WINSHINE
瀛晟科學

Winshine Science Company Limited
瀛 晟 科 學 有 限 公 司*

(Incorporated in Bermuda with limited liability)
Stock Code: 209

Annual Report 2019

* For identification purpose only

CONTENTS

ABBREVIATIONS

In this annual report, the following abbreviations have the following meanings unless otherwise specified:

"Board"	the Board of Directors of the Company
"Company"	Winshine Science Company Limited
"Directors"	the directors of the Company
"Group"	the Company and its subsidiaries
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China, for the purpose of this report, excluding Hong Kong, Macau and Taiwan
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"HK$" and "HK cents"	Hong Kong dollars and cents
"RMB"	Renminbi
"US$"	United States dollars
"%"	per cent.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhao Deyong *(Chairman)*
Mr. Liu Michael Xiao Ming
(Chief Executive Officer)
Mr. Luo Lianjun

Non-executive Director

Mr. Lin Shaopeng

Independent Non-executive Directors

Mr. Kwok Kim Hung Eddie
Mr. Ng Wai Hung
Ms. Shi Xiaolei

AUDIT COMMITTEE

Mr. Kwok Kim Hung Eddie *(Chairman)*
Mr. Ng Wai Hung
Ms. Shi Xiaolei

REMUNERATION COMMITTEE

Ms. Shi Xiaolei *(Chairman)*
Mr. Kwok Kim Hung Eddie
Mr. Ng Wai Hung

NOMINATION COMMITTEE

Mr. Ng Wai Hung *(Chairman)*
Mr. Kwok Kim Hung Eddie
Ms. Shi Xiaolei

COMPANY SECRETARY

Mr. Liu Ze Kui, Alex
(appointed on 1 December 2019)
Mr. Yip Chun Chung
(appointed on 7 March 2019 and resigned on 1 December 2019)

TRADING OF SHARES

The Stock Exchange of Hong Kong Limited
(Stock Code: 209)

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 2202–2203, 22/F.
Harbour Centre
25 Harbour Road
Wanchai, Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of Communications Co. Ltd. Hong Kong Branch
Guangdong Development Bank Zhongshan Branch

AUDITOR

Moore Stephens CPA Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
4th floor North, Cedar House,
41 Cedar Avenue, Hamilton HM 12,
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE

http://www.winshine.com
http://www.tricor.com.hk/webservice/000209

CHAIRMAN'S STATEMENT

Dear fellow shareholders:

The Board herein presents the annual report for 2019 and the audited annual results of the Group for the financial year ended 31 December 2019.

The Group mainly engaged in the existing businesses of manufacturing and trading of toys, securities investment and research and development in medical and health products in 2019.

We had a dramatic year in 2019 as the Board was re-organized by new Directors and the Group's equity position was eroded by the losses from a significant asset impairment due to the legacy issues in the year 2018.

The new Board is resolved to put the legacy issued behind us, comply with the Stock Exchange requirements and relevant accounting rules to put the Company in a right track for a more profitable future.

The Company managed to reduce its losses by HK$111.2 million in 2019 compared to 2018. In addition, the Company initiated a number of independent investigations on the legacy issues that resulted in the suspension of the Company's stock trading on the Stock Exchange. The Company's actions in dealing with the legacy issues and the refinancing of its outstanding debts allowed the Company to gain approval from the Stock Exchange to resume its stock trading in early 2020.

The Company substantially reduced its management cost in 2019 that would allow the Company to operate on a more sustained basis in the years to come.

PROSPECTS

Even though our toys division continues to face headwinds as intense industry competition and trade wars rendered the business less profitable, we are cautiously optimistic that our toys operation will weather the storm in 2020.

Starting in 2020, the new Board is looking for different business opportunities to diversify our principal business activities and moving toward more profitable businesses. Cost cutting measures within the Group were put in place to reduce operating costs. The new Board has also decided to give the Company a better financial position to meet the future challenges. On 8 January 2020, to reposition the Company to reduce the operating risks and outflow of the funds, the Group entered into a sale and purchase agreement with a third party to sell its 100% equity interest in a subsidiary, which is engaged in research activities of genetically engineered bacteria for targeted cancer therapy for a cash consideration of HK$8,000,000. The toys division is expected to continue to perform satisfactorily.

CHAIRMAN'S STATEMENT

Due to the novel coronavirus pneumonia ("COVID-19"), the toy division is expected to experience tremendous pressure on product margins and turnover in the first half in 2020. However, the toys factory has already managed to restart its operation after a closed down period due to COVID-19, and a stabilized RMB exchange rate and lower material cost will be favourable in 2020.

Looking forward, we are cautiously optimistic as our toys division continues to perform successfully in the marketplace and the new Board sets to start to explore new business opportunity on a much lower management cost.

Zhao Deyong
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the financial year ended 31 December 2019 ("FY 2019"), the Group recorded revenue of approximately HK$649.5 million, representing an increase of 2% from the revenue of approximately HK$636.9 million for the year ended 31 December 2018 ("FY 2018").

The increase was mainly due to the performance of our toy's division. Gross profit for the year amounted to HK$74.9 million, increased by 7% compared with that of HK$69.7 million in FY 2018 as a result of increase on product selling price.

The securities investments division recorded a loss of HK$10.7 million in FY 2019, compared with HK$10 million in FY 2018, representing an increase of 7% year-on-year.

For the FY 2019, the Group reduces its net loss by 72% to HK$42.4 million compared with HK$153.6 million in FY 2018. The main reason for the decrease was the impairment of assets during the FY 2018.

The following will discuss each of the sections of the Group.

Toys Division

For the FY 2019, revenue of the toys division increased by 2% to HK$649.5 million as a result of a continued popular product series developed and marketed by one of its major customers. As the keen the result of increment on product selling price and increase on machinery in production, the gross profit increased to HK$74.9 million (2018: 69.7 million). As a result, the toys division increased reported segment profit before taxation to HK$13.1 million (2018: HK$7.4 million).

