuous development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Directors are continuously updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. The Company has provided timely technical updates, including the briefing on the amendments on the Listing Rules and the news release published by the Stock Exchange to the Directors. Continuous briefing and seminars on professional development for Directors are arranged where necessary. Up to the date of this report, all Directors have attended in-house seminars on regulatory and corporate governance matters arranged by the Company and the Company has received from each of the Directors the confirmation on continuous professional training, as recorded in the table below:

	Seminars on regulations and updates	Reading guides and papers relating to regulations and directors' duties
Executive Directors		
Ms. Li Yang	✓	✓
Mr. Wang Zhaofeng	✓	✓
Mr. Lam Yat Keung	✓	✓
Mr. Huang Hanshui	✓	✓
Mr. Yang Junjie	✓	✓
Independent Non-Executive Directors		
Mr. Ho Chi Fai	✓	✓
Ms. Liu Yanfang	✓	✓
Mr. Zhang Jue	✓	✓

DIRECTORS' INSURANCE

The Company has arranged appropriate insurance cover in respect of legal action against the Directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman is responsible for the leadership and effective running of the Board and ensuring that all significant and key issues are discussed and where required, timely and constructively resolved by the Board.

The chief executive officer of the Company (the "CEO") was delegated with the authority and responsibility to manage the Group's business in all aspects effectively, implement major strategies, make day-to-day decision and coordinate overall business operation. During the Reporting Period, the duties and responsibilities of the CEO were shared among the members of the Board. In view of the size of operation of the Group, the Board considers that it will be suitable for implementing the Company's strategies under this arrangement. The Board shall review this arrangement from time to time to ensure appropriate and timely action is taken to meet changing circumstances.

APPOINTMENT, RE-ELECTION AND REMOVAL

Each of the executive Directors is engaged on a service contract. Each of the independent non-executive Directors (except Mr. Ho Chi Fai) is engaged with an appointment letter from the Company for a fixed term of three years, which will continue thereafter until terminated by either party by giving not less than one month notice in writing to the other party, and his/her term of office is subject to retirement by rotation and re-election in accordance with the Bye-laws and the Listing Rules.

According to the Bye-laws, one-third of the Directors shall retire from office by rotation at each annual general meeting. Any director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election at that meeting.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Bye-laws. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

NOMINATION COMMITTEE

The Nomination Committee currently comprises all independent non-executive Directors, namely, Mr. Ho Chi Fai and Mr. Zhang Jue.

The Board adopted the board diversity policy (the "Board Diversity Policy") in accordance with the requirements set out in the Listing Rules. Such policy aims to achieve diversity on the Board in supporting the attainment of its strategic objectives and its sustainable development. Selection of candidates on the Board will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The primary duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and to identify individuals suitably qualified to become board members. It is also responsible for assessing the independence of independent non-executive Directors and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors. The Nomination Committee will also review the Board Diversity Policy to ensure its effectiveness. The recommendations of the Nomination Committee are then put forward for consideration and adoption, where appropriate, by the Board.

During the Reporting Period, four Nomination Committee meetings were held to review the structure, size and composition of the Board, the retirement and re-appointment arrangement of the Directors in the 2019 AGM, review the effectiveness of the Board Diversity Policy, and make recommendations to the Board for consideration of appointment of a new Director and directors in certain subsidiaries of the Company. The terms of reference of the Nomination Committee are consistent with the terms set out in the relevant section of the CG Code.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee to ensure that there are formal and transparent procedures for setting policies on the remuneration of Directors. The Remuneration Committee currently comprises all independent non-executive Directors, namely, Mr. Zhang Jue (the chairman of the Remuneration Committee) and Mr. Ho Chi Fai.

The Company has adopted the model to make recommendations to the Board to determine the remuneration packages of Directors and senior management.

During the Reporting Period, five Remuneration Committee meetings were held to review the remuneration packages of the Directors and make recommendations to the Board for the remuneration package of a new Director and directors in certain subsidiaries of the Company. The Remuneration Committee ensures that no Director is involved in deciding his own remuneration. The terms of reference of the Remuneration Committee are consistent with the terms set out in the relevant section of the CG Code.

AUDIT COMMITTEE

The Audit Committee currently comprises all independent non-executive Directors, namely, Mr. Ho Chi Fai (the chairman of the Audit Committee) and Mr. Zhang Jue. Following the resignation of Ms. Liu Yanfang with effect from 1 January 2020, the number of members of the Audit Committee was reduced to two which is below the minimum number prescribed under Rule 3.21 of the Listing Rules. The Board is currently identifying a suitable candidate to fill the vacancy of the independent non-executive Director and a member of the Audit Committee as soon as practicable, as set out in the Company's announcement dated 31 December 2019.

The primary duties of the Audit Committee include to make recommendations to the Board for appointment, reappointment and removal of the Company's external auditor, to review and monitor its independence and objectivity, and to develop and implement policy on the engagement of non-audit services by the Company's external auditor. Apart from monitoring the integrity of financial statements, the Audit Committee also oversees the Company's financial reporting system, risk management and internal control systems.

During the Reporting Period, two Audit Committee meetings were held to review the interim and final results of the Group, the financial reporting matters as well as the risk management and internal control systems of the Group. The terms of reference of the Audit Committee are consistent with the terms set out in the relevant section of the CG Code.

AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about its reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 49 to 51 of this report.

For the Reporting Period, the remuneration paid/payable to the external auditor of the Company, SHINEWING (HK) CPA Limited and its affiliate company in respect of audit and non-audit services provided by them to the Group, are set out below:

	HK$'000
Audit services	844
Non-audit services:	
– Taxation services	60
– 2019 interim review	73
– Others	24
	157
	1,001

DIVIDEND POLICY

The Company has adopted a dividend policy (the "Dividend Policy") on 24 December 2018. Under the Dividend Policy, provided that the Group is profitable and without affecting the normal operations of the Group, the Company may consider to declare and pay dividends to the Shareholders.

In deciding whether to propose any dividend payout, the Board will consider, among others, the Group's earnings performance, financial condition, investment requirements, future prospects, the interests of Shareholders, and other factors which the Board may deem relevant. According to the Dividend Policy, the declaration, form, frequency and amount of any dividend payout of the Company must be in accordance with relevant laws, rules and regulations and subject to the memorandum of association of the Company (the "Memorandum of Association"). In accordance with the Memorandum of Association, any dividends declared by the Company must be approved by an ordinary resolution of the Shareholders at an annual general meeting of the Company and must not exceed the amount recommended by the Board. Moreover, in addition to cash, the dividends may be paid up in the form of the Company's shares, by the distribution of specific assets of any kind or by distribution of any one or more of such ways.

The Board will continue to review the Dividend Policy from time to time and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time. The Dividend Policy shall in no way constitute a legally binding commitment by the Company in respect of its future dividend and/or in no way obligate the Company to declare a dividend at any time or from time to time.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code for the Reporting Period.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of 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 applicable to employees of the Company and Directors; and

(e) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

The terms of reference of the corporate governance functions of the Board are consistent with the terms set out in the relevant section of the CG Code.

RESPONSIBILITY FOR PREPARATION AND REPORTING OF FINANCIAL STATEMENTS

The management has regularly provided explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval. The Directors acknowledge their responsibility for preparing the financial statements and presenting a balanced, clear and understandable assessment of the Company's annual and interim reports, other financial disclosures required under the Listing Rules and reports to regulators. The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Group is set out in the "Independent Auditor's Report" on pages 49 to 51 of this report.

GOING CONCERN BASIS

Under the Code Provision C.1.3 of the CG Code, the Directors are responsible for preparing the accounts, and where the Directors are aware of material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, this should be disclosed and discussed.

As at 31 December 2019, the Group had bank balances and cash of approximately HK$11.2 million and net assets of approximately HK$6.4 million, though its net current assets were approximately HK$107.6 million with a current ratio of 2.0 times. In addition, the Group incurred a loss of approximately HK$60.3 million for the Reporting Period. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. To mitigate the liquidity risk, during the Reporting Period, the Group has entered into two loan agreements for the Shareholder Loans of approximately HK$22.5 million. The Directors consider that with cash flows generated from operations by the Group and the grant of Shareholder Loans according to the loan agreements signed, the Group will have sufficient working capital to meet its financial obligations as they fall due for at least the next twelve months from the end of the Reporting Period. Accordingly, the consolidated financial statements for the Reporting Period have been prepared on a going concern basis, the validity of which depends on the successful outcomes of the Group's plans and measures to mitigate its liquidity pressure that are subject to multiple uncertainties. For further details, please refer to the paragraphs headed "Business and Financial Review" in Management Discussion and Analysis on pages 4 and 5 of this report and note 1 to the consolidated financial statements.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for the risk management and internal control systems and for reviewing their effectiveness. The Group emphasises the importance of sound risk management and internal control systems which are indispensable for mitigating the Group's key risk exposures. The Group's risk management and internal control systems include a defined management structure with limits of authority, and are designed for the Group to identify and manage the significant risks to achieve its business objectives. The systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational systems and in the achievement of the Group's business objectives.

The Group has adopted a three-tier risk management approach to identify, assess and manage different types of risks. The Group is committed to the identification, evaluating, and management of risks associated with its business activities through ongoing assessment of a risk register, by considering the likelihood and impact of each identified risk. For any identified significant risks, the Group will evaluate its financial or operational impacts to the Group and adopt mitigation measures to manage such risks.

The Group has developed an internal control system, which covers major financial, operational and compliance controls to safeguard its assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The internal control system is reviewed on an ongoing basis by the Board and the Audit Committee annually. For any identified internal control weaknesses or defects, the Group will enhance control measures to rectify such control weaknesses or defects.

Under the Code Provision C.2.5 of the CG Code, the Group should have an internal audit function. The Group has conducted an annual review for the need of setting up an internal audit department. Given the Group's simple operating structure, it was decided that the Board, supported by the Audit Committee, would be directly responsible for risk management and internal control systems of the Group.

During the Reporting Period, the Company engaged an external independent consultant to conduct an independent review on the risk management and internal control systems of the Group. Mitigation measures have been put in place to manage significant risks and no material control weaknesses or defects were found. Risk assessment report and internal control report were submitted to and approved by the Board and the Audit Committee.

The Board through the Audit Committee and the external independent consultant had conducted an annual review on the risk management and internal control systems of the Group. The review covered material controls, including financial, operational and compliance controls and risk management functions of the Group. The Board considered that the risk management and internal control systems of the Group were effective during the Reporting Period. The improvement of the systems of risk management and internal control is an ongoing process and the Board maintains a continuing commitment to strengthen the Group's control environment and processes.

Procedures and internal controls for the handling and dissemination of inside information

The Group has put in place the procedures and internal controls for the handling and dissemination of inside information. The Group complies with requirements of the SFO and the Listing Rules during the Reporting Period. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements or circulars are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

COMPANY SECRETARY

All Directors have access to the advice and services of the company secretary of the Company, Ms. Tsang Man Sze ("Ms. Tsang"), a full time employee of the Company. Ms. Tsang has undertaken sufficient hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS

The Company aims to provide its Shareholders and investors with high standard of disclosure and financial transparency. The Board is committed to provide clear and detailed information of the Group to Shareholders in a timely manner and on a regular basis through the publication of interim and annual reports and/or dispatching circular, notices and other announcements.

Shareholders are welcome to attend Shareholder's meeting where they are fully briefed on the Company's activities and questions can be raised to the Board and the management. The Board proposes separate resolutions for each issue to be considered and put each proposed resolution to the vote by way of a poll. Poll results will be posted on the websites of the Company and the Stock Exchange after Shareholders' meetings.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

Convening a special general meeting by Shareholders

Pursuant to Bye-law 58, a special general meeting may be convened by the Board upon requisition by any shareholder holding at the date of deposit of written requisition not less than one tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. The Shareholder shall make a written requisition to the Board or the company secretary of the Company at the head office address of the Company, specifying the shareholding information of the Shareholder, his/her contact details and the proposal regarding any specified transaction/business and its supporting documents.

The Board shall arrange to hold such general meeting within two months after the receipt of such written requisition. Pursuant to Bye-law 59, the Company shall serve requisite notice of the general meeting, including the time, place of meeting and particulars of resolutions to be considered at the meeting and the general nature of the business.

If within twenty one days of the receipt of such written requisition, the Board fails to proceed to convene such special general meeting, the Shareholder shall do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

Putting forward proposals at general meetings

A Shareholder shall make a written requisition to the Board or the company secretary of the Company at the head office address of the Company, specifying the shareholding information of the Shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

Putting forward enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing to the Company's head office in Hong Kong at 18th Floor, Times Media Centre, 133 Wan Chai Road, Hong Kong.

ABOUT THIS REPORT

This is the Environmental, Social and Governance ("ESG") Report (the "ESG Report") published by the Group. Through the ESG Report, the Group is able to disclose the Group's measures and performance on sustainable development topics in a transparent and open manner. As such, it increases stakeholders' confidence in the Group, as well as providing a thorough understanding of the Group's progress on environmental and social sustainability.

SCOPE AND REPORTING PERIOD

All the information in the ESG Report reflects the ESG performance of the Group for the Reporting Period. The ESG Report covers the Group's overall performance in two subject areas – environmental and social aspects of the business operations. In relation to the Group's corporate governance matters, please refer to the Corporate Governance Report on pages 18 to 30 of this report. Unless otherwise stated, the ESG Report focuses on its business operations in Hong Kong and Vietnam, which represent the majority of Group's environmental and social impacts.

APPROACH TO ESG AND REPORTING

The Group's ESG philosophy is to continuously enhance the disclosure transparency and undertaking the ESG responsibilities. Therefore, the ESG Report is published annually by the Group for public review so as to improve the transparency and responsibility of information disclosure. The Group aspires to be a responsible corporate citizen and believes that transparency and accountability are important foundations for building trust with its stakeholders.

The Board is committed to contributing to the sustainable development of the society and the environment. Along with the commitment, the Board is responsible for evaluating and determining the risks in relation to ESG areas at the Group level. Through adjusting and defining risks, the Board is able to formulate a clear vision and key strategies and monitor management to ensure the proper ESG reporting measures and systems are in place.

PRINCIPLES

The ESG Report preparation and presentation of related information are in accordance with Appendix 27 of the Listing Rules. The Group has prepared the ESG Report to meet the "Comply or Explain" provisions, of which mandatory key performance Indicators ("KPIs") and some recommended KPIs are disclosed. As such, the Group is able to produce a balanced report, focusing on the key material issues.