Securities Investments Division

During the year, the Hong Kong stock market has experienced significant downturn, factors such as China-US trade war, US interest rate hike and uncertainty about Brexit all caused huge volatility. The Group adopted a conservative strategy in managing its investment portfolio during the year. As a result, the securities investments division recorded a HK$10.7 million loss, representing a 7% increase as compared with FY 2018. As at FY 2019, the Group securities portfolio was valued at HK$6.9 million (FY 2018: HK$17.6 million). The Group did not receive any dividend income in both FY 2019 and FY 2018.

Breakdown of the Group's significant investments held as at 31 December 2019

Stock Code	Name	Principal businesses	Market value as at 31/12/2019 *HK$'000*	Number of shares held as at 31/12/2019	Percentage held to the total issued share capital of the stock	Loss on change of fair value during the year ended 31/12/2019 *HK$'000*
928	Life Healthcare Group Ltd. (Previously known as Tack Fiori International Group Ltd.)	Development and marketing of education software products and the provision of technology support services in China; sales of apparels in China; and trading and investment of securities in Hong Kong.	2,840	63,104,000	1.20%	(4,669)
8316	Pak Wing Group (Holdings) Ltd.	Provision of foundation works in Hong Kong.	133	1,530,000	0.19%	(556)
8356	CNC Holdings Ltd.	Provision of waterworks engineering services for public sector in Hong Kong, television broadcasting business in the Asia-Pacific region (excluding PRC) and large outdoor display screen advertisement business in the PRC.	3,748	124,930,000	3.08%	(4,372)
	Others		170	–	–	(1,092)
Total			**6,891**			**(10,689)**

Breakdown of the Group's significant investments held as at 31 December 2018

Stock Code	Name	Principal businesses	Market value as at 31/12/2018 HK$'000	Number of shares held as at 31/12/2018	Percentage held to the total issued share capital of the stock	Gain/(loss) on change of fair value during the year ended 31/12/2018 HK$'000
928	Life Healthcare Group Ltd. (Previously known as Tack Fiori International Group Ltd.)	Development and marketing of education software products and the provision of technology support services in China; sales of apparels in China; and trading and investment of securities in Hong Kong.	7,509	63,104,000	1.20%	(9,213)
8316	Pak Wing Group (Holdings) Ltd.	Provision of foundation works in Hong Kong.	689	1,530,000	0.19%	(1,989)
8356	CNC Holdings Ltd.	Provision of waterworks engineering services for public sector in Hong Kong, television broadcasting business in the Asia-Pacific region (excluding PRC) and large outdoor display screen advertisement business in the PRC.	8,120	124,930,000	3.08%	1,624
	Others		1,262	–	–	(421)
Total			**17,580**			**(9,999)**

Medical and Health Division

During the year, the Group continued its medical research project in Success Impact Corporation. The project was mainly about the preclinical research studies of genetically engineered bacteria for targeted cancer therapy. The project was disposed for a consideration of HK$8 million after the year ended. The net proceeds arising from the Disposal are approximately HK$8 million which will be used for working capital of the Group and investment in other business.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

Due to the classification of the Group's borrowing as current liability discussed immediately below, at the end of FY 2019, the Group had net current liabilities of HK$65,649,000 (FY 2018: HK$70,363,000) comprising cash and cash equivalents of HK$89,280,000 (FY 2018: HK$75,489,000) (excluding pledged bank deposits).

The equity attributable to owners of the Company decreased by 27% to HK$120,279,000 (2018: HK$164,337,000) mainly as a result of the operating loss incurred by the Group during the year. The Group financed its operations through a combination of debt financing and shareholder's equity. The Group's gearing ratio was determined as its net debt divided by total equity plus net debt where net debt included borrowings, trade and bills payables and other payables and accruals less pledged bank deposits and cash and cash equivalents. The gearing ratio of the Group as at 31 December 2019 was 71% (2018: 61%).

Despite the loss incurred by the Group and the net current liabilities status at the end of FY 2019, the financial position of the Group remains healthy with the loan extensions obtained after the financial year ended, and the Group has sufficient cash to support the Group's ongoing business operations.

The new management team is more closely aligned with our shareholders as can be seen from the actions taken so far to redirect the Company toward a better internal control, resolution of the legacy issues and a substantial reduction of the management cost.

ADDITIONAL INFORMATION REGARDING THE QUALIFIED OPINION OF THE AUDITOR

As disclosed in the paragraph headed "Qualified Opinion" in the independent auditors' report on the consolidated financial statements of the Group for the year ended 31 December 2019 (the "Independent Auditors' Report"), the auditors of the Company, Moore Stephens CPA Limited (the "Auditor"), express a qualified opinion on the consolidated financial statements of the Group for the FY 2019.

The management of the Company obtained the understanding with the Auditor that the audit opinion ("Audit Modification") for FY 2019 is qualified only to the extent of the comparative information of the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows between 2018 and 2019 in the section of "Basis for Qualified Opinion" of the Independent Auditor's Report. Other than the comparative part of the audit opinion, according to the Auditor, the consolidated financial statements of the Company give a true and fair view of the consolidated financial position of the Group as at FY 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

We have the understanding from the Auditor that the qualification of the audit opinion for the FY 2019 is attributable to the fact that the audit opinion for the FY 2018 is was disclaimed with respect to (1) scope limitations concerning the Group's deposit paid for refurbishment of properties and other receivables; and (2) scope limitation on inability to obtain sufficient appropriate audit evidence concerning certain transactions and loans made by a subsidiary of the Group.

The following describes the information giving rise to the qualification of audit opinion for FY 2018:

(1) Scope limitations concerning the Group's deposit paid for refurbishment of properties and other receivables.

As disclosed in the announcement of the Company dated 23 April 2019, since Nanjing Sanyou Real Estate Company Limited* (南京三友置業有限公司) ("Nanjing Sanyou" or the "Purchaser") is not in a position to proceed to complete the acquisition of Yi Nuo Technology (Suzhou) Company Limited (an indirect wholly-owned subsidiary of the Company, ("Yi Nuo")), Billion Pride Group Limited (a wholly-owned subsidiary of the Company, ("Billion Pride")) and Nanjing Sanyou had entered into a termination agreement (the "Termination Agreement"), pursuant to which the parties have agreed to terminate the disposal agreement signed on 28 December 2017 with immediate effect. The main assets of Yi Nuo are a parcel of land, the deposit paid for refurbishment of properties in Suzhou, Jiangsu Province, the PRC and the other receivable.

In view of the significant uncertainty on the recoverability of the other receivables and the Group has no intention to continue the medical and health business, the management considered the recoverable amount of the deposit paid for refurbishment of properties and the other receivables to be zero and it would be appropriate for the Group to make an impairment of approximately HK$64.6 million and HK$39.3 million for the FY 2018 respectively. In order to reduce the loss incurred, the management is currently negotiating with the one of the Vendors for RMB10.0 million settlement of all the outstanding other receivable.

The Audit Committee is of the view that it is prudent to make full impairment on the deposit paid for refurbishment of properties and other receivables. In the above circumstances, the full impairment losses have been made in the FY 2018 in respect of the deposit paid for refurbishment of properties and other receivable due to their recoverable amounts were in doubt.

Please refer to the announcement of the Company dated 28 December 2017 and the circular of the Company dated 31 May 2018 for details of the disposal of Yi Nuo.

(2) Regarding certain transactions and loans

The auditors were unable to perform sufficient appropriate audit procedures to satisfy themselves regarding the nature and reasons for the making the short-term fund advance arrangements under the transactions (the "Transactions") and the loans (the "Loans"), and whether any related parties of the Group was involved in the transactions given the influence and involvement of an individual who was a director of the Company (the "Ex-Director"). As disclosed in the announcement of the Company dated 6 May 2019, a direct confirmation from a debtor was received by the then auditors in March 2019 which indicated that the Transactions involved the Ex-Director were not reflected in the books and records of a subsidiary of the Group.

In regards of the Transactions and Loans, the Company established a special investigation committee (the "SIC") comprising an executive director and 2 independent non-executive directors on 18 May 2019 and engaged FTI Consulting (Hong Kong) Limited ("FTI Consulting") with the purposes of investigating (i) the Transactions and Loans and (ii) identifying if there are any other similar fund transfer arrangements (the "Independent Investigation"). The SIC also engaged an internal control consulting firm (the "Internal Control Adviser") to assess and conduct a review of the internal control systems and procedures of the Group and selected subsidiaries of the Company, and to make recommendations accordingly (the "Internal Control Review").

The management, the SIC and the Audit Committee have reviewed the reports prepared by FTI Consulting and the Internal Control Adviser. They concluded that the Transactions were made with the intention to pursue business opportunities for the Group and the Loans made by a subsidiary are primarily attributable to a weak internal control mechanism of the Group. The management has taken up the recommendations from the Internal Control Adviser to remedy the internal control system and procedures in order to avoid any future situations. The SIC and the Audit Committee are of the view this Audit Qualification have been duly dealt with given that (i) the amount relating to the service fee had been recognised in the profit or loss for the FY 2018 and the remaining amounts from the Transactions and Loans were refunded or repaid to the Group subsequently after the FY 2018; (ii) the Group did not suffer substantial loss as a result of the Transactions and Loans; (iii) the relevant personnel of the Transactions and Loans concerned have already left the Group; and (iv) the Company has put in the place adequate internal control system and procedures as recommended by the Internal Control Adviser. In the above circumstances, the Company expects that disclaimer relating to the Auditors' opinion on this issue will be removed in the next year's audit except for the effect on comparability of corresponding figures.

Key findings of the Independent Investigation and the Internal Control Review are summarised in the announcement of the Company dated 30 October 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

The Audit Committee has reviewed and agreed with the Audit Modification. At the Board meeting held immediately after the meeting of the Audit Committee held on 18 March 2020, the Audit Committee reported to and discussed with the Board on the Audit Modification. As the Audit Modification was on the comparative information of FY 2018 and FY 2019, the board of directors and the Audit Committee understand from the Auditor that the Audit Modification will be removed for the financial year ending 31 December 2020 as the comparative information of FY 2018 only compared the financial results of FY 2019. As such, the board of directors of the Company and the Audit Committee agree that no further action has to be taken by the in relation to the Audit Modification.

PROSPECTS

Looking ahead to 2020, the toys division is expected to continue to perform satisfactorily. Although it will also face with challenges such as COVID-19, China-US trade war, rising raw material costs and labour cost in the Pearl Delta Region, the division will strive to minimize the negative impacts by bringing in more automation into its production process. The Group is looking for different business opportunities to diversify our business activities beside current toy and medical and health segments. Cost cutting measures were put in place to reduce operating costs. Looking forward, the group is cautiously optimistic as the toys division continues to perform successfully in the marketplace and the Board sets to start to explore new business opportunities and implement measurements to lower the management costs.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

The Group has longed for the pursuit of sustainable development to incorporate environmental and societal initiatives into business and to enhance its competitiveness within the industry. To demonstrate the Group's continuous improvement on Environmental, Social and Governance ("ESG"), as a result, the Board is pleased to publish the fourth ESG Report (the "Report").

REPORTING SCOPE

The Report complies with the requirements of the ESG Reporting Guide stated in Appendix 27 of the Listing Rules. The Group reports its commitments and practices on the ESG performance for the year ended 31 December 2019 (the "Reporting Period"). The reporting scope of the Report only focus on primary business, manufacturing and trading of toys, and covers the division in Zhongshan city, since Zhongshan factory is the head office of the Group in China, constituting the centre for administration and policymaking. Environmental KPIs of the Hong Kong office was not considered as it had only 24 people who were working in the finance and administration department. The impact on the business was less significant.