According to the guideline, the following principles are underpinned:

1. **Materiality**: the ESG issues that have major impacts on investors and other stakeholders must be set out in the ESG Report.

2. **Quantitative**: If the KPIs have been established, they must be measurable and applicable to valid comparisons under appropriate conditions. They must also be able to describe the purpose and impacts of quantitative information.

3. **Balance**: The ESG Report must provide an unbiased picture of the ESG performance of the Group. It should avoid selecting, omitting, or presenting formats that may inappropriately influence a decision or judgment by the reader.

4. **Consistency**: The ESG Report should use consistent and disclose statistical methodologies to allow meaningful comparisons of related data over time. Any changes to the methods used must be specified in the ESG Report.

STAKEHOLDER ENGAGEMENT

The Stock Exchange has set forth stakeholder engagement the method by which materiality is assessed. Through stakeholder engagement, companies can understand wide-ranging views and identify material environmental and social issues.

The Group believes that effective feedback from stakeholders not only contributes to the comprehensive and impartial evaluation of its ESG performance but also enables it to improve its performance based on the feedback. Therefore, the Group engages its stakeholders from time to time through on-going communications and collects their views on the ESG aspects that they regard as relevant and important. The key stakeholders include its employees, customers, suppliers, investors and business partners etc.. The Group maintains an open and transparent dialogue with its stakeholders through various channels including meetings, surveys and workshops. This year the Group saw more emphasis and stakeholder expectation on anti-corruption, community investment and supply chain management. These key considerations, aligned with the Group's guiding principles and values, encompassing environment, workplace and community, have been further addressed in the ESG Report.

Along with the increasing business, the Group engage with various stakeholders who have different expectations on the Group. The Group will maintain effective communication with stakeholders continuously, collect opinions from stakeholders through different forms, and make a substantive analysis. At the same time, the Group will enhance the reporting principles of quantification, balance and consistency, in order to define the content of the ESG Report and presentation of the information that is more in line with the expectations of stakeholders.

The Group also discloses its information regularly via announcements, notices, circulars, company publications, and reports etc.. Stakeholders may browse the Group's website at www.irasia.com/listco/hk/ruixin or contact the Group to obtain more information.

A. Environment

As the Company with core reportable segment in the manufacturing and trading of electronic and electrical parts and components, the nature of the Group's business is office-based and not energy-intensive. Hence, the most material impact on the environment is confined to the premises in which the Group operates. However, management considers it equally important to shoulder the responsibility in the context of caring for the environment. The Group strives to comply with all applicable local environmental laws and regulations as the bottom line, and in addition, the Group will continue to strive for enhanced energy efficiency and carbon reduction within work premises. The following are some of our initiatives on environmental conservation.

1. EMISSIONS

As the Group is principally engaged in the manufacturing and trading of electronic and electrical parts and components, there does not emit significant discharges, for instance, nitrogen oxides, sulphur oxides, and respirable suspended particulates into water, land, and air. In addition, the Group does not produce a significant volume of hazardous and non-hazardous waste from the businesses.

The Group's environmental impacts stem mainly from the energy usage and related Greenhouse Gases ("GHG") emissions associated with the business operations. Also, the Group has an impact through its use of paper and non-hazardous waste generation. The Group strives to minimise impacts on the environment by reducing air and GHG emissions, waste and wastewater discharges.

(a) GHG Emissions

The major sources of air and GHG emissions the Group associated with are energy consumptions regarding the purchased electricity.

The Group's GHG emissions come from office operations, including power purchased for day-to-day operations. The total GHG generated by the Group during the Reporting Period was approximately 100 (2018: 90) tonnes of carbon dioxide equivalent, with an intensity of approximately 2 (2018: 2) tonnes of carbon dioxide equivalent per employee, comprising of consumption of fuel by the Group's vehicles, electricity consumption, as well as disposal of paper waste.

The major air emissions of the Group are nitrogen oxides, sulphur oxides and particulate matters which are generated from fuel consumed by the Group's vehicles. The figures have been significantly decreased compared to the Corresponding Period. The Group believes the environmental protection norm has been developed among all staff. The Group expects more progress would be made in the future.

	Emission (kilogram)	
Emissions Data from the Vehicles	**2019**	2018
Nitrogen Oxides (NO_x)	**30.32**	52.29
Sulphur Oxides (SO_x)	**0.18**	0.21
Particulate Matters (PM)	**2.87**	4.96

Table 1 – Pollutants emitted from the Group's vehicles during the Reporting Period

Scope of GHG Emission	Emission Source	Emission (in tonnes of CO_2e) 2019	2018	Intensity (Emission/Employee) 2019	2018	Total Emission (in percentage) 2019	2018
Scope 1							
Direct Emission	Consumption of Fuel by the Group's Vehicles	32.78	38.47	0.67	0.92	32.41	41.63
Scope 2							
Indirect Emission	Purchased Electricity*	66.24	52.93	1.35	1.26	65.50	57.01
Scope 3							
Other Indirect Emission	Disposal of Paper Waste	2.11	1.08	0.04	0.03	2.09	1.36
Total		101.13	92.48	2.06	2.21	100	100

Table 2 – Total GHG emissions during the Reporting Period

Note: Scope 1 refers to direct GHG emissions. The emission sources of the Group include mobile combustion source and fugitive emission source. Scope 2 refers to energy indirect emissions which resulted only from the generation of the Group's purchased electricity, but it didn't include the emissions from the Group's business operations in Vietnam since related data cannot be provided by the property management company.

* The electricity usage in the Vietnam office was uniformly handled by the property management company, and therefore cannot be measured separately.

(b) Waste Management

The Group upholds the principle of waste management and is committed to the proper handling and disposal of all wastes from business operations. Due to the business nature, the Group did not generate a significant amount of hazardous waste during the Reporting Period, while the major non-hazardous waste generated was paper, with a weight of approximately 0.4 (2018: 0.2) tonne, equivalent to approximately 0.01 (2018: 0.01) tonnes per employee.

Where feasible, all harmless materials are sorted and recycled for reuse, including single-sided paper, envelopes and folders etc., as well as waste electrical and electronic equipment, including computer, printer, photocopier, kettle and microwave, etc.. The reusable equipment is donated to charitable organisations or sent to recyclers for processing. For the Group's operations in Hong Kong, recyclable paper waste is centrally collected by ECO Association and property management company.

		Consumption Quantity		Intensity (Consumption/Employee)	
Non-hazardous Waste	**Unit**	**2019**	2018	**2019**	2018
Paper	tonne	**0.44**	0.23	**0.01**	0.01

Table 3 – Total Non-hazardous waste produced by the Group during the Reporting Period

During the Reporting Period, in Hong Kong, the Group promoted green messages and encouraged employees to participate in green activities. For instance, recycling red pocket, Chinese New Year food collection program, and waste electrical and electronic equipment recycling program organised by Greeners Action, Food Grace, People's Food Bank of St. James' Settlement and ALBA Integrated Waste Solutions (Hong Kong) Ltd.. Through establishing a culture of environmental protection and developing habitual behaviours within the Group, environmental awareness is promoted to families and the community.

(c) Compliance

The Group was not aware of any incidents of non-compliance with laws and regulations that have a significant impact concerning air and GHG emissions, discharges into water or land, nor generation of hazardous and non-hazardous waste during the Reporting Period.

2. USE OF RESOURCES

The Group adheres to the concept of energy conservation and emission reduction for green production. The major resources used by the Group are principally electricity, fuel and water consumed in the Group's offices and operations. The Group aims to improve its energy utilisation efficiency to achieve low-carbon practices and emission reduction throughout the operation and strive to save the resources.

Through active monitoring and managing the use of resources, the Group aims to reduce the operating costs as well as the carbon footprints. Given the Group is principally engaged in the manufacturing and trading of electronic and electrical parts and components, there does not involve a significant amount of packaging materials for finished products. Nevertheless, for other resources consumed from business operations, the Group upholds the principle of resources management and is committed to the proper use of all resources. Details of energy and water consumptions and reduction methods will be discussed in the following sessions.

		Consumption Quantity		Intensity (Consumption/Employee)	
Resources	**Unit**	**2019**	2018	**2019**	2018
Electricity*	kWh	**83,848.50**	91,028.00	**1,711.19**	2,167.33
Fuel	L	**12,028.99**	14,094.08	**245.49**	335.57
Water	m^3	**151.76**	123.03	**3.10**	2.93

Table 4 – Resources consumption during the Reporting Period

* The electricity usage in the Vietnam office was uniformly handled by the property management company, and therefore cannot be measured separately.

(a) Electricity

In order to reduce carbon dioxide and other air emissions generated by electricity consumption, the Group advocates energy efficiency. The Group has formulated and educated employees about the following measures so as to achieve an environmentally friendly approach, including:

- Replace electrical equipment with better energy efficiency
- Use LED lighting system
- Adopt partition in lighting areas based on actual operating needs
- Turn off unnecessary electrical appliances, and setting them in a sleep state during idle periods
- Maintain a room temperature of 25.5° C
- Install timing devices in some equipment for automatic shutdown during non-office hours to avoid unnecessary energy consumption
- Ensure equipment in good conditions by cleaning and repairing them regularly

In addition to different means of reducing electricity consumption, the Group also works to reduce its carbon footprint by reducing business travels. The Group actively uses conference call system platforms and email discussions to replace unnecessary business travels.

Compared to the Corresponding Period, electricity consumption for 2019 has decreased. A sense of urgency in minimising the use of electricity has been developed in the Group's culture through staff training. More progress is anticipated to be made in the coming years.

(b) *Water*

The sustainable and responsible use of water resources is a key issue globally. The Group is aware that water shortages, excessive demand, and usage could pose a serious problem. Due to the business nature involved, the Group does not use nor discharge a significant amount of water.

In order to raise the awareness of water conservation, the Group promotes water-saving practices in the workplace. For instance, the Group posts water-saving slogans in conspicuous places.

(c) *Paper*

The Group endeavours to optimise the use of resources by applying the "Use Less, Waste Less" concept. The Group actively promotes green filing and records, encouraging its employees to use their computers to review files rather than printing them and to print on both sides of the paper when possible. Where feasible, a green procurement model adopting the Internet or email is used.

3. *THE ENVIRONMENT AND NATURAL RESOURCES*

As a socially responsible enterprise, protecting nature and the environment has become an integral part of the Group's corporate culture.

With respect to the business nature and activities, the impact of the Group on the environment and natural resources is not significant. Yet the Group is devoted to reducing any negative impacts that may cause to the environment. Through a strong commitment, the Group implemented controls on energy consumption and office resources consumption.

The Group values employees' participation as part of the success of the goal. Therefore, the Group appoints dedicated staff to emphasise environmental protection measures. For instance, conserving energy and reducing emissions at work, deliver timely environmental information and publicise the details on seminars and events held by environmental groups and policy institutions to the employees via email, notices, and meetings from time to time.

In addition, the Group adopts green measures with its cooperation with external partners. While meeting its operating requirements, the Group gives priority to local suppliers and prefers to cooperate with suppliers who have obtained the ISO 14001 environmental management system certification for the joint promotion of environmental protection work.

The Group shall constantly look for ways to maximise benefits with minimal resource consumption and environmental impact and continue to strive for sustainable development.

4. *CLIMATE CHANGE*

The Group mainly operates in Hong Kong and Vietnam, therefore the Group identified typhoon as the major threat from the increasing climate change. In view of this, the Group has developed mitigation measures to reduce the adverse impact caused by typhoon on employees and properties. The Group has purchased insurance to transfer possible losses caused by natural disasters and reduce the risk of casualties and property losses. The Group assigned designated person to inspect the window regularly and ensure all windows are closed before a typhoon.

B. Social

1. *EMPLOYMENT AND LABOUR PRACTICES*

The Group reckons that employees are the most valuable assets of an enterprise and also the cornerstone for sustainable corporate development. Hence, the Group is committed to building a strong team of employees who share the business mission and objectives. With respect to the commitment, the Group is dedicated to providing a safe, healthy, fair without discrimination, and reasonable working environment for employees and are committed to strictly abiding the relevant employment laws and regulations.

(a) Remuneration

It is always the Group's initiative to provide a fair and competitive compensation package to attract and retain quality talents, in the form of basic salary, incentives bonus, mandatory provident fund, and other fringe benefits. Remuneration packages are reviewed periodically. In addition, the annual performance review system is in place. Employees can review their work practice over the previous year and plan their future work development.

Fair terms on working hours, holidays, termination of contract, fringe benefits and leave entitlement are stipulated on the employment contracts signed between employees and the Group. In addition, the Group also provides employees with retirement schemes in accordance with the law. The Group dismisses employees based solely on reasonable and legitimate reasons and provides notification of the termination of the employment contract between the parties in writing. All remuneration and compensation are consistent with legal and regulatory requirements.

(b) *Equal Opportunity*

The Group upholds equal employment opportunities for all employees in relation to all human resources matters including recruitment, training, promotion, transfer, and benefit etc., regardless of gender, religiosity, pregnancy, family status, marital status, race and disability etc..

(c) *Supporting Health and Wellness*

The Group also strives to establish harmonious labour relationships and create a happy working environment. Therefore, the Group attaches great importance to the physical and psychological health of the employees. Acknowledging a good work-life balance can improve employees' work performance, the Group does not force employees to work overtime. On the other hand, the Group regularly organises entertainment activities to strengthen team cohesion. For instance, birthday parties, festive gatherings, and other activities for employees.

In addition to the legal holidays, the Group also provides employees with annual leave, sick leave, marriage leave, and funeral leave. In addition, the Group also provides retirement schemes, medical insurance and transport allowance for employees.

(d) *Compliance*

The Group strictly complies with the relevant laws and regulations in the employment and labour process. Hence, the Group strictly observes the relevant legislations in Hong Kong and other countries where the Group operates regarding equal employment opportunities, child labour and forced labour. The Group abides by the employment regulations, relevant policies and guidance of the relevant jurisdictions where it operates, including the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) in Hong Kong, the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) in Hong Kong and the labour laws in the PRC and Vietnam.

In respond to the rising demand to transparent level, the Group releases its social KPI so as to enhance the disclosure level of the ESG Report starting from the Reporting Period.