COMMUNICATION WITH STAKEHOLDERS

The Group knows it is sufficiently important to understand stakeholders' needs and expectations. As a result, stakeholders' opinion can help the Group identify as well as prioritize material aspects, whereby there are many communication channels have been set up to engage different stakeholders regularly.

	Communication Channels	**Major Stakeholders**
1	Meetings	Investors, Customers, Regulators, Suppliers, Directors, Management, and Employees
2	Reports	Investors, Customers, and Regulators
3	Announcements (circulars, memos, emails etc.)	Investors, Employees, and Suppliers
4	Company's website	Investors, Customers, Organization, Regulators, Suppliers, Employees, and the Public
5	Phone calls	Customers and Suppliers
6	Surveys	Customers and Employees
7	Site visits	Customers, Regulators, and Suppliers
8	Seminars	Industrial Organization
9	Company Events (annual dinners, volunteer service etc.)	Directors, Management, and Employees

ENVIRONMENT

Sustainability is the key to success. Striving to that aim, the Group established an Environmental Management Committee overseeing its environmental performance, formulating environmental initiatives, and minimizing environmental risks. First and foremost, the Group is aware that it had complied with all environmental laws and regulations and prohibited to the utmost of all relevant illegal and violating activities. Zero environmental noncompliance incidents were resulting in fines or prosecutions in 2019.

Second, the Group attaches great importance to environmental threats and impacts caused directly and indirectly by the business with careful assessment and monitoring. Besides, the Group upgraded the ISO 14001 standard and referred it to set up an environmental management system on site. Last but not least, the Group continuously improves its environmental performance and closely works with relevant authorities in the wake of tightening national environmental legislation and management towards the manufacturing industry.

EMISSIONS

Greenhouse Gases (“GHG”) Emissions

GHG emissions have been in the limelight recently. GHG emissions have called the attention of the Group and led it to keep a close eye on the GHG emissions. The Group has collected its GHG emissions since 2017. The primary source of GHG emissions of the Group is from purchased electricity and company vehicles. For information on energy-saving measures and waste management, please refer to the section of “Use of Resources”. There was a gradual decrease in the total GHG emissions, declining by 2.85% comparing to 2018.

Indicator	Units	Total emissions in 2019	Total emissions in 2018
Total GHG emissions *Note 1* (Scope 1 and 2)	CO_2e tonnes	7,112	7,321
Scope 1 *Note 2*	CO_2e tonnes	150	131
Scope 2 *Note 3*	CO_2e tonnes	6,962	7,190
Intensity (Scope 1 & 2) per production volume	CO_2e tonnes/piece	0.00036	0.00037

Note 1 The GHG emissions data present in terms of carbon dioxide equivalent is referring to the latest released emission factors by the National Development and Reform Commission.

2 Scope 1 refers to direct emissions from vehicles that are owned by the Group.

3 Scope 2 refers to indirect emissions resulting from the generation of purchased electricity consumed within the Group.

Exhaust Gas Emission

In addition, volatile organic compounds ("VOCs") release is another concern that captures the Group's as well as the stakeholders' attention. Manufacturing toys inevitably use paints and did emit VOCs in specific contexts. VOCs pose harm to human, especially children and babies, are susceptible to it. As a result, the Group has deployed water-based paints and environmentally friendly paints with low VOCs content, but also, Phase II VOCs emission improvement project was introduced. The project invented a VOCs removal system with activated carbon absorber to ensure VOCs released to the atmosphere is far ahead of the legal requirements which are verified by the registered testing agency. The system is also connected to the Ministry of Environmental Protection of the PRC to monitor emissions. Corrective actions will be made in response to the abnormal situations if any. Above all, the Group has installed ventilation systems to remove or dilute indoor air pollutants to further enhance the air quality of the site.

Transportation is also a concern when the Group comes across the issue of air pollution. The Group, therefore, encourages the use of car-pooling and commonly use of public transits to employees. The SOx air pollutants emission increased by 14% in 2019 because the Group established two new sites in Jiangmen for subcontracting services. These two new sites required more transportation across Zhongshan and Jiangmen.

Indicator *Note 4*	Unit	Total emission in 2019	Total emission in 2018
Nitrogen Oxides ("NO"$_x$)	g	59,267	60,130
Sulfur Oxides ("SO"$_x$)	g	968	845
Particulate Matter ("PM")	g	5,445	5,550

Note 4 NO_x, SO_x and PM emissions are calculated with reference to Appendix 2: Reporting Guidance on Environmental KPIs, published by the Stock Exchange.

USE OF RESOURCES

Waste Management and Packaging Materials

The Group realizes its business consumes a considerable amount of natural materials. Prior planning to estimate from an input of raw materials to the end products plays a vital role in waste reduction, ensuring a reliable and stable quality as well. One of the measures to help regulate waste disposal is the adaptation of 3R (Reduce, Reuse and Recycle) waste management principle in operation. The Group endeavours to reduce waste by implementing different waste measures. For instance, over the years, the Group recycled and reused plastics, single-used waste paper and cardboards, replaced plastics to papers, set duplex-printing as default, carried out an Enterprise Resources Planning system in the office.

Besides, all waste is handled and sorted onsite by general waste and hazardous waste in accordance with the National Hazardous Waste List. They are stored in a designated container with covers in a designated area to avoid leakage and misuse. All hazardous waste such as organic solvent, compact fluorescent lamp, batteries and exhausted cartridges and toners are collected and reused by the licensed contractors. In 2019, the total amount of non-hazardous waste increased by 1.86% and slightly decreased by 2.51% for hazardous waste, compared to 2018. Waste in Hong Kong office was handled by the property management centrally. As a result, no relevant data was available.