Breakdown of employees during the Reporting Period by gender, age group, and employee category:

	Number of employees	Percentage of total (%)
By gender		
Male	21	42.9
Female	28	57.1
Total	49	100
By age group		
below 25	1	2.04
25-34	14	28.57
35-44	13	26.53
45-54	12	24.49
55-64	8	16.33
over 65	1	2.04
Total	49	100
By employee category		
Senior management	14	28.6
Middle management	7	14.3
Supervisor	7	14.3
General employee	21	42.8
Total	49	100

Table 5 – Breakdown of employees by gender, age group, and employee category

Breakdown of the turnover rate by gender and age group during the Reporting Period:

	Number of employees	Percentage of total (%)
By gender		
Male	3	50.0
Female	3	50.0
Total	6	100
By age group		
below 25	1	16.7
25-34	2	33.2
35-44	1	16.7
45-54	1	16.7
55-64	0	0
over 65	1	16.7
Total	6	100

Table 6 – Breakdown of employees turnover rate by gender and age group

2. *HEALTH AND SAFETY*

The nature of the Group's daily operation is mainly office-based where the safety risk is limited. Yet, the Group strives to foster a safe working environment where all individuals are supported to succeed and can develop to their fullest potential. Further, the Group strictly abides by the relevant laws and regulations on occupational health and safety and have conducted practical safety management to effectively eliminate potential safety risks.

(a) Health and Safety Management

Given the principal businesses of the Group, there does not involve substantial safety hazards within the workplace. However, the Group has spared no effort to advocate occupational health and safety. For instance, in Hong Kong, in addition to complying with occupational safety and health laws and regulations, the Group installed air purifiers to improve indoor air quality, cleaning the carpets, drinking fountains and air conditioning systems regularly, and applying pest control.

(b) *Employee Participation*

The Group established mutual trust and sincere communication with employees in relation to occupational safety and health. The Group requires employees to strictly follow the Group's regulations on occupational safety and fire safety. Through the knowledge and experience sharing, the Group continually improves employees' knowledge, awareness and behaviour with regard to safety and hazard management.

(c) *Mutual Trust and Communication*

The Group encourages employees to report any potential health and safety risks in their workplace. Upon incidents, dedicated staff shall follow up immediately and implementing effective corrective or control measures. In addition, the Group also dispatches personnel to supervise contractors and prevent any unsafe activities.

(d) *Emergency Preparation*

A robust emergency planning and preparations can always reduce casualties. Therefore, the Group enhances fire safety by the below measures:

- Post exit route maps in prominent locations in the workplace
- Encourage employees to participate in fire drills organised by the building's management office each year
- Ensure fire escapes are unobstructed
- Provide sufficient firefighting equipment and conducts periodic inspections to ensure that such equipment is properly located where it can be used at all times and remains in good condition, when necessary, replacements are arranged
- Ensure all employees have received training on the use of the firefighting equipment
- Place first aid kits in the workplace

(e) Compliance

The Group strictly follows the relevant legislations in Hong Kong and other countries where the Group operates regarding occupational health and safety, including the Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong), the Factories and Industrial Undertakings (Safety Officers and Safety Supervisors) Regulations (Chapter 59Z of the Laws of Hong Kong) etc. in Hong Kong.

The Group did not identify any casualties and accidents, nor did the Group identify any violations of laws and regulations in relation to workplace health and safety during the Reporting Period.

3. TRAINING AND DEVELOPMENT

The Group recognises the importance of skilled and professionally trained employees to its business growth and future success. Therefore, apart from identifying and retaining the best talents, the Group encourages employees to participate in personal development and job-related training courses. As such, the Group provides on-the-job training and guidance for new employees, as well as arranging experienced employees to supervise them until they can work independently. The Group also continually reviews the training and education needs of employees, assisting employees to plan their career development, and encouraging employees to participate in professional lectures, seminars, and training courses to enhance their ability.

During the Reporting Period, there was a total of 47.5 hours of training completion from 9 employees. Training rates of employees during the Reporting Period by gender and employee category are as follows:

	Number of employees	**Percentage of total** (%)
By gender		
Male	6	66.7
Female	3	33.3
Total	9	100
By employee category		
Senior management	7	77.8
Middle management	2	22.2
Supervisor	0	0
General employee	0	0
Total	9	100

Table 7 – Training rates of employees by gender and employee category

	Number of training hours	Percentage of total (%)
By gender		
Male	6.5	13.7
Female	41.0	86.3
Total	47.5	100
By employee category		
Senior management	7.5	15.8
Middle management	40.0	84.2
Supervisor	0	0
General employee	0	0
Total	47.5	100

Table 8 – Training hours completed by gender and employee category

4. LABOUR STANDARDS

The Group always respects and strictly complies with all applicable national laws and local regulations as well as relevant labour laws and regulations in the place where it operates. The Group has also developed rigorous and systematic measures for recruitment and selection, to prevent itself from illegally hiring child labour and ensure that the employment is in compliance with relevant laws and regulations. At all levels, child and forced labour are prohibited in the Group. The Group established a strict recruitment policy, of which only applicants aged 18 or above are employed. In addition, the Group is committed to zero forced work and guarantee that every employee shall voluntarily engage in their work.

There were no non-compliance cases noted in relation to labour standards laws and regulations during the Reporting Period.

5. *SUPPLY CHAIN MANAGEMENT*

The Group implements supplier management in accordance with internal guidance which governs the engagement of suppliers. Suppliers are chosen to subject to screening and evaluation procedures. Also, to ensure suppliers' capability in quality assurance, safety and environmental responsibility, field visit and investigation is conducted. The outsourced electronic products production workshop located in Dongguan is the main subcontractor for the Group's business in electronic products. The Group assigns personnel to go on-site to supervise production quality and track delivery times, thus providing a foundation for high-quality products for the Group's customers.

As there is increasingly concerned about environmental issues and stress the importance of using environmentally friendly materials, the Group will continue to act as a corporate citizen in communicating and stressing those environmental issues to our suppliers.

The Group adheres to communication, cooperation and joint growth in its supplier management policy. Through maintaining close communications, the Group achieves strengthened cooperation with suppliers and therefore, enhancing their capability to supply environmentally friendly products. The Group evaluates the performance of its suppliers annually to make improvement requests.

In addition, the outsourced production workshop has obtained ISO 9001 quality management system and ISO 14001 environmental management system certifications. The potential environmental impact of the production process is effectively monitored and managed. The Group encourages its suppliers to continue to improve and meet the relevant environmental, occupational safety and health and employment laws and regulations of their countries. Imported products must satisfy local laws and regulations.

During the Reporting Period, there are a total of 72 active suppliers.

6. *PRODUCT/SERVICE RESPONSIBILITY*

(a) *Policies and Procedures*

The Group is committed to providing high-quality products and services and guarantees that they are in line with industry standards and sustainability requirements. The Group also pursues to meet higher criteria all the time. The Group pays attention to the reviews of customers regarding the products sold by the Group. Customers may convey their opinions or complaints via established communication channels. The Group investigates and creates reports based on the feedbacks and takes corrective measures when necessary.

(b) *Compliance*

During the Reporting Period, there were no incidents of non-compliance with laws and regulations concerning breaches of product liability or privacy-related legislation.

7. ANTI-CORRUPTION

(a) Policies and Procedures

The Group is committed to maintaining the integrity of its corporate culture. The Group sets out the relevant policies in the employee handbook and guides the employees to abide by the code of conduct. The code of conduct provides a clear definition of the provision and acceptance of interests, such as gifts and souvenirs, and ways to deal with conflicts of interest. In addition, the Group specifies the ethical conduct of its employees through the internal control manuals approved by the Board. All employees are required to become acquainted with and to abide by these policies and procedures. The Group established a whistle-blowing policy that ensures any internal or external stakeholder can raise any issue through any of our independent and accessible whistle-blowing channels. Such reports, if any, shall be transmitted directly to the executive Directors for follow-up, investigation, and reporting. Corrective measures shall be taken.

(b) Compliance

During the Reporting Period, the Group complied with the relevant laws and regulations including anti-corruption and money laundering and had no concluded legal case regarding corrupt practices brought against the Group or its employees.

8. COMMUNITY INVESTMENT

The Group understands well of the importance of making a positive contribution to the community where it operates and considers community benefits as one of its social responsibility. The Group considers that enterprises and communities are inseparable as a whole.

As such, the Group encourages employees to participate in volunteer work, nurturing a culture of care and mutual support. The Group supports the Mooncakes for Charity fundraising activity of Community Chest of Hong Kong by ordering mooncakes coupons. The Group will continue to explore other means to contribute more to the community and strive to facilitate the building of a healthy and sustainable society.

OUTLOOK

The Group believes that the implementation of current measures on environmental protection and social responsibility is sufficient for compliance with relevant laws and regulations. Yet the Group will continue to review from time to time in response to the latest relevant requirements to strengthen its measures on environmental protection and social responsibility.

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

TO THE MEMBERS OF
RUIXIN INTERNATIONAL HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Ruixin International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 52 to 137, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, 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.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

Material uncertainties relating to going concern

As explained in note 1 to the consolidated financial statements, the Group incurred a net loss of approximately HK$60,282,000 and had net cash outflows from operating activities of approximately HK$952,000 during the year ended 31 December 2019. As at 31 December 2019, the Group had bank balances and cash of approximately HK$11,201,000, while its trade payables, lease liabilities and other payables and accruals were approximately HK$92,784,000, HK$2,019,000 and HK$11,015,000, respectively, which will be due in the coming twelve months from the end of the reporting period. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

Notwithstanding the abovementioned, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the Group's plans and measures to mitigate its liquidity pressure and to improve its financial performance as set out in note 1 to the consolidated financial statements. The successful outcomes of the abovementioned plans and measures are subject to multiple uncertainties.

Should the Group fail to achieve the intended effects resulting from the plans and measures as mentioned in note 1 to the consolidated financial statements, it might not be able to operate as a going concern, and adjustments would have to be made to write down the carrying amounts of the Group's assets to their net recoverable amounts, to provide for any further liabilities that may arise and to reclassify non-current assets as current assets. The effects of these adjustments have not been reflected in the consolidated financial statements.

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

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA and to issue an auditor's report, solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and 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. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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

SHINEWING (HK) CPA Limited
Certified Public Accountants
Wong Hon Kei, Anthony
Practising Certificate Number: P05591

Hong Kong
27 March 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	7	332,743	445,933
Cost of sales		(313,901)	(443,746)
Gross profit		18,842	2,187
Other income	8	3,456	327
Distribution costs		(17,041)	(21,782)
Administrative expenses		(49,896)	(48,135)
Share of results of joint ventures		(13)	(1,359)
Impairment loss on trade receivables	21	(19)	(178)
Finance costs	9	(15,611)	(16,941)
Loss before taxation		(60,282)	(85,881)
Taxation	10	–	–
Loss for the year attributable to owners of the Company	11	(60,282)	(85,881)
Loss per share	14		(Restated)
Basic and diluted (HK cents)		(7.17)	(12.36)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Loss for the year	(60,282)	(85,881)
Other comprehensive (expenses) income for the year		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	(415)	388
Total comprehensive expenses for the year attributable to owners of the Company	(60,697)	(85,493)

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	17	21,758	20,321
Right-of-use assets	18(a)	–	–
Interests in joint ventures	19	1,212	1,225
Rental deposits	22	872	–
Deposit for acquisition of property, plant and equipment		446	–
		24,288	21,546
Current assets			
Inventories	20	57,941	67,371
Trade receivables	21	134,585	90,083
Prepayments, deposits and other receivables	22	12,987	4,354
Deposits in other financial institutions	23	7	446
Bank balances and cash	24	11,201	30,724
		216,721	192,978
Current liabilities			
Trade payables	25	92,784	27,300
Lease liabilities	18(b)	2,019	–
Other payables and accruals	26	11,015	7,839
Loans from a substantial shareholder	27	827	–
Amount due to a joint venture	39(a)	2,433	2,453
		109,078	37,592
Net current assets		107,643	155,386
Total assets less current liabilities		131,931	176,932

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Employee benefits	28	34	15
Lease liabilities	18(b)	286	–
Loans from a substantial shareholder	27	2,123	–
Convertible notes	29	123,067	109,053
		125,510	109,068
Net assets		6,421	67,864
Capital and reserves			
Share capital	31	168,035	168,035
Reserves		(161,614)	(100,171)
Total equity		6,421	67,864

The consolidated financial statements on pages 52 to 137 were approved and authorised for issue by the board of directors on 27 March 2020 and are signed on its behalf by:

Director
Lam Yat Keung

Director
Huang Hanshui

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Contributed surplus (note a) HK$'000	Share-based compensation reserve HK$'000	Foreign exchange reserve HK$'000	Convertible notes reserve HK$'000	Other reserve (note b) HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2018	138,892	2,271,283	5,800	21,668	367	78,400	32,871	(2,545,082)	4,199
Loss for the year	–	–	–	–	–	–	–	(85,881)	(85,881)
Other comprehensive income for the year									
Exchange differences arising on translation of foreign operations	–	–	–	–	388	–	–	–	388
Total comprehensive income (expenses) for the year	–	–	–	–	388	–	–	(85,881)	(85,493)
Issue of new shares upon conversion of convertible notes (notes 29 and 31(b))	29,143	102,982	–	–	–	(30,710)	–	–	101,415
Derecognition upon modification of terms of convertible notes (note 29)	–	–	–	–	–	(47,690)	(32,871)	80,561	–
Recognition upon modification of terms of convertible notes (note 29)	–	–	–	–	–	41,814	48,488	(41,814)	48,488
Transaction costs attributable to modification of terms of convertible notes (note 29)	–	–	–	–	–	–	(745)	–	(745)
At 31 December 2018	168,035	2,374,265	5,800	21,668	755	41,814	47,743	(2,592,216)	67,864

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company								
	Share capital HK$'000	**Share premium** HK$'000	**Contributed surplus** (note a) HK$'000	**Share-based compensation reserve** HK$'000	**Foreign exchange reserve** HK$'000	**Convertible notes reserve** HK$'000	**Other reserve** (note b) HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 January 2019, as previously reported	168,035	2,374,265	5,800	21,668	755	41,814	47,743	(2,592,216)	67,864
Effect of changes in accounting policies (note 2)	–	–	–	–	–	–	–	(746)	(746)
At 1 January 2019, as restated	168,035	2,374,265	5,800	21,668	755	41,814	47,743	(2,592,962)	67,118
Loss for the year	–	–	–	–	–	–	–	(60,282)	(60,282)
Other comprehensive expenses for the year									
Exchange differences arising on translation of foreign operations	–	–	–	–	(415)	–	–	–	(415)
Total comprehensive expenses for the year	–	–	–	–	(415)	–	–	(60,282)	(60,697)
At 31 December 2019	**168,035**	**2,374,265**	**5,800**	**21,668**	**340**	**41,814**	**47,743**	**(2,653,244)**	**6,421**

Notes:

(a) The contributed surplus represents the difference between the nominal value of the shares of the former group's holding company acquired pursuant to a group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefore.

(b) Other reserve represents the deemed contribution from the substantial shareholder of the Company in respect of the modification of terms of convertible notes in 2018.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
OPERATING ACTIVITIES		
Loss before taxation	(60,282)	(85,881)
Adjustments for:		
Bank interest income	(15)	(10)
Finance costs	15,611	16,941
Depreciation of property, plant and equipment	11,567	11,255
Impairment loss of right-of-use assets	2,081	–
Gain on termination of lease	(779)	–
Depreciation of right-of-use assets	7,554	–
Share of results of joint ventures	13	1,359
Reversal of impairment loss on inventories	(118)	–
Impairment loss on inventories	1,692	8,338
Impairment loss on trade receivables	19	178
Net gain on disposals of property, plant and equipment	(650)	(317)
Waiver of accruals	(597)	–
Operating cash flows before working capital changes	(23,904)	(48,137)
Decrease in inventories	7,574	10,202
(Increase) decrease in trade receivables	(45,360)	83,874
Increase in rental deposits, and prepayments, deposits and other receivables	(9,696)	(741)
Increase (decrease) in trade payables	66,639	(52,059)
Increase (decrease) in other payables and accruals	3,776	(4,641)
Increase in non-current employee benefits	19	2
NET CASH USED IN OPERATING ACTIVITIES	(952)	(11,500)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(13,042)	(3,176)
Deposit paid for acquisition of property, plant and equipment	(454)	–
Decrease in deposits in other financial institutions	439	–
Proceeds from disposals of property, plant and equipment	650	318
Bank interest received	15	10
NET CASH USED IN INVESTING ACTIVITIES	(12,392)	(2,848)

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
FINANCING ACTIVITIES		
Capital element of repayment of lease liabilities	**(7,297)**	–
Interest element of repayment of lease liabilities	**(1,597)**	–
Repayment to a joint venture	**(20)**	(22)
Loans from a substantial shareholder	**2,950**	–
Transaction costs attributable to modification of terms of convertible notes	**–**	(745)
NET CASH USED IN FINANCING ACTIVITIES	**(5,964)**	(767)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(19,308)**	(15,115)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**30,724**	45,512
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(215)**	327
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash	**11,201**	30,724

1. GENERAL

Ruixin International Holdings Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The address of the registered office is at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda and principal place of business is at 18th Floor, Times Media Centre, 133 Wan Chai Road, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

The Company is an investment holding company and the principal activities of its subsidiaries (together with the Company hereinafter referred to as the "Group") are set out in note 41.

Basis of preparation

During the year ended 31 December 2019, the Group incurred a net loss of approximately HK$60,282,000 and had net cash outflows from operating activities of approximately HK$952,000.

As at 31 December 2019, the Group had bank balances and cash of approximately HK$11,201,000, while its trade payables, lease liabilities and other payables and accruals were approximately HK$92,784,000, HK$2,019,000 and HK$11,015,000, respectively, which will be due in the coming twelve months from the end of the reporting period, and the Group's ability to meet these liquidity requirements depends on its ability to generate sufficient net cash inflows from future operations and/or other sources. These facts and circumstances indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

In view of these circumstances and after reviewing the Group's cash flow projection for the year ending 31 December 2020, the directors of the Company (the "Directors") have given consideration to the future liquidity and performance of the Group in assessing whether the Group will have sufficient financial resources to continue as a going concern, including:

(i) funds to be financed from a substantial shareholder to meet its financial obligations and maintain sufficient operating cash flows as and when they fall due for the foreseeable future; and

(ii) the Group is expected to generate cash flows from its operations.

1. GENERAL *(Continued)*

Basis of preparation *(Continued)*

Accordingly, the Directors consider that the Group will have sufficient working capital to meet its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly, the consolidated financial statements have been prepared on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their net recoverable amounts, to provide for any future liabilities which might arise and to reclassify non-current assets as current assets. The effect of these adjustments has not been reflected in the consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)")

In the current year, the Group has applied for the first time the following new and amendments to HKFRSs, Hong Kong Accounting Standards ("HKAS(s)") and Interpretations ("Int(s)"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRS 16	Leases
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

The adoption of HKFRS 16 resulted in the changes in the Group's accounting policies and adjustments to the amounts recognised in the consolidated financial statements as summarised below.

The application of other new and amendments to HKFRSs, HKASs and the Int in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") *(Continued)*

Impacts on adoption of HKFRS 16 Leases

HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in note 3 below. The Group has applied HKFRS 16 retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at 1 January 2019, and has not restated comparatives for the 2018 reporting period as permitted under the specific transitional provisions in the standard. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 17.

On transition to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and HK (IFRIC)-4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

The Group as lessee

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 (except for lease of low value assets and lease with remaining lease term of twelve months or less as at 1 January 2019). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 12.85%.

The Group recognises right-of-use assets and measures them at their carrying amount as if HKFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application (i.e. 1 January 2019).

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") *(Continued)*

Impacts on adoption of HKFRS 16 Leases *(Continued)*

The Group as lessee (Continued)

The following table summarises the impact of transition to HKFRS 16 at 1 January 2019. Line items that were not affected by the adjustments have not been included.

	Carrying amount previously reported at 31 December 2018 HK$'000	**Impact on adoption of HKFRS 16** HK$'000	**Carrying amount as restated at 1 January 2019** HK$'000
Right-of-use assets	–	14,173	14,173
Lease liabilities	–	(14,919)	(14,919)
Accumulated losses	(2,592,216)	(746)	(2,592,962)

Note: As at 1 January 2019, right-of-use assets were measured at an amount equal to the carrying amount as if HKFRS 16 had been applied since the commencement date of the lease. Any difference between the right-of-use assets and the lease liabilities was recognised as an adjustment to the opening balance of accumulated losses.

The following table summarises the impact on transition to HKFRS 16 on accumulated losses at 1 January 2019.

	Accumulated losses HK$'000
Balance at 31 December 2018 as originally stated	(2,592,216)
Adoption of HKFRS 16	(746)
Balance at 1 January 2019 as restated	(2,592,962)

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") *(Continued)*

Impacts on adoption of HKFRS 16 Leases *(Continued)*

The Group as lessee *(Continued)*

Starting from 1 January 2019, in the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. The total cash flows are unaffected.

Differences between operating lease commitment as at 31 December 2018, the date immediately preceding the date of initial application, discounted using the incremental borrowing rate, and the lease liabilities recognised as at 1 January 2019 are as follow:

	HK$'000
Operating lease commitment disclosed as at 31 December 2018	25,462
Less: Short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(8,423)
Less: Leases of low-value assets exempted from recognition	(16)
Less: Contracts committed but not yet commenced at 1 January 2019	(52)
	16,971
Discounting using the incremental borrowing rate at 1 January 2019	(2,052)
Lease liabilities as at 1 January 2019	14,919
Current portion	6,983
Non-current portion	7,936
	14,919

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") *(Continued)*

Impacts on adoption of HKFRS 16 Leases *(Continued)*

Practical expedients applied

On the date of initial application of HKFRS 16, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on assessments on whether leases are onerous by applying HKAS 37 immediately before the date of initial application as an alternative to performing an impairment review;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application.

New and revised HKFRSs issued but not yet effective

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

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

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

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

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

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

The Directors anticipate that the application of the new and amendments to HKFRSs 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 HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKFRS 16 and HKAS 17 in 2019 and 2018 respectively, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

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

- the power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power to affect the Group's returns.

The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of the subsidiaries begins when the Group obtains control over the subsidiaries and ceases when the Group loses control of the subsidiaries.

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in joint ventures

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

The Group's interests in joint ventures are accounted for in the consolidated financial statements using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, interests in joint ventures are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the joint ventures. When the Group's share of loss of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

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

After application of the equity method, including recognising the joint venture's losses (if any), the Group determines whether there is an objective evidence that the net investment in the joint venture is impaired. Goodwill that forms part of the carrying amount of an interests in joint ventures is not separately recognised. 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 of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the net investment in the joint venture. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 the same.

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

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The Group's performance creates and enhances an asset that the customer controls as the 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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.

Revenue from sale of goods is recognised at the point when the control of the goods is transferred to the customers (generally on delivery of electronic products).

Revenue from provision of consultant service is recognised at the point when service is rendered.

Contract liabilities

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.

Property, plant and equipment

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

Policy applicable on or after 1 January 2019

Definition of a lease

Under HKFRS 16, 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, the Group assesses whether a contract is or contains a lease, at inception of the contract or modification date. 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) 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 Group's lease liability comprise fixed lease payments (including in-substance fixed payments), less any lease incentives receivable.

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)*

Policy applicable on or after 1 January 2019 (Continued)

Lease liabilities (Continued)

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

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate; and

- 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 by discounting the revised lease payments using a revised discount rate.

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 HKAS 37. The costs are included in the related right-of-use assets, 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 that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within "investment property".

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Policy applicable on or after 1 January 2019 (Continued)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, HKFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has used this practical expedient for the office leases.

Lease modification

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

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

For a lease modification that is not accounted for a separate lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The Group recognises in profit or loss, any gain or loss relating to the partial or full termination of the lease.

Policy applicable prior to the 1 January 2019

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the foreign exchange reserve.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as are when employee rendered the service.

Liabilities are recognised for benefits accruing to employees (such as wages and salaries, annual leave) after deducting any amount already paid.

Retirement benefits costs

Payments to state-managed retirement benefit schemes, Vietnam Social Security Scheme and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Long service payment

The Group's net obligations in respect of long service payment on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that the employees have earned in return for their services in the current and prior periods.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 "loss before taxation" as reported in the consolidated statement of profit or loss 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 differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from 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 interests in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied 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 HKAS 12 Income Taxes 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.

Inventories

Inventories are stated at the lower of cost and 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 all estimated costs of completion and 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 short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 instrument.

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

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. The Group's financial assets are measured at amortised cost.

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.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- 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 date to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Financial assets at amortised cost (debt instruments) (Continued)

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 other than purchased or originated credit impaired financial assets (i.e. assets that are credit impaired on initial recognition), 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 other than purchased or originated credit impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

Interest income is recognised in profit or loss and is included in the "Other income" line item (note 8).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost. 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 ECL for trade receivables. 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 financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has 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 increase in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk for a particular debtor, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

Significant increase in credit risk *(Continued)*

- 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;

- significant increases in credit risk on other financial instruments of the same debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'low risk'. Low risk means that the counterparty has a strong financial position and there is no past due amounts.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

Definition of default

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(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. 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 expected credit losses

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

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

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

The Group's financial liabilities are subsequently measured at amortised cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

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

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Convertible notes

The component parts of the convertible notes issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate of similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion, redemption or at the instrument's maturity date.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Convertible notes (Continued)

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

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

Provisions

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

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the date of grant is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share-based compensation reserve).

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

Share options granted to suppliers and other eligible persons

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share-based compensation reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

Impairment losses on non-financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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 asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on non-financial assets *(Continued)*

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss. An impairment loss is allocated to reduce the carrying amount of any goodwill (if applicable) and then to the other assets in the cash-generating unit on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), 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 asset of the unit.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) 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 the cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

4. 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 judgement, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. 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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The followings 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 causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated useful life of property, plant and equipment

The Group depreciates the property, plant and equipment on a straight-line basis between the rates of 10% to 30% per annum, commencing from the date the property, plant and equipment are available for use. The estimated useful lives that the Group places the property, plant and equipment into productive use reflects the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. Depreciation of approximately HK$11,567,000 (2018: HK$11,255,000) has been recognised for the year.

Impairment on trade receivables

Loss allowances for trade receivables are based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement. 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. During the year ended 31 December 2019, impairment loss on trade receivables of approximately HK$19,000 (2018: HK$178,000) has been recognised. As at 31 December 2019, the aggregate carrying amount of trade receivables was approximately HK$134,585,000 (2018: HK$90,083,000), net of accumulated impairment loss of approximately HK$1,630,000 (2018: HK$1,635,000).

Allowance of inventories

The management of the Group reviews an ageing analysis at the end of each reporting period, and makes provision for obsolete and slow-moving inventory items identified. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. As at 31 December 2019, the carrying amount of inventories was approximately HK$57,941,000 (2018: HK$67,371,000), net of accumulated impairment loss of approximately HK$9,912,000 (2018: HK$8,338,000). During the year ended 31 December 2019, impairment loss on inventories of approximately HK$1,692,000 (2018: HK$8,338,000) and reversal of impairment loss on inventories of approximately HK$118,000 (2018: nil) were recognised respectively.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Impairment on property, plant and equipment

Determining whether property, plant and equipment are impaired requires an estimation of the recoverable amount of the property, plant and equipment. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. During the years ended 31 December 2019 and 2018, no impairment loss was recognised in respect of property, plant and equipment in the consolidated statement of profit or loss. As at 31 December 2019, the carrying amount of property, plant and equipment was approximately HK$21,758,000 (2018: HK$20,321,000), net of accumulated impairment loss of approximately HK$402,000 (2018: HK$402,000).

Impairment on right-of-use assets

Determining whether right-of-use assets are impaired requires an estimation of the recoverable amount of the right-of-use assets. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. During the year ended 31 December 2019, impairment loss of approximately HK$2,081,000 has been recognised in respect of right-of-use assets in the consolidated statement of profit or loss. As at 31 December 2019, the carrying amount of right-of-use assets was nil, net of accumulated impairment loss of approximately HK$2,081,000.

Impairment on interests in joint ventures

The management of the Group reviews interests in joint ventures for impairment based primarily on the fair value of trademarks which are the only assets held by the joint ventures. In estimating the fair value of trademarks, the Group engages a third party qualified valuer to perform the valuation and uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of trademarks. Note 19 provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of trademarks. Such inputs and key assumptions are subject to uncertainty and might materially differ from the actual results.