Indicator	Total disposal in 2019	Total disposal in 2018
Non-hazardous waste such as wastepaper, domestic waste	32.90 tonnes	32.30 tonnes
Intensity of Hazardous waste per production volume	0.000002 tonnes/piece	0.000002 tonnes/piece
Hazardous waste such as wasted oil, wasted solvent bottles.	27.16 tonnes	27.86 tonnes
Intensity of Hazardous waste per production volume	0.000001 tonnes/piece	0.000001 tonnes/piece

In the concern of packaging materials, the Group realizes the packaging consumers lots of resources, but as a trader, the Group can do little on packaging materials and the design. However, the Group proactively communicates with clients as well as suppliers to discuss any possibilities to minimize packaging.

Category of Packaging Materials	Total disposal in 2019 (in tonnes)	Percentage when compared to 2018	Intensity (per production volume in tonnes/piece)	Total disposal in 2018 (in tonnes)
Plastics	3,085	–6.52%	Insignificant (<0.000001)	3,300
Paper boxes	3.10	–3.12%	Insignificant (<0.000001)	3.2

Energy Consumption

Energy is the critical component of the Group's operation, and the Group acquires energy every day depends heavily on fossil fuels combustion, which is exhaustible and non-renewable energy. Because of that, the Group makes its utmost to reduce energy consumption by different energy measures.

- Established a resources management procedure to regulate energy use;
- Turned off lighting, equipment and personal computer during non-office hours;
- Switched off idling engines and air-conditioners when not in use;
- Maintained air indoor room temperature at 24 to 26 Degree Celsius;
- Disseminated energy-saving message via emails;
- Replaced conventional lightings with LED;
- Purchased environmentally friendly equipment such as electric Rotomolded PVC machines;
- Procured equipment of video conferencing to reduce the need for business trips; and
- Adopted reusable energy such as solar water heaters in the dormitory.

Type of Energy	**Total consumption in 2019**	**Percentage when compared to 2018**	**Intensity (per production volume)**
Electricity	8,320,402 kWh	–3.17%	0.42 kWh/piece
Unleaded petrol	61,350 Litres	8.14%	0.003 Litres/piece
Diesel	4,100 Litres	483%	0.0002 Litres/piece

The total electricity consumption in the reporting period declined by 3.17% when compared with that in 2018. However, transportation needs are higher in 2019 to deliver goods from Zhongshan to Jiangmen, increasing fuels of vehicles.

Water Consumption

The Group does not entail a massive amount of potable water as the Group is not a water-intensive industry, and it is a relatively less significant threat affecting the business. No difficulties in sourcing water. In 2019, the Group consumed 270,816 litres of water, which is 3.2% less than that in 2018. Water consumption intensity per production volume was 0.014 litres/piece.

The Group works diligently in implementing initiatives to save water, including but not limited to, placing reminders near the water facilities to remind employees to keep water, but also the Group operates a water treatment plant and obtains a water discharge license to treat wastewater legally. The wastewater treatment plant was revamped in 2018 in the hope of further managing the increasingly stringent discharge caps set out by the government. The Group also continuously seek opportunities to use less water where possible. For example, condensers were installed in each work station to collect steam from the injection moulding department. Also, as of 2019, a water-saving project by combining two VOCs removal system was mostly completed. The water consumption of the Group is expected to decrease in next year.

THE ENVIRONMENT AND NATURAL RESOURCES

Greening Coverage

Greening is a part of the crucial components in building an environmentally friendly working environment. It brings many benefits such as enhancing air quality, alleviating urban heat island effect and eventually uplifting the quality of living. Greening reserves around 30% coverage of the Zhongshan factory, planting varies kind of vegetation and trees. Further to boost greening and improve air quality in the factory, small-sized plants have been placed inside the office area.

Environmental Awards

With the support of many green measures, the Group proactively took part in the Cleaner Production Partnership Programme which is co-organized by the Environmental Protection Department and the Economic and Information Commission of Guangdong Province. It is the Group's honour to be awarded the recognition of "Hong Kong – Guangdong Cleaner Production Excellent Partners (Manufacturing)" to recognize our conscientious efforts on adopting cleaner production technologies and practices with marked achievements.

Sustainability is now crucial to our daily life, our society and even our future generation, the Group could protect the earth by utilizing the natural resources and slowing down the pace of resources depletion as well as ecosystem degradation. These all require efforts across departments and organizations. Training sessions arranged to employees are indispensable. An environmental consultant is also employed to engage in monitoring and suggesting areas for environmental improvement. The vegetarian and sustainable seafood menu is also given to employees to choose at the canteen.

SOCIAL

Employment

The Group acknowledges employees are the central importance. It drives the Group to build and maintain a harmonious, fair and safe working environment. More importantly, the Group endlessly strives to the room for enhancement in respect of social responsibility. The Group has established an employment policy based on the National Labour Law and updated the policy on time. The Group has also certified by ICTI CARE Foundation, to demonstrate its commitment to promoting safe and fair working conditions. During the Reporting Period, there was no case of non-compliance regarding compensation and dismissal, recruitment and promotion, equal opportunities, diversity, as well as discrimination.

Fair and equal employment and recruitment procedure are adopted in the Group. Any forms of discrimination are prohibited. Hence, recruitment is based on candidates' experiences, abilities and business needs, regardless of race, gender, age, marital status, pregnancy, family status, sexual orientation, religion and nationality. The remuneration package is being reviewed regularly. All talented candidates/employees can be hired and promoted, eligible to attend relevant training to meet business needs and personal career development.

With an aim to providing a fundamental understanding of the Group's background, all newcomers shall attend an orientation training covering (a) Group's history; (b) employment terms and conditions, welfares and benefits; and (c) adherence to the relevant policies, systems, and procedures etc. All the policies are available on the staff handbook for reference at any time. The Group is a member of ICTI Ethical Toy Program ("IETP"). Therefore, the Group must comply with the relevant requirements as set out in IETP's Code of Business Practices.

Benefits and Welfares

The Group in one hand pays "Five social insurance and one housing fund", namely endowment insurance, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing provident fund, for the employees as required. On the other hand, all employees are entitled to various statutory holidays and paid leave, including paternity leave and maternity leave. In return for employees' hard work, moreover, the Group will benchmark employees' salaries against industry norms to maintain a competitive remuneration package to the talented for a reward. All employees shall participate in the annual appraisal to review their performance.