During the years ended 31 December 2019 and 2018, the management of the Group determined that no impairment loss on interests in joint ventures is required to be recognised. As at 31 December 2019, the carrying amount of interests in joint ventures was approximately HK$1,212,000 (2018: HK$1,225,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Deferred taxes

As at 31 December 2018, deferred tax assets in relation to unused tax losses of approximately HK$133,000 (2019: nil) have been recognised in the Group's consolidated statement of financial position. As at 31 December 2019, no deferred tax asset has been recognised on other tax losses and deductible temporary differences of approximately HK$204,506,000 (2018: HK$178,146,000) due to the unpredictability of future profit streams. The realisation of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more/less than expected, a material recognition/reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

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 net debts, which includes lease liabilities, loans from a substantial shareholder, amount due to a joint venture, convertible notes and equity attributable to owners of the Company, comprising share capital and reserves, and net of bank balances and cash. The Directors review the capital structure periodically. 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 new share issues as well as share options. The Directors will also consider the raise of long-term borrowings as second resource of capital when investment opportunities arise and the return of such investments will justify the cost of debts from the borrowings.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 HK$'000	2018 HK$'000
Financial assets		
Financial assets at amortised cost (including bank balances and cash)	158,240	123,515
Financial liabilities		
Financial liabilities at amortised cost	229,962	144,684

(b) Financial risk management objectives and policies

The Group's major financial instruments include rental deposits, trade receivables, deposits and other receivables, deposits in other financial institutions, bank balances and cash, trade payables, other payables and accruals, loans from a substantial shareholder, amount due to a joint venture and convertible notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and lease liabilities include credit risk, currency risk, interest rate 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.

Credit risk

As at 31 December 2019 and 2018, 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.

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.

The credit risk on liquid funds is limited because the counterparties are banks and other financial institutions with high credit ratings.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk (Continued)

For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on an individual basis for customer with significant balances and collectively 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.

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

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtors to meet its obligations
- actual or expected significant changes in the operating results of the debtor

The Group's exposure to credit risk

In order to minimise credit risk, the Group has maintained 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 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.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk (Continued)

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

Internal credit rating	Description	Basis for recognising ECL
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL – not credit impaired
Medium risk	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – not credit impaired
High risk	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit impaired
Loss	There is evidence indicating the asset is credit-impaired	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

The tables below detail the credit quality of the Group's major financial assets as well as the Group's maximum exposure to credit risk.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk (Continued)

For the year ended 31 December 2019

	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK$'000	Net carrying amount HK$'000
Trade receivables	Note	Lifetime ECL (simplified approach)	136,215	134,585
Deposits and other receivables	Low risk	12-month ECL	12,447	12,447
Other receivables	Loss	Lifetime ECL (Credit impaired)	19,585	–

For the year ended 31 December 2018

	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK$'000	Net carrying amount HK$'000
Trade receivables	Note	Lifetime ECL (simplified approach)	91,718	90,083
Deposits and other receivables	Low risk	12-month ECL	2,262	2,262
Other receivables	Loss	Lifetime ECL (Credit impaired)	19,585	–

Note: The Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on this item by assessing individually significant debtors or using a provision matrix, grouped by past due status.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk (Continued)

The Group's concentration of credit risk by geographical locations is mainly in the People's Republic of China (the "PRC"), which accounted for 68% (2018: 46%) of the total trade receivable as at 31 December 2019.

The Group has concentration of credit risk as 27% (2018: 11%) and 53% (2018: 40%) of the trade receivables was due from the Group's largest trade debtor and the five largest trade debtors respectively.

None of the Group's financial assets are secured by collateral or other credit enhancements.

Currency risk

The functional currencies of certain subsidiaries are United States Dollar ("US$") or Renminbi ("RMB").

Several subsidiaries of the Company have sales and purchases denominated in currencies other than the respective functional currency, which expose the Group to foreign currency risk. Approximately 38% (2018: 63%) of the Group's sales and 36% (2018: 87%) of the Group's purchases are denominated in currencies other than the functional currency of the group entity making the sales and purchases. The Group currently does not have a foreign currency hedging policy. The Group will monitor foreign exchange exposure and consider hedging significant foreign currency exposure should the need arise.

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

	Assets		Liabilities	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**48,434**	33,385	**5,477**	8,886
US$	**141**	527	**–**	–
RMB	**20,100**	31,101	**5,358**	18,118

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to the currency risk of HK$/US$/RMB.

The following table details the Group's sensitivity to a 5% (2018: 5%) increase and decrease in exchange rates of the relevant foreign currencies against the respective reporting entity's functional currency. 5% (2018: 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% (2018: 5%) change in foreign currency rates.

A positive number below indicates a decrease in post-tax loss where the respective functional currencies of the reporting entity weaken 5% (2018: 5%) against the relevant foreign currencies. For a 5% (2018: 5%) strengthening of the respective functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the loss, and the balances below would be negative.

	HK$		US$		RMB	
	2019	2018	**2019**	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Profit or loss	**1,793**	1,023	**6**	22	**615**	542

Interest rate risk

As at 31 December 2019 and 2018, the Group is exposed to cash flow interest rate risk in relation to variable-rate deposits in other financial institutions (note 23) and bank balances (note 24).

Sensitivity analysis

The Group's deposits in other financial institutions and bank balances are short-term in nature and the exposure of the interest rate is minimal and no sensitivity analysis to interest rate risk on these two items is presented.

The Group's operating cash flows are substantially independent of changes in market interest rates.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk

In the management of the 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 mainly finances its business operations with internally generated cash flows and other sources. Furthermore, the management maintains continuous communication with the Company's substantial shareholder on the grant of shareholder loans according to the loan agreements signed.

The Directors believe that with cash flows generated from operations by the Group and the grant of shareholder loans according to the loan agreements signed, the Group will be able to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period.

The Directors are of the opinion that, taking into account the above measures and the Group's cash flow projection for the coming year, the Group will have sufficient working capital to meet its cash flow requirements in the next twelve months, though there remain uncertainties as mentioned in note 1.

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

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk (Continued)

	Repayable on demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2019					
Non-derivative financial liabilities					
Trade payables	92,784	–	–	92,784	92,784
Other payables and accruals	8,728	–	–	8,728	8,728
Amount due to a joint venture	2,433	–	–	2,433	2,433
Loans from a substantial shareholder	827	2,123	–	2,950	2,950
Convertible notes	–	–	158,400	158,400	123,067
	104,772	2,123	158,400	265,295	229,962
Leases liabilities	2,171	294	–	2,465	2,305

	Repayable on demand or within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2018					
Non-derivative financial liabilities					
Trade payables	27,300	–	–	27,300	27,300
Other payables and accruals	5,878	–	–	5,878	5,878
Amount due to a joint venture	2,453	–	–	2,453	2,453
Convertible notes	–	–	158,400	158,400	109,053
	35,631	–	158,400	194,031	144,684

Fair value measurements of financial instruments

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. REVENUE AND SEGMENT INFORMATION

Information reported to the Directors, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on the types of goods delivered. The Group is principally engaged in the manufacturing and trading of electronic and electrical parts and components. The Group's operation is attributable to a single reportable and operating segment under HKFRS 8 and no segment information is presented. No operating segments have been aggregated in arriving at the reportable segment of the Group.

Revenue represents revenue arising on manufacturing and trading of electronic and electrical parts and components and is recognised at a point in time.

(a) Geographical information

The Group's operation is mainly located in Hong Kong and the PRC. However, the external customers of the Group are located world-wide, such as Hong Kong, the PRC and Asia Pacific etc..

Information about the Group's revenue from external customers is presented based on the location of customers and information about its non-current assets is presented based on the location of assets as detailed below:

	Revenue from external customers		Non-current assets	
	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000	**As at 31 December 2019 HK$'000**	As at 31 December 2018 HK$'000
Hong Kong	**167,698**	174,510	**1,390**	1,402
Elsewhere in the PRC	**126,027**	205,703	**21,688**	19,590
Asia Pacific	**29,682**	49,357	**338**	554
Others	**9,336**	16,363	**–**	–
Total	**332,743**	445,933	**23,416**	21,546

Note: Non-current assets excluded financial instruments.

(b) Information about major customers

During the year ended 31 December 2019, there was a Group's individual customer who contributed revenue of approximately HK$86,814,000 (2018: HK$82,458,000), which accounted for more than 10% to the total revenue of the Group.

8. OTHER INCOME

	2019 HK$'000	2018 HK$'000
Bank interest income	15	10
Consultant service income	354	–
Gain on termination of lease	779	–
Net gain on disposals of property, plant and equipment	650	317
Net exchange gain	1,051	–
Waiver of accruals	597	–
Others	10	–
	3,456	327

9. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Imputed interest expenses on convertible notes (note 29)	14,014	16,941
Interest expense on lease liabilities (note 18(c))	1,597	–
	15,611	16,941

10. TAXATION

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2019 and 2018 as the Group has no assessable profits arising in Hong Kong for both reporting periods.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. For the years ended 31 December 2019 and 2018, Hong Kong profits tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other Group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%.

10. TAXATION *(Continued)*

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 subsidiary registered in the PRC is 25% from 1 January 2008 onwards. No provision for the PRC Enterprise Income Tax has been made as the PRC subsidiary of the Company has sufficient tax losses brought forward to set off against current year's assessable profit during the year ended 31 December 2019. For the year ended 31 December 2018, no provision for the PRC Enterprise Income Tax has been made as the PRC subsidiary of the Company was in loss-making position and accordingly did not have any assessable profit.

Under the Law of Vietnam on Corporate Income Tax, the tax rate of the subsidiary registered in Vietnam is 20% (2018: 20%). No provision for the Corporate Income Tax has been made for the years ended 31 December 2019 and 2018 as the subsidiary of the Company has no assessable profits for both reporting periods.

Taxation for the year can be reconciled to the loss before taxation per the consolidated statement of profit or loss as follows:

	2019 **HK$'000**	2018 HK$'000
Loss before taxation	**(60,282)**	(85,881)
Tax calculated at the domestic income tax rate of 16.5% (2018: 16.5%)	**(9,947)**	(14,170)
Tax effect of different tax rates	**730**	(319)
Tax effect of expenses not deductible for tax purpose	**6,153**	10,013
Tax effect of income not taxable for tax purpose	**(426)**	(45)
Tax effect of deductible temporary differences not recognised	**–**	12
Utilisation of deductible temporary differences not recognised in previous year	**(4)**	–
Tax effect of share of loss of joint ventures	**2**	224
Tax effect of tax losses not recognised	**5,961**	4,285
Utilisation of tax losses not recognised in previous year	**(2,469)**	–
Taxation	**–**	–

Details of deferred tax are set out in note 30.

11. LOSS FOR THE YEAR

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

	2019 HK$'000	2018 HK$'000
Cost of inventories recognised as expenses	306,341	435,408
Reversal of impairment loss on inventories (included in cost of sales)	(118)	–
Impairment loss on inventories (included in cost of sales)	1,692	8,338
Staff costs (note 12)	30,418	28,496
Depreciation of property, plant and equipment	11,567	11,255
Depreciation of right-of-use assets (included in administrative expenses)	1,568	–
Depreciation of right-of-use assets (included in cost of sales)	5,986	–
Impairment loss on right-of-use assets (included in administrative expenses)	2,081	–
Auditor's remuneration	868	835
Net exchange loss	–	698

12. STAFF COSTS

	2019 HK$'000	2018 HK$'000
Staff costs (including Directors' emoluments) comprise:		
Salaries, allowances and benefits	29,270	27,721
Retirement benefits scheme contributions	747	724
Provision for other employee benefits and long service payments	401	51
	30,418	28,496

13. DIVIDENDS

No dividend was paid or proposed for the year ended 31 December 2019, nor has any dividend been proposed since the end of the year ended 31 December 2019 (2018: nil).

14. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to owners of the Company of approximately HK$60,282,000 (2018: HK$85,881,000) and the weighted average number of approximately 840,174,000 (2018: 694,859,000, as adjusted to reflect the effect of the Share Consolidation as defined in note 31(c)) ordinary shares in issue during the year ended 31 December 2019.

For the years ended 31 December 2019 and 2018, the diluted loss per share is the same as the basic loss per share.

The computation of diluted loss per share for the years ended 31 December 2019 and 2018 did not assume the exercise of the Company's share options as the exercise prices of the share options were higher than the average market price for shares. The computation of diluted loss per share for the years ended 31 December 2019 and 2018 did not assume the conversion of the Company's outstanding convertible notes as the conversion of convertible notes would result in a decrease in loss per share.

15. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the seven (2018: six) Directors and the chief executive were as follows:

For the year ended 31 December 2019

	Executive Directors				Independent non-executive Directors			
	Wang Zhaofeng (note a) HK$'000	Lam Yat Keung HK$'000	Huang Hanshui HK$'000	Yang Junjie (note b) HK$'000	Ho Chi Fai HK$'000	Liu Yanfang (note c) HK$'000	Zhang Jue HK$'000	Total HK$'000
Emoluments paid or receivable in respect of a person's service as a director, whether of the Company or its subsidiary undertakings								
Fees	288	600	600	312	90	90	90	2,070
Contributions to retirement benefits	9	18	–	10	–	–	–	37
	297	618	600	322	90	90	90	2,107
Emoluments paid or receivable in respect of a director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings								
Other emoluments:								
Salaries and other benefits	–	5,103	1,809	641	–	–	–	7,553
Contributions to retirement benefits	–	18	180	3	–	–	–	201
	–	5,121	1,989	644	–	–	–	7,754
Total emoluments	297	5,739	2,589	966	90	90	90	9,861

15. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

For the year ended 31 December 2018

	Executive Directors			Independent non-executive Directors			
	Wang Zhaofeng (note a) HK$'000	Lam Yat Keung HK$'000	Huang Hanshui HK$'000	Ho Chi Fai HK$'000	Liu Yanfang (note c) HK$'000	Zhang Jue HK$'000	Total HK$'000
Emoluments paid or receivable in respect of a person's service as a director, whether of the Company or its subsidiary undertakings							
Fees	600	600	600	90	90	90	2,070
Contributions to retirement benefits	18	18	–	–	–	–	36
	618	618	600	90	90	90	2,106
Emoluments paid or receivable in respect of a director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings							
Other emoluments:							
Salaries and other benefits	–	5,417	2,148	–	–	–	7,565
Contributions to retirement benefits	–	18	180	–	–	–	198
	–	5,435	2,328	–	–	–	7,763
Total emoluments	618	6,053	2,928	90	90	90	9,869

Notes:

(a) Mr. Wang Zhaofeng resigned with effect from 24 June 2019.

(b) Mr. Yang Junjie was appointed on 24 June 2019.

(c) Ms. Liu Yanfang resigned with effect from 1 January 2020.

No Director and chief executive waived or agreed to waive any emoluments for the years ended 31 December 2019 and 2018.

16. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2018: two) were Directors whose emoluments are disclosed in note 15. The emoluments of the remaining three (2018: three) individuals were as follows:

	2019 HK$'000	2018 HK$'000
Salaries, allowances and benefits	4,718	4,556
Retirement benefits scheme contributions	54	42
	4,772	4,598

Their emoluments were within the following bands:

	Number of employees 2019	2018
Less than HK$1,000,000	1	–
HK$1,000,001 to HK$1,500,000	–	1
HK$1,500,001 to HK$2,000,000	1	2
HK$2,000,001 to HK$2,500,000	1	–
	3	3

During the years ended 31 December 2019 and 2018, no emoluments were paid by the Group to the five highest paid individuals (including Directors and employees) or other Directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

17. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery HK$'000	Leasehold improvements, furniture and fixtures and others HK$'000	Total HK$'000
COST			
At 1 January 2018	165,000	77,128	242,128
Exchange realignment	(605)	(18)	(623)
Additions	3,048	128	3,176
Write-offs	(62)	(29)	(91)
Disposals	(18,873)	(49)	(18,922)
At 31 December 2018 and 1 January 2019	148,508	77,160	225,668
Exchange realignment	(41)	(3)	(44)
Additions	10,683	2,359	13,042
Write-offs	–	(68)	(68)
Disposals	(42,967)	–	(42,967)
At 31 December 2019	**116,183**	**79,448**	**195,631**
DEPRECIATION AND IMPAIRMENT			
At 1 January 2018	139,623	74,091	213,714
Exchange realignment	(605)	(5)	(610)
Depreciation provided for the year	10,393	862	11,255
Eliminated on write-offs	(62)	(29)	(91)
Eliminated on disposals	(18,873)	(48)	(18,921)
At 31 December 2018 and 1 January 2019	130,476	74,871	205,347
Exchange realignment	(3)	(3)	(6)
Depreciation provided for the year	10,592	975	11,567
Eliminated on write-offs	–	(68)	(68)
Eliminated on disposals	(42,967)	–	(42,967)
At 31 December 2019	**98,098**	**75,775**	**173,873**
CARRYING VALUES			
At 31 December 2019	**18,085**	**3,673**	**21,758**
At 31 December 2018	18,032	2,289	20,321

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

The above property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Plant and machinery	10% to 30%
Leasehold improvements, furniture and fixtures and others	10% to 30% or over the term of lease

During the year ended 31 December 2019, the Directors conducted a review of the Group's property, plant and equipment. No impairment loss has been recognised in respect of the property, plant and machinery during the years ended 31 December 2019 and 2018. The recoverable amounts of the relevant assets have been determined on the basis of their market value.

18. RIGHT OF USE ASSETS AND LEASE LIABILITIES

(a) Right-of-use assets

	31 December 2019 HK$'000	1 January 2019 HK$'000
Warehouse	–	11,973
Offices	–	2,200
	–	14,173

The Group has lease arrangements for warehouse and offices. The lease terms generally ranged from two to three years. The Group also has lease arrangements with lease terms of 12 months or less for production plant, motor vehicles and offices. Rental are fixed over the terms of respective leases and there are no renewal or termination options granted.

Additions to the right-of-use assets for the year ended 31 December 2019 amounted to approximately HK$1,448,000, due to new/renewal of leases of offices.

During the year ended 31 December 2019, the Group terminated the lease for warehouse and derecognised right-of-use assets and lease liabilities of approximately HK$5,986,000 and HK$6,765,000 respectively, resulting in a gain on termination of lease of approximately HK$779,000 being recognised in profit or loss for the year.

18. RIGHT OF USE ASSETS AND LEASE LIABILITIES

(a) Right-of-use assets *(Continued)*

During the year ended 31 December 2019, the Directors conducted a review of the Group's right-of-use assets, which have an impairment indicator. The carrying amount of the leased premises is written down to its recoverable amount as the asset's carrying amount is greater than its estimated recoverable amount. As a result, an impairment loss of right-of-use assets of approximately HK$2,081,000 (2018: nil) was recognised in administrative expenses during the year ended 31 December 2019. The estimates of the recoverable amounts were based on value-in-use calculations using discounted cash flow projections based on the financial forecasts approved by management covering the remaining tenure of the lease and a pre-tax discount rate of 15%.

(b) Leases liabilities

	As at 31 December 2019 HK$'000	As at 1 January 2019 HK$'000
Current	2,019	6,983
Non – current	286	7,936
	2,305	14,919

At 31 December 2019, the lease liabilities arose from lease arrangements for offices (1 January 2019: warehouse and offices).

Amounts payable under lease liabilities	As at 31 December 2019 HK$'000
Within one year	2,019
After one year but within two years	286
	2,305
Less: Amount due for settlement within 12 months	(2,019)
Amount due for settlement after 12 months	286

18. RIGHT OF USE ASSETS AND LEASE LIABILITIES *(Continued)*

(c) Amounts recognised in profit or loss

	Year ended 31 December 2019 HK$'000
Depreciation of right-of-use assets	
– warehouse	5,986
– offices	1,568
Interest expense on lease liabilities (note 9)	1,597
Expense relating to short-term leases	7,378
Expense relating to lease of low value assets	8

(d) Others

During the year ended 31 December 2019, the total cash outflow for leases amount to approximately HK$16,280,000.

As at 31 December 2019, the Group is committed to approximately HK$3,859,000 for lease agreements not yet commenced.

19. INTERESTS IN JOINT VENTURES

	2019 HK$'000	2018 HK$'000
Cost of unlisted investment in joint ventures	5,998	5,998
Share of post-acquisition losses and other comprehensive expenses and impairment loss	(4,786)	(4,773)
	1,212	1,225

19. INTERESTS IN JOINT VENTURES *(Continued)*

Details of each of the Group's joint ventures, which are accounted for using the equity method in the consolidated financial statements, as at 31 December 2019 and 2018, are as follows:

Name	Form of business structure	Place of incorporation	Principal place of operation	Class of shares held	Proportion of ownership interest and voting power held by the Group				Principal activities
					2019		2018		
					Direct	Indirect	Direct	Indirect	
Semtech International (B.V.I.) Limited ("Semtech BVI")	Corporation	British Virgin Islands	Hong Kong	Ordinary	50%	–	50%	–	Investment holding
Semtech Electronics Limited ("Semtech Electronics")	Corporation	Hong Kong	Hong Kong	Ordinary	–	50%	–	50%	Trademark holding

Semtech BVI and its wholly-owned subsidiary, Semtech Electronics (collectively referred to as "Semtech BVI Group") have been classified as joint ventures on the basis that certain significant decisions about the financial and operating activities of the Semtech BVI Group require the unanimous consent of both the Group and the other shareholder of Semtech BVI Group.

Semtech BVI is the only directly held joint venture of the Group. Summarised financial information of Semtech BVI Group is set out below. The summarised financial information below represents amounts shown in Semtech BVI's consolidated management accounts prepared in accordance with HKFRSs.

Semtech BVI Group

	2019 HK$'000	2018 HK$'000
Current assets	2,433	2,458
Current liabilities	(9)	(9)

	2019 HK$'000	2018 HK$'000
Revenue	–	–
Loss and total comprehensive expenses for the year	25	2,719

19. INTERESTS IN JOINT VENTURES *(Continued)*

Semtech BVI Group *(Continued)*

	2019 HK$'000	2018 HK$'000
Net assets of Semtech BVI Group	2,424	2,449
Proportion of the Group's ownership interest in Semtech BVI Group	50%	50%
Carrying amount of the Group's interest in Semtech BVI Group	1,212	1,225

As at 31 December 2018, the management of the Group reviewed the interests in joint ventures for impairment and determined that interests in joint ventures was impaired based on a valuation on trademarks held by the joint ventures. The fair value of trademarks, measured by an independent professional valuer not connected with the Group, was determined using the income approach based on financial budgets prepared by the management. The unobservable inputs used in level 3 fair value measurements included the following:

(i) royalty rate of 0.38%;

(ii) after tax discount rate of 20.46% per annum; and

(iii) negative revenue growth rate of 30% per annum for years 2019 to 2022

Based on the results of the valuation, trademark of approximately HK$2,700,000 was fully impaired and impairment loss was recognised by the joint venture for the year ended 31 December 2018. No reversal of impairment was recognised for the year ended 31 December 2019. The management of the Group determine that no further impairment losses on interests in joint ventures were required to be recognised for the year ended 31 December 2019.

20. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	37,817	30,151
Work-in-progress	501	629
Finished goods	19,623	36,591
	57,941	67,371

During the year ended 31 December 2019, there were sales of finished goods previously written down. As a result, a reversal of provision for write-down of finished goods of approximately HK$118,000 (2018: nil) were recognised and included in cost of sales.

21. TRADE RECEIVABLES

The Group allows an average credit period of 30 to 120 days (2018: 30 to 120 days) to its trade customers.

	2019 HK$'000	2018 HK$'000
Trade receivables	136,215	91,718
Less: Accumulated impairment	(1,630)	(1,635)
	134,585	90,083

The Group did not hold any collateral over the trade receivables.

The following is an ageing analysis of trade receivables, net of impairment, presented based on the due date at the end of the reporting periods:

	2019 HK$'000	2018 HK$'000
Current	129,787	83,192
Overdue:		
– within 3 months	4,798	6,887
– 4-6 months	–	4
	4,798	6,891
	134,585	90,083

21. TRADE RECEIVABLES *(Continued)*

As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The Group recognised lifetime ECL for trade receivables based on individually significant customer or the ageing of customers collectively that are not individually significant as follows:

As at 31 December 2019	Weighted average expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000
Individually			
Over 12 months past due	100	1,304	1,304
Collectively			
Current (not past due)	0.191	130,035	248
Less than 3 month past due	1.011	4,847	49
More than 6 months past due	100	29	29
		136,215	1,630

As at 31 December 2018	Weighted average expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000
Individually			
Over 12 months past due	100	1,328	1,328
Collectively			
Current (not past due)	0.305	83,446	254
Less than 3 month past due	0.305	6,908	21
3 to 6 months past due	0.780	4	–
More than 6 months past due	100	32	32
		91,718	1,635

21. TRADE RECEIVABLES *(Continued)*

The movement in the allowance for impairment on trade receivables is set out below:

	2019 HK$'000	2018 HK$'000
Balance at beginning of the year	1,635	1,402
Effect on adoption of HKFRS 9	–	129
Impairment loss recognised	19	178
Exchange realignment	(24)	(74)
Balance at end of the year	1,630	1,635

Included in trade receivables are the following amounts denominated in currencies other than the functional currency of the respective reporting entity of the Group:

	2019 '000	2018 '000
HK$	47,677	33,001
RMB	18,004	27,288

22. RENTAL DEPOSITS, AND PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Other receivables	30,509	19,937
Less: Accumulated impairment	(19,585)	(19,585)
	10,924	352
Prepayments	1,412	2,092
Deposits	1,523	1,910
	13,859	4,354
Analysed for financial reporting purpose:		
Current	12,987	4,354
Non-current	872	–
	13,859	4,354

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

The impairment on deposits and other receivables is assessed individually. The Group recognised 12-month and lifetime ECL for deposits and other receivables with gross carrying amount of approximately HK$12,447,000 (2018: HK$2,262,000) and HK$19,585,000 (2018: HK$19,585,000) respectively as they are low risk and credit impaired respectively. Lifetime ECL (credit impaired) of approximately HK$19,585,000 (2018: HK$19,585,000) was made due to the management considered the prolonged outstanding balance was uncollectible. No impairment loss is made on 12-month ECL as it has low risk of default or has not been a significant increase in credit risk since initial recognition.

The Group does not hold any collateral over these balances.

Included in prepayments, deposits and other receivables are the following amounts denominated in currencies other than the functional currency of the respective reporting entity of the Group:

	2019	2018
	'000	'000
HK$	**5**	5

23. DEPOSITS IN OTHER FINANCIAL INSTITUTIONS

The amounts at 31 December 2019 and 2018 represented deposits placed with securities brokers for trading securities and carried interest at prevailing market rates.

24. BANK BALANCES AND CASH

At 31 December 2019 and 2018, cash at bank carried interest at floating rates based on daily bank deposits rates.

Included in bank balances and cash are the following amounts denominated in currencies other than the functional currency of the respective reporting entity of the Group:

	2019	2018
	'000	'000
HK$	**752**	379
US$	**18**	67
RMB	**1**	24

25. TRADE PAYABLES

The following is an ageing analysis of trade payables presented based on the due date at the end of the reporting periods:

	2019 HK$'000	2018 HK$'000
Current	**92,766**	24,142
Overdue:		
– within 3 months	**18**	1,310
– 4-6 months	**–**	1,848
	92,784	27,300

The average credit period on purchases is 30 to 120 days (2018: 30 to 120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Included in trade payables are the following amounts denominated in currencies other than the functional currency of the respective reporting entity of the Group:

	2019 '000	2018 '000
HK$	**2,149**	5,194
RMB	**4,447**	14,801

26. OTHER PAYABLES AND ACCRUALS

Included in other payables and accruals are the following amounts denominated in currencies other than the functional currency of the respective reporting entity of the Group:

	2019 '000	2018 '000
HK$	**895**	1,239
RMB	**353**	1,110

27. LOANS FROM A SUBSTANTIAL SHAREHOLDER

	2019 HK$'000	2018 HK$'000
Loans repayable on maturity, unsecured and non-interest bearing	**2,950**	–
Categorised as:		
Due within one year	**827**	–
Due within two to five years	**2,123**	–
	2,950	–

28. EMPLOYEE BENEFITS

	2019 HK$'000	2018 HK$'000
Liabilities for employee benefit comprise:		
Annual leave payments accrual	**2,196**	1,814
Long service payments obligation (note 38(a))	**34**	15
	2,230	1,829
Categorised as:		
Due within one year (included in other payables and accruals)	**2,196**	1,814
Due after one year (shown under non-current liabilities)	**34**	15
	2,230	1,829

29. CONVERTIBLE NOTES

On 19 November 2009, the Company issued unsecured convertible notes for the partial settlement of the consideration for the acquisition of CITIC Logistics (International) Company Limited (liquidated). Details of the transaction are set out in the Company's circular dated 16 October 2009. The sole holder of the convertible notes, Mr. Li Weimin ("Mr. Li"), is a substantial shareholder of the Company.