Team Profile

As of 31 December 2019, the Group employs 1,950 employees, of which 1,870 are full-time employees, and 80 are trainees. The Group consists of management and general staff to deal with daily operation. A total of 1,899 employees, in which the general staff occupies around 97% of the total workforce and the remaining 51 employees are management. In average, 28 training hours were provided to employees.

(As of 31 December 2019) Total Workforce		Number of People	Turnover Percentage	Training Hours Total	Average
By Gender	Male	650	38.21%	18,700	29
	Female	1,300	61.79%	35,960	28
By employment type	Full time	1,870	NA	NA	NA
	Trainees	80	NA	NA	NA
By age	15-24 years old	336	28.87%	NA	NA
	25-34 years old	335	32.06%	NA	NA
	35-44 years old	521	22.31%	NA	NA
	45-54 years old	735	13.39%	NA	NA
	55-64 years old	22	0.37%	NA	NA
	65 years old or above	1	0%	NA	NA
By employee category	Senior management	6	NA	96	16
	Middle Management	19	NA	456	24
	Supervisor	26	NA	936	36
	General staff	1,899	NA	53,172	28

Come and go is a natural process in the organization, and the Group is delighted to see the turnover become stable. Employee turnover rate in the reporting period was 3.48% which slightly dropped when compared to 2018. Every individual was invited to attend an exit interview to get to know their reasons to resign and address their opinion in the future.

OCCUPATIONAL HEALTH AND SAFETY ("OHS")

The Group remains highly attentive to health and safety. It is the Group's responsibility to provide a safe working environment. At first, the Group established a health and safety committee, comprising with the senior human resource manager, administrative manager, safety manager, representatives from the security and fire service department, and a labour union. The responsibility of the committee is to oversee the health and safety performance of the Group and to identify potential risks in which controls are either absent, ineffective or not complied. The committee also formulates policies to alleviate the risks if applicable. Also, the Group is regularly commissioned with the third-party to audit OHS performance. In 2019, there was no non-compliance cases with regulations in regard to OHS.

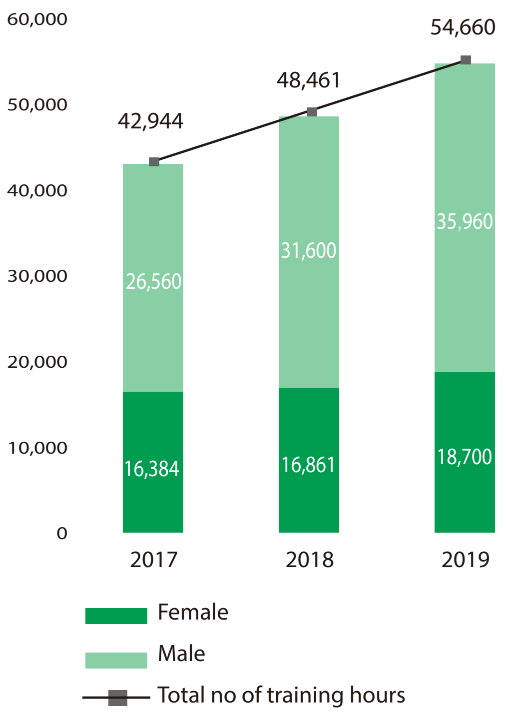
Furthermore, risk assessment is conducted annually for all working areas to identify potential threats inside the working area and high-risk position. The Group offers corresponding PPEs. Regular body checks are provided to employees to ensure them in good health. Also, the Group has scheduled stress management courses to employees to take care of them to have a reasonably sound body and mind. The Group performs shift work as well to reduce employees' exposure to toxic gas. In addition, employees are in danger of equipment's instability and unreliability; therefore, regular checks of the machine are carried out.

Aside from "Five social insurance and one housing fund", the Group provides additional medical insurance for extra protection. Better still, the Group has attained the certification of OHSAS 18001 to systemize the occupational health and safety performance in the workplace. There was no work-related fatalities happened in the Group; The Group had zero injuries occurred at the factory in the past three years but the Group reports with the most profound regret that there was a total of 1,198 workdays were lost due to work-related accidents in the Reporting Period. Yet the Group offers prompt assistance to the injured or the affected. The Group's health and safety committee launched investigations to examine the root cause of accidents. Corrective actions have been taken to avoid reoccurrence.

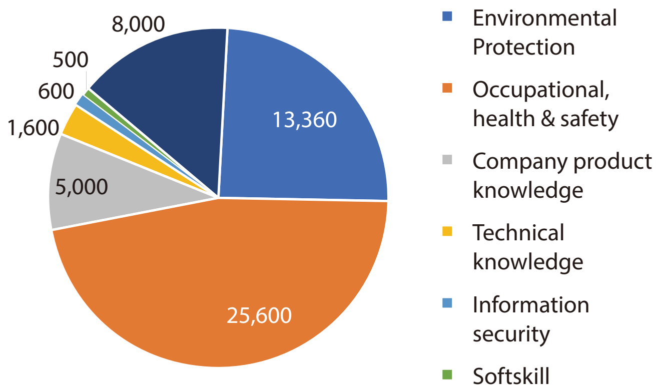
TRAINING AND DEVELOPMENT

Toy industry evolves with time, and the Group understands that if the Group is no longer up to the changes, the Group might not cope with the market and sustain in the industry. Each business unit and human resources department, therefore, is stipulated a yearly training plan, covering technical and management topics to all employees (100%). The Group also sponsors employees to attend external training to acquire the latest technology in the market. In the Reporting Period, all employees took part in different training and average training hours of employees were 28 (2018: 26 hours; 2017: 16 hours).