Details of the Group's convertible notes outstanding as at 31 December 2019 and 2018 are set out below:

		2019	2018
Date of issue	:	**19 November 2009**	19 November 2009
Original principal amount	:	**HK$950,400,000**	HK$950,400,000
Date of modification	:	**31 December 2018**	31 December 2018
Remaining principal amount	:	**HK$158,400,000**	HK$158,400,000
Coupon rate	:	**Nil**	Nil
Conversion price	:	**HK$0.22 per share**	HK$0.011 per share
Conversion period	:	**The period commencing from the date of modification of the convertible notes and ending on the maturity date**	The period commencing from the date of modification of the convertible notes and ending on the maturity date
Collaterals	:	**Nil**	Nil
Maturity date	:	**31 January 2022**	31 January 2022

Subject to the occurrence of an event of default (as defined in the terms and conditions of the convertible notes), the convertible notes may be redeemed in amounts of HK$100,000 or integral multiples thereof at the option and in the absolute discretion of the Company on any business day prior to the maturity date by giving not less than seven days notice to the holder of the convertible notes.

The convertible notes contain two components, liability and equity components. The equity component is presented in equity under the heading of convertible notes reserve. The effective interest rate of the liability component of the convertible notes is 12.85% (2018: 12.85%) per annum. The liability and equity components of the convertible notes were measured at fair values at the date of modification and the valuation was determined by an independent valuer.

29. CONVERTIBLE NOTES *(Continued)*

On 14 November 2014, the Company and Mr. Li entered into a deed of variation, pursuant to which it was agreed that, subject to the fulfillment of conditions precedent, (i) the maturity date of the outstanding convertible notes with an aggregate principal amount of HK$302,400,000 would be extended from 15 November 2014 to 31 December 2016; and (ii) the original conversion price of HK$0.12 per share would be adjusted to the conversion price of HK$0.035 per share. Save for the above alterations, all other terms and conditions of the outstanding convertible notes remained unchanged. On 9 January 2015, the relevant ordinary resolution was duly passed at the special general meeting and the extension of the maturity date and the adjustment of the conversion price of the outstanding convertible notes became effective. For details, please refer to the announcements of the Company dated 14 November 2014, 17 November 2014 and 9 January 2015, as well as the circular of the Company dated 19 December 2014 and the Company's annual report for the year ended 31 December 2015.

Convertible notes of the Company with an aggregate principal amount of HK$42,000,000 were converted into 1,199,999,998 ordinary shares of HK$0.01 each at a conversion price of HK$0.035 per share on 4 June 2015.

On 14 December 2016, the Company and Mr. Li entered into a deed of further variation, pursuant to which it was agreed that, subject to the fulfillment of conditions precedent, the maturity date of the outstanding convertible notes with an aggregate principal amount of HK$260,400,000 would be extended from 31 December 2016 to 31 January 2019. Save for the above alteration, all other terms and conditions of the outstanding convertible notes remained unchanged. On 16 January 2017, the relevant ordinary resolution was duly passed at the special general meeting and the extension of the maturity date of the outstanding convertible notes became effective. For details, please refer to the announcements of the Company dated 14 December 2016 and 16 January 2017, as well as the circular of the Company dated 29 December 2016 and the Company's annual report for the year ended 31 December 2017.

On 12 November 2018, the Company and Mr. Li entered into a deed of further variation, pursuant to which it was agreed that, subject to the fulfillment of conditions precedent, (i) the maturity date of the remaining convertible notes with an aggregate principal amount of HK$158,400,000 would be extended from 31 January 2019 to 31 January 2022; and (ii) the conversion price of HK$0.035 per share would be adjusted to the conversion price of HK$0.011 per share. Save for the above alterations, all other terms and conditions of the remaining convertible notes remained unchanged. On 28 December 2018, the relevant ordinary resolution was duly passed at the special general meeting. On 31 December 2018, the extension of the maturity date and the adjustment of the conversion price of the remaining convertible notes became effective. For details, please refer to the announcements of the Company dated 12 November 2018, 28 December 2018 and 31 December 2018, as well as the circular of the Company dated 11 December 2018 and the Company's annual report for the year ended 31 December 2018.

29. CONVERTIBLE NOTES *(Continued)*

The extension of the maturity date and the adjustment of the conversion price resulted in the extinguishment of the financial liability of the convertible notes and related equity component and the recognition of new financial liability and equity components. On 31 December 2018, the carrying values of liability component and equity component of the convertible notes immediately before the modification were approximately HK$157,541,000 and HK$47,690,000 respectively. According to a valuation report issued by an independent valuer not connected with the Group, the fair values of the new liability component and equity component immediately following the modification are approximately HK$109,053,000 and HK$41,814,000 respectively. These caused an increase of approximately HK$47,743,000 (net of the transaction costs of approximately HK$745,000) in other reserve in the consolidated statement of changes in equity, a transfer of approximately HK$32,871,000 between other reserve and accumulated losses, and a transfer of a net amount of approximately HK$5,876,000 between the convertible notes reserve and accumulated losses with no profit or loss impact during the year ended 31 December 2018.

Convertible notes of the Company with an aggregate principal amount of HK$102,000,000 were converted into 2,914,285,714 ordinary shares of HK$0.01 each at a conversion price of HK$0.035 per share on 31 December 2018.

As a result of the Share Consolidation (as defined in note 31(c)) and under the terms and conditions of the convertible notes, the conversion price of the outstanding convertible notes was adjusted from HK$0.011 per share to HK$0.22 per share with effect from the close of business in Hong Kong on 22 May 2019. Based on the adjusted conversion price of HK$0.22 per share, the outstanding convertible notes with an aggregate principal amount of HK$158,400,000 will be convertible into 720,000,000 ordinary shares of HK$0.20 each.

29. CONVERTIBLE NOTES *(Continued)*

Movements of the liability and equity components of the convertible notes for the years ended 31 December 2019 and 2018 are set out below:

	Liability component HK$'000	Equity component HK$'000	Total HK$'000
At 1 January 2018	242,015	78,400	320,415
Conversion into shares of the Company (note 31(b))	(101,415)	(30,710)	(132,125)
Derecognition of original liability/equity component upon modification of terms of convertible notes	(157,541)	(47,690)	(205,231)
Recognition of new liability/equity component upon modification of terms of convertible notes	109,053	41,814	150,867
Imputed interest charged to the consolidated statement of profit or loss (note 9)	16,941	–	16,941
At 31 December 2018 and 1 January 2019	109,053	41,814	150,867
Imputed interest charged to the consolidated statement of profit or loss (note 9)	14,014	–	14,014
At 31 December 2019	**123,067**	**41,814**	**164,881**

As at 31 December 2019, the principal amount of convertible notes remained outstanding is HK$158,400,000 (2018: HK$158,400,000).

30. DEFERRED TAX

The followings are the major deferred tax liabilities (assets) recognised and movements thereon during the years ended 31 December 2019 and 2018:

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2018	23	(23)	–
(Credited) charged to profit or loss	(1)	1	–
At 31 December 2018 and 1 January 2019	22	(22)	–
(Credited) charged to profit or loss	(22)	22	–
At 31 December 2019	**–**	**–**	**–**

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 HK$'000	2018 HK$'000
Deferred tax liabilities	–	22
Deferred tax assets	–	(22)
	–	–

As at 31 December 2019, the Group has unused estimated tax losses of approximately HK$202,972,000 (2018: HK$176,721,000). A deferred tax asset has been recognised in respect of such tax losses of approximately HK$133,000 (2019: nil) as at 31 December 2018. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$202,972,000 (2018: HK$176,588,000) due to the unpredictability of future profits streams.

Included in unrecognised tax losses are losses of approximately HK$4,668,000 (2018: HK$14,544,000) that will expire after five years from the year of assessment to which they relate to. Other losses may be carried forward indefinitely.

As at 31 December 2019, the Group has deductible temporary differences of approximately HK$1,534,000 (2018: HK$1,558,000). No deferred tax asset is recognised in respect of these deductible temporary differences as at 31 December 2019 and 2018 due to the unpredictability of future profits streams.

31. SHARE CAPITAL

	Number of shares '000	HK$'000
Authorised ordinary shares of HK$0.20 (2018: HK$0.01) each:		
At 1 January 2018	30,000,000	300,000
Increase in authorised share capital (note a)	30,000,000	300,000
At 31 December 2018 and 1 January 2019	60,000,000	600,000
Share consolidation (note c)	(57,000,000)	–
At 31 December 2019	**3,000,000**	**600,000**
Issued and fully paid ordinary shares of HK$0.20 (2018: HK$0.01) each:		
At 1 January 2018	13,889,199	138,892
Issue of new shares upon conversion of convertible notes (note b)	2,914,286	29,143
At 31 December 2018 and 1 January 2019	16,803,485	168,035
Share consolidation (note c)	(15,963,311)	–
At 31 December 2019	**840,174**	**168,035**

Notes:

(a) On 28 December 2018, the authorised share capital of the Company increased from HK$300,000,000 divided into 30,000,000,000 ordinary shares of HK$0.01 each to HK$600,000,000 divided into 60,000,000,000 ordinary shares of HK$0.01 each by the creation of additional 30,000,000,000 new ordinary shares of HK$0.01 each which ranked *pari passu* with the existing ordinary shares of HK$0.01 each in all respects upon allotment and issue.

(b) On 31 December 2018, convertible notes of the Company with an aggregate principal amount of HK$102,000,000 were converted into 2,914,285,714 new ordinary shares of HK$0.01 each at a conversion price of HK$0.035 per share. These new ordinary shares of HK$0.01 each issued ranked *pari passu* with other ordinary shares of HK$0.01 each then in issue in all aspects. Details of the convertible notes are set out in note 29.

(c) On 22 May 2019, an ordinary resolution was duly passed at the special general meeting and every twenty issued and unissued ordinary shares with a par value of HK$0.01 each in the share capital of the Company were consolidated into one ordinary share with a par value of HK$0.20 each (each a "Consolidated Share") (the "Share Consolidation") with effect from 23 May 2019. Such Consolidated Shares rank *pari passu* in all respects with each other.

32. SHARE OPTION SCHEME

The Company has adopted a share option scheme on 28 November 2002 (the "2002 Share Option Scheme") for the purpose of providing incentives or rewards to wider classes of person or entity to be the participants (the "Participants") thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest ("Invested Entity").

On 8 June 2012, a new share option scheme (the "2012 Share Option Scheme") was adopted by the shareholders of the Company, pursuant to an ordinary resolution passed at the annual general meeting held on 8 June 2012. The 2002 Share Option Scheme was terminated accordingly on the same day and no further options will be granted under the 2002 Share Option Scheme but in all other aspects, the provisions of the 2002 Share Option Scheme shall remain in full force and effect in respect of any options granted prior to the adoption of the 2012 Share Option Scheme and any such options shall continue to be valid and exercisable in accordance with their terms of issue. The 2012 Share Option Scheme will be expired on 7 June 2022.

Terms of 2012 Share Option Scheme

Pursuant to the terms of the 2012 Share Option Scheme, the Directors may, at their absolute discretion, invite any person belonging to any of the following classes of Participants, to take up options to subscribe for shares:

(a) any eligible employee;

(b) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of the Group or any Invested Entity;

(e) any person or entity that provides research, development or technological support or services to the Group or any Invested Entity;

(f) any shareholder or any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and

(g) any ex-employee who has contributed to the development and growth of the Group and any Invested Entity.

32. SHARE OPTION SCHEME *(Continued)*

Terms of 2012 Share Option Scheme *(Continued)*

The basis of eligibility of any of the above class of Participants to the grant of any options shall be determined by the Directors from time to time on the basis of their contribution to the development and growth of the Group and any Invested Entity based on his work experience, industry knowledge or other relevant factors, or is expected to be able to contribute to the business development of the Group and any Invested Entity based on his business connections or other relevant factors, and subject to such conditions as the Directors think fit.

The subscription price for the shares under the 2012 Share Option Scheme shall be a price determined by the Directors, but shall not be lower than the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (ii) the average closing price of the shares stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares. Options granted are exercisable at any time during a period to be notified by the Directors but limited to a maximum period of ten years after the date the options are granted. Options granted should be accepted within 28 days from the date of offer. A consideration of HK$1 is payable on acceptance of the offer of grant of an option.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2012 Share Option Scheme and the other schemes shall not exceed 10% of the shares in issue at the date on which the 2012 Share Option Scheme is conditionally adopted by the Company at a general meeting of the shareholders.

The Company may, by the approval of the shareholders in general meeting, grant options beyond the 10% limit provided that the options in excess of the 10% limit are granted only to Participants specifically identified by the Company before shareholders' approval is sought.

Unless approved by the shareholders as set out herein, the total number of shares issued and to be issued upon exercise of the options granted to each Participant (including both exercised and outstanding options) in any twelve-month period must not exceed 1% of the shares of the Company in issue. Where any further grant of options to a Participant would result in the shares issued and to be issued upon exercise of any options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the twelve-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by the shareholders in general meeting with such Participant and his associates abstaining from voting.

However, the overall limit on the number of shares which may be issued upon exercise of all options granted under all share option schemes of the Company must not exceed 30% of the shares in issue from time to time.

32. SHARE OPTION SCHEME *(Continued)*

Terms of 2012 Share Option Scheme *(Continued)*

Unless the Directors otherwise determined and stated in the offer of the grant of options to a Participant, a Participant is not required to achieve any performance targets before any options granted under the 2012 Share Option Scheme can be exercised.

At 31 December 2019, the number of shares in respect of which options had been granted and remained outstanding and exercisable under the 2002 Share Option Scheme was 19,996,998 (2018: 399,939,990), representing 2% (2018: 2%) of the shares of the Company in issue at that date. No option is granted under the 2012 Share Option Scheme during the years ended 31 December 2019 and 2018.