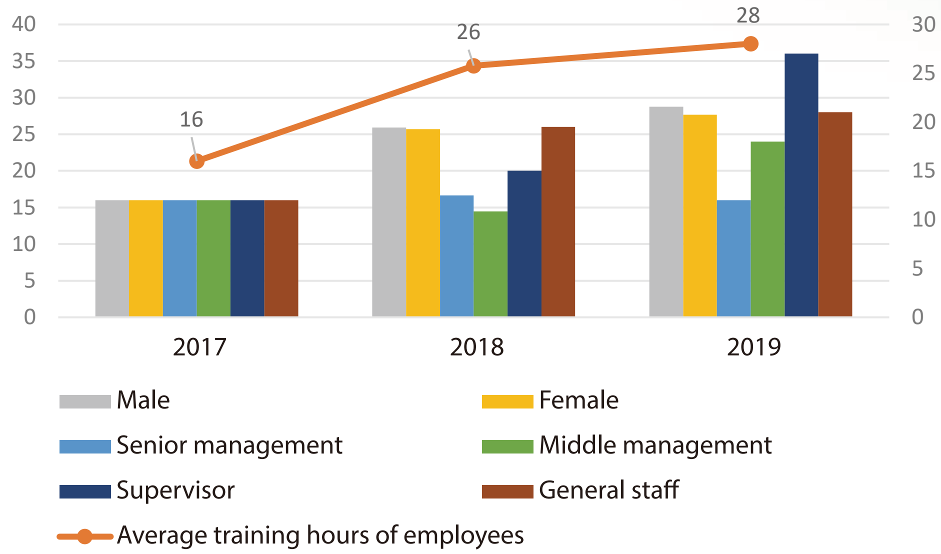
Training hours by gender



Training hours by training topic



Average training hours by gender & employee category



The Group deems new generation is a pillar of society. The internship programme with intensive training is organized. Sophisticated and experienced seniors train the fresh graduates up so that they can well-prepared for the labour market in the hope of bringing innovation and creativity to the Group.

LABOUR PRACTICES

The Group strongly believes children shall enjoy a pleasant childhood and even not to work. No children are allowed to work in the Group. The Group must undergo identity checks in the recruitment process to ensure the regulatory working age is met. The Group also wholeheartedly believes the importance of work-life balance as it links to productivity and accidents. The Group neither encourages nor forces employees to work overtime. In addition, all such illegal means as retention of identity cards or passports, intimidation, coercion and undue pressure are strictly prohibited. As a result, employees are not only entitled to statutory leave and varies kinds of paid leave, which help them to take sufficient rest, but also, the Group is always meticulous about production schedule to avoid overtime work. The workflow will be carefully reviewed in the matter of a massive amount of overtime work needed. If necessary, the Group will seek assistance from relevant institutions.

Additionally, the Group also highly appreciates employees to take part in leisure and social activities such as the Chinese New Year event to share warmth and happiness among colleagues. Labour union is formed, and all employees preserve the right to speak. Other than the benefits and welfares above, the Group arranges monthly meetings with representatives of the labour union to collect employees' point of views.

OPERATING PRACTICES

Supply Chain Management

The business depends heavily on suppliers' cooperation. Building a long-term relationship with them is a Golden Rule to build up trust and reliability. As of 31 December 2019, the registered suppliers of the Group consist of 210 suppliers from China, 47 suppliers from Hong Kong, and 2 suppliers from other countries. They are grouped by ten types.

Prior to making a contract, the Group conducts an assessment and sample testing to assess suppliers' quality of standards, achievements on environmental protection and corporate social responsibility. The price is not the only selection criteria, equipment, productivity, and reputation are also taken into consideration. The Group also attentively concerns a safe working environment and an ethical business culture in the selection process. Moreover, samples testing must pass through quality check requirement so to approve.

Other than that, the Group carries out an annual assessment to review suppliers' services quality, on-time delivery ability, and fulfilment of the tender requirements and aligning with the Group's policies. In the Reporting Period, the Group assessed leading suppliers, and they all passed. The suppliers who are unable to meet the requirements will be removed from the supplier list if applicable.

C-TPAT Security Policy

The Group complies with the Customs-Trade Partnership Against Terrorism ("C-TPAT"). In order to enjoy the entitled benefits in return, the Group, suppliers and contractors are working closely to implement, as required by C-TPAT, physical security measures, access control, security assurance in procedures, and offering education and training. A supply chain guarantee of C-TPAT Security Policy is ready for suppliers and contractors. Due to the importance of such policies and laws, the employees who are responsible for import and export shall attend training related to the relevant ordinance and regulations at least twice a year.

GREEN PROCUREMENT

To uphold the responsibility to disseminate sustainability to suppliers, the Group always keeps the minds open to figuring out alternatives to use less packaging materials and use fewer plastics as much as they can. The Group also states specifically on tender documents to encourage suppliers to adopt products with eco-labels or environmentally friendly products. In the selection process, priority is given to those who have been awarded an ISO 14001 Environmental Management System and ISO 9001 Quality Management System certificate. Local suppliers are also preferred to limit the transportation needs.

PRODUCT RESPONSIBILITY

The Group awards a certificate of the IETP, indicating that the Group adheres the ICTI Code of Business Practices, aligning the Group practices with international norms in the global toy industry supply chain.

Quality Assurance

Harmful and unsafe toys might cause suffering to children. The impacts can be persistent and untreatable. As a result, the Group has established a product monitoring and inspection procedure so to standardize the quality check. In practice, the Group attains Certification on Quality Management System ISO 9001:2015. This ISO standard also guides the Group to implement a quality management system to control product quality systematically. Although the Group is a toy trader, it also carries out inspections and random checks to review the quality of toys. It assures toys strictly follow local and international safety and advisory requirements such as CE marking, Consumer Product Safety Commission, STM F963-Standard Consumer Safety Specification for Toy Safety. The Group is verified by a third-party to ensure their supply chain security was aligning with international supply-chain security standards.

Besides, the Group has designed a clear and precise label to identify toys and separate defective products. The instruction manual is attached in toys to guide consumers to use products. Safety alert labels are placed at the surface of the package or containers to alert consumers to keep toys properly, avoiding children from mistakenly swallow or inhale the tiny parts, resulting in suffocation and pinching fingers. Zero reported incidents as regards product responsibility in the Reporting Period.

Given the significance of quality assurance of the toys, the Group has paid additional attention to raw materials. All materials used in the products are entirely ruled by the Restriction of Hazardous Substances. Providing testing reports and certificates to prove the quality and harmlessness of the products are a must-do item to suppliers. Product samples are tested, and inspections are carried out by the third-party testing laboratory before mass production. The Group operates a laboratory, where it is certified by the China National Accreditation Service, to examine the products randomly. All validating report are well-documented. In case of any fail reports of the toys, the Group will immediately cease the delivery process and recall the toys. Meanwhile, the Group remains an active communication with customers regarding the products quality, specifications, and testing results. Customers are also responsive to the Group's enquiry.

Due to the awareness of an extraordinarily high standard of product quality, the Group is pleased to note that there was no product recalls or returns regarding safety issues during the Reporting Period. Yet the Group exported more than 20 million of products yearly and still received lots of clients' enquiries about the products. The quality management department records each complaint notifies relevant departments afterwards for investigation and coming up with improvements and suggestions for the captioned problem if any.

In the Reporting Period, the Group carried out a customer satisfaction survey to significant customers, covering seven aspects such as productivity, samples delivery, quality management, and products quality etc. The results revealed that customers satisfied with the Groups' productivity and they also advised an improvement on samples on-time delivery. Clients' feedbacks are motivations of the Group to perform better, so the Group promptly recruits more inspectors to conduct quality checks so to speed up the processing time and keep product quality stable.

Data Privacy

The Group respects the privacy and intellectual property rights. Data must be collected in a lawful way and directly for recruitment or specified purposes. The storage and transmission of personal data must be encrypted and with up-to-date antivirus protection to prevent harm to clients, suppliers, individuals or other parties that have trusted the Group with their information. Also, the data shall only be retained for a designated period and specified purposes. A guideline and procedure have established to guide every one of the Group to handle personal data. The data can be updated and corrected by the data holders at any times in writing upon request. The Group must be able to provide information on how the clients' information has been used in the past 12 months upon request. The data is also restricted the access right to selected personnel who are well-trained to manage the sensitive data.

Under no circumstances, the Group discloses personal data and confidential information to the third parties or the public without clients' consent. The Group endeavours to communicate with its business partners about the intellectual property rights protection and acknowledge them the laws and regulations can protect the Group's right.

Protection of trademarks

The Group only sell and trades products that are under trademarks owned by or licensed to. The Group also abides by the copyright and patent laws of the U.S. as well as other countries.

ANTI-CORRUPTION

Integrity gives much greater importance to brand image and performance. Rigidly laws and compliances bound the Group on anti-corruption. The Group must obey national and regional laws and regulations in business operation. The code of conduct is well-defined and outlined the area of anti-corruption risk and handling advantages procedures. The Group's attitude against corruption is stated clearly to all employees. Any form of bribery, extortion, fraud and money laundering are forbidden. An internal control system is set up to review the operation flow and assure operation consistency. A couple of refresher training is scheduled, especially for those post-holders with high risk in corruption. There were 1.5 average training hours provided to employees in the Reporting Period. Employees can remain anonymous to report any suspected cases to the Group. The Group will not condone any unlawful acts and corruption. In the Reporting Period, there was no alleged case of bribery, extortion, fraud and money laundering.

COMMUNITY INVOLVEMENT

Business development closely connects with the community, and it is the social responsibility of the Group to utilize our advantages to assist the needy in society, especially children. In 2019, the Group sponsored RMB25,000 to the underprivileged children, yet the Group understands financially supports far from helping those in need sufficiently. As a result, the Group partnered with local charities to organize voluntary activities to offer a total of 800 hours of in-kind support. Employees and their families are welcome to participate in voluntary activities. For instance, trees planting, community visit at child and elderly care centres and at local schools. In the meantime, the Group donated toys and stationeries to them as well. The Group will continue to work diligently to the community with charities, employees and their families.

BIOGRAPHICAL DETAILS OF DIRECTORS

The biographical details of Directors as at 18 March 2020, the date of this annual report, are set out below:

EXECUTIVE DIRECTORS

Mr. Zhao Deyong ("Mr. Zhao"), *Chairman*

Aged 57, joined the Company as an Executive Director and was appointed as the Chairman of the Company on 16 May 2019. He is also a director of several subsidiaries of the Company. Mr. Zhao graduated from the Correspondence Institute of the Central Party School of C.P.C. (中共中央黨校函授學院) in December 1998, majoring in economic. Since June 2018, Mr. Zhao has been the chairman of Fujian Zhonghe Co., Ltd. Prior to his current position, Mr. Zhao served as a deputy director of the Industry and Information Commission of Chifeng City (赤峰市工業和信息化局) in the PRC from October 2008 to September 2014.

Mr. Liu Michael Xiao Ming ("Mr. Liu")

Aged 66, joined the Company as an Executive Director and was appointed as the Chief Executive Officer of the Company on 10 May 2019. He is also a director of several subsidiaries of the Company. Mr. Liu holds a Juris Doctor degree from Harvard Law School from Harvard University, a Master of Arts degree of Fletcher School of Law and Diplomacy from Tufts University and a Bachelor of Arts in English degree in ZheJiang University* (浙江大學). Mr. Liu has over 30 years of experience in the field of legal, private equity, corporate finance, financial management and other business consultancy matters. Mr. Liu has been the general manager of Jiangsu Union Energy Co. Ltd* (江蘇合志新能源科技有限公司) since February 2014. Mr. Liu was admitted as a member of the New York State Bar in March 1989.

Mr. Luo Lianjun ("Mr. Luo")

Aged 49, joined the Company as an Executive Director on 10 May 2019. Mr. Luo obtained a Bachelor's degree in Law from the China University of Political Science and Law* (中國政法大學) in July 1993, and is currently a practicing