The following table disclosed the movements of the Company's share options for the years ended 31 December 2019 and 2018:

Participants	Date of grant	Exercise price per share	Number of share options outstanding at 1 January 2018, 31 December 2018 and 1 January 2019	Adjusted exercise price per share (Note)	Number of share options outstanding at 31 December 2019 (Note)
Director					
Mr. Huang Hanshui	6 December 2010	HK$0.305	86,827,895	HK$6.10	4,341,394
Customers, suppliers and	6 December 2010	HK$0.305	86,827,895	HK$6.10	4,341,394
other eligible persons (in aggregate)	30 November 2011	HK$0.098	226,284,200	HK$1.96	11,314,210
			399,939,990		19,996,998
Exercisable at the end of the reporting period			399,939,990		19,996,998
Weighted average exercise price			HK$0.188		HK$3.758

Note: With effect from 23 May 2019, as a result of the Share Consolidation, adjustments to the share options granted to certain eligible participants under the share option scheme of the Company adopted on 28 November 2002 (terminated on 8 June 2012) were required under the terms and conditions of the 2002 Share Option Scheme. For details, please refer to the announcements of the Company dated 23 April and 22 May 2019, as well as the circular of the Company dated 6 May 2019 and the Company's interim report for the six months ended 30 June 2019.

The options outstanding at 31 December 2019 were fully vested at grant date and had an exercisable period of 10 years from the date of grant and a weighted average remaining contractual life of 1.5 years (2018: 2.5 years).

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 HK$'000	2018 HK$'000
Non-current asset		
Investments in subsidiaries	–	–
Current assets		
Prepayments, deposits and other receivables	609	1,114
Amounts due from subsidiaries (note a)	131,805	162,446
Bank balances and cash	18	5,011
	132,432	168,571
Current liabilities		
Amount due to a subsidiary	58	–
Other payables and accruals	2,878	1,140
	2,936	1,140
Net current assets	129,496	167,431
Total assets less current liabilities	129,496	167,431
Non-current liability		
Convertible notes	123,067	109,053
Net assets	6,429	58,378
Capital and reserves		
Share capital	168,035	168,035
Reserves (note b)	(161,606)	(109,657)
Total equity	6,429	58,378

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes:

(a) The amounts are unsecured, interest-free and repayable on demand.

(b) Movements in the reserves during the years are as follows:

	Share premium HK$'000	Contributed surplus (note i) HK$'000	Share-based compensation reserve HK$'000	Convertible notes reserve HK$'000	Other reserve (note ii) HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2018	2,271,283	62,315	21,668	78,400	32,871	(2,606,623)	(140,086)
Loss and total comprehensive expenses for the year	–	–	–	–	–	(89,586)	(89,586)
Issue of new shares upon conversion of convertible notes (notes 29 and 31(b))	102,982	–	–	(30,710)	–	–	72,272
Derecognition upon modification of terms of convertible notes (note 29)	–	–	–	(47,690)	(32,871)	80,561	–
Recognition upon modification of terms of convertible notes (note 29)	–	–	–	41,814	48,488	(41,814)	48,488
Transaction costs attributable to modification of terms of convertible notes (note 29)	–	–	–	–	(745)	–	(745)
At 31 December 2018 and 1 January 2019	2,374,265	62,315	21,668	41,814	47,743	(2,657,462)	(109,657)
Loss and total comprehensive expenses for the year	–	–	–	–	–	(51,949)	(51,949)
At 31 December 2019	**2,374,265**	**62,315**	**21,668**	**41,814**	**47,743**	**(2,709,411)**	**(161,606)**

Notes:

(i) The contributed surplus represents the difference between the nominal value of the shares of the Company acquired pursuant to a group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefore.

(ii) Other reserve represents the deemed contribution from the substantial shareholder of the Company in respect of the modification of terms of convertible notes in 2018.

34. LEASE COMMITMENTS

The Group as lessee

	2018
	HK$'000
Lease payments paid under operating leases in respect of:	
– land and buildings	12,347
– others	10,917
	23,264

As at 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018
	HK$'000
Within one year	16,735
In the second to fifth years inclusive	8,727
	25,462

As at 31 December 2018, operating lease payments represent rentals payable by the Group for certain of its warehouse, offices, production plant and motor vehicles. Leases are negotiated for original terms ranging from 1 to 6 years. Rentals are fixed over the terms of respective leases.

The Group is the lessee in respect of its warehouse, offices, production plant and motor vehicles which the leases were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (details are set out in note 2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 3, and the details regarding the Group's future lease payments are disclosed in note 18.

35. CAPITAL COMMITMENTS

	2019 HK$'000	2018 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	191	–

36. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2019, the Group entered into new/renewed existing arrangements in respect of office premises. Right-of-use assets and lease liabilities of approximately HK$1,448,000 were recognised at the commencement of the leases.

During the year ended 31 December 2019, the Group terminated the lease for warehouse and derecognised right-of-use assets and lease liabilities of approximately HK$5,986,000 and HK$6,765,000 respectively, resulting in a gain on termination of lease of approximately HK$779,000 being recognised in profit or loss for the year.

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Lease liabilities HK$'000	Amount due to a joint venture HK$'000	Loans from a substantial shareholder HK$'000	Convertible notes HK$'000	Total HK$'000
At 1 January 2018	–	2,475	–	242,015	244,490
Financing cash flows:					
Transaction costs paid	–	–	–	(745)	(745)
Repayment	–	(22)	–	–	(22)
Non-cash changes:					
Conversion into shares of the Company	–	–	–	(101,415)	(101,415)
Derecognition of original liability component upon modification of terms	–	–	–	(157,541)	(157,541)
Recognition of new liability component upon modification of terms	–	–	–	109,053	109,053
Transaction costs	–	–	–	745	745
Imputed interest	–	–	–	16,941	16,941
At 31 December 2018	–	2,453	–	109,053	111,506
Adoption of HKFRS 16	14,919	–	–	–	14,919
At 1 January 2019	14,919	2,453	–	109,053	126,425
Financing cash flows:					
Repayment	(8,894)	(20)	–	–	(8,914)
Proceeds	–	–	2,950	–	2,950
Non-cash changes:					
New/renewed lease agreements	1,448	–	–	–	1,448
Interest expenses	1,597	–	–	–	1,597
Termination of lease	(6,765)	–	–	–	(6,765)
Imputed interest	–	–	–	14,014	14,014
At 31 December 2019	**2,305**	**2,433**	**2,950**	**123,067**	**130,755**

38. RETIREMENT BENEFIT OBLIGATIONS

(a) Long service payments obligation

	2019 HK$'000	2018 HK$'000
Long service payments obligation (note 28)	**34**	15

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employees' final salary and years of service and is reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group at a discount rate of 8% (2018: 8%) and an assumed retirement age of 65 years old. The Group does not set aside any assets to fund any remaining obligations.

Movement for the year:

	2019 HK$'000	2018 HK$'000
Balance at beginning of the year	**15**	13
Increase in obligation	**19**	2
Balance at end of the year	**34**	15

(b) Retirement benefit scheme contributions

Hong Kong

The Group joins a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, the employee contributes 5% of the relevant payroll to the MPF Scheme while the Group contributes from 5% to 10% of the relevant payroll to the MPF Scheme. For those making contributions to the scheme at 5% of the employees' relevant income, it is subject to a cap of monthly relevant income of HK$30,000. Contributions to the scheme vest immediately.

38. RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

(b) Retirement benefit scheme contributions *(Continued)*

The PRC and Vietnam

The Group also participates in a defined contribution retirement schemes organised by the governments in the PRC and Vietnam. All employees of the Group in the PRC and Vietnam are entitled to an annual pension equal to a fixed portion of their individual final basic salaries at their retirement date. The Group is required to contribute a specified percentage of the payroll of its employees to the retirement date. No forfeited contributions may be used by the employers to reduce the existing level of contributions.

39. RELATED PARTY TRANSACTIONS

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

(a) The following balances were outstanding at the end of the reporting periods:

	Amounts due to related parties	
	2019	2018
	HK$'000	HK$'000
A joint venture (Note i)	**2,433**	2,453
Directors' emoluments payables (included in other payables) (Note i)	**3,210**	956
Emoluments payables to close family members of a substantial shareholder of the Company (included in other payables) (Note ii)	**437**	209
Emoluments payables to close family members of a Director (included in other payables) (Note ii)	**271**	271
Loans from a substantial shareholder (Note iii)	**2,950**	–

Notes:

(i) The amount due to a joint venture and directors' emoluments payables were unsecured, interest-free and repayable on demand. The balances were denominated in HK$ other than the functional currency of the respective reporting entity of the Group.

39. RELATED PARTY TRANSACTIONS *(Continued)*

Notes: *(Continued)*

(ii) The emoluments payables to close family members of a substantial shareholder of the Company and a Director were unsecured, interest-free and repayable on demand. The balances were denominated in HK$ other than the functional currency of the respective reporting entity of the Group.

(iii) The loans from a substantial shareholder were unsecured, interest-free and repayable on maturity.

(b) Semtech BVI Group is the registered owner of various trademarks. Those trademarks are provided for the Group's use at nil consideration for both years ended 31 December 2019 and 2018.

(c) During the year ended 31 December 2019, remuneration of approximately HK$2,192,000 (2018: HK$1,807,000) were paid or payable to a close family member of a Director as the position of a director of certain subsidiaries of the Group. In addition, remuneration of approximately HK$2,760,000 (2018: HK$2,389,000) were paid or payable to other close family members of the above-mentioned Director as staff costs of certain subsidiaries of the Group. Remuneration in the net amount of approximately HK$342,000 (2018: HK$210,000) after salary waiver granted, were payable to a close family member of a substantial shareholder of the Company as the position of a director of a subsidiary of the Group (2018: the chairman of the Vietnam subsidiary of the Group). In addition, remuneration of approximately HK$102,000 (2018: nil) were payable to another close family member of the above-mentioned substantial shareholder of the Company as staff costs of the Vietnam subsidiary of the Group.

(d) The amount of approximately HK$597,000 (2018: nil) payable to a close family member of a substantial shareholder of the Company was waived during the year ended 31 December 2019.

(e) Compensation of key management personnel

The remuneration of the Directors and other members of key management during the reporting periods were as follows:

	2019 **HK$'000**	2018 HK$'000
Short-term benefits	**9,623**	9,635
Post-employment benefits	**238**	234
	9,861	9,869

The remuneration of Directors and key executives were determined by the remuneration committee and the board of Directors having regard to the performance of individuals and market trends.

40. CONTINGENT LIABILITY

On 15 July 2009, one of the subsidiaries of Classic Line International Limited ("Classic Line"), a former subsidiary of the Company, has been and is the subject of a judgement (in the amount of US$13.5 million) obtained in a United States court in an action in respect of damages allegedly arising out of use of fire lighters sold by the subsidiary of Classic Line. The Company is one of the co-defendants in the case. On 28 September 2009, the Company entered into an agreement to dispose of the entire equity interest in Classic Line and the disposal was completed on 31 October 2009.

Based on the legal advice received by the Company, the Directors considered that the Company has valid grounds in opposing the enforcement of any judgement of the said case against the Company, if obtained, in Hong Kong and Bermuda. Accordingly, no provision has been made in the consolidated financial statements.

41. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2019 and 2018 are as follows:

Name	Form of business structure	Place of incorporation/ registration and operations	Issued and paid-up ordinary share/ registered capital	Proportion of ownership interest and voting power held by the Company				Principal activities
				2019		2018		
				Direct %	Indirect %	Direct %	Indirect %	
Sino-Tech International (B.V.I.) Limited	Corporation	British Virgin Islands	US$2 (2018:US$2)	100	–	100	–	Investment holding
Ruixin Universal Limited	Corporation	Hong Kong	HK$1 (2018:HK$1)	–	100	–	100	Provision of management service
Fast Harvest Limited	Corporation	Hong Kong	HK$2 (2018:HK$2)	–	100	–	100	Provision of management service
LWM Management Limited	Corporation	Hong Kong	HK$1 (2018:HK$1)	–	100	–	100	Provision of management service
Semtech RFID Limited	Corporation	Hong Kong	HK$100 (2018:HK$100)	–	100	–	100	Trading of electronic and electrical parts and components
Super Victory Enterprises Limited	Corporation	Hong Kong	HK$2 (2018:HK$2)	–	100	–	100	Manufacture and trading of electronic and electrical parts and components
東莞泰豐射頻識別有限公司 (note a)	Corporation	PRC	US$3,000,000 (2018:US$1,500,000)	–	100	–	100	Trading of electronic and electrical parts and components
Phoenix Asia Pacific Investment Company Limited (note b)	Corporation	Vietnam	US$100,000 (2018:US$100,000)	–	100	–	100	Provision of management consulting services; construction and related services and general trading

41. PRINCIPAL SUBSIDIARIES *(Continued)*

Notes:

(a) The company is a wholly owned foreign enterprise with limited liabilities in the PRC.

(b) The company is a wholly owned foreign enterprise with limited liabilities in Vietnam.

The above table lists the subsidiaries of the Company 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 both years or at any time during the years.

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

		Number of subsidiaries	
Principal activities	**Principal place of business**	**2019**	2018
Investment holding	British Virgin Islands	**5**	5
Inactive	British Virgin Islands	**1**	1
Inactive/not commenced business yet	Hong Kong	**3**	3

Summary of Financial Information

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years prepared on the bases set out in the note below is as follows. This summary does not form part of the audited consolidated financial statements.

RESULTS

	Year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**332,743**	445,933	542,082	478,845	545,055
Loss before taxation	**(60,282)**	(85,881)	(42,749)	(50,011)	(23,211)
Net loss attributable to owners of the Company	**(60,282)**	(85,881)	(42,749)	(66,703)	(23,211)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**241,009**	214,524	340,670	334,748	408,317
Total liabilities	**(234,588)**	(146,660)	(336,342)	(320,130)	(327,544)
Non-controlling interests	**–**	–	–	–	–
	6,421	67,864	4,328	14,618	80,773

Note: The results of the Group for the years ended 31 December 2019, 31 December 2018, 31 December 2017, 31 December 2016 and 31 December 2015 have been extracted from the audited consolidated financial statements for the years ended 31 December 2019, 31 December 2018, 31 December 2017, 31 December 2016 and 31 December 2015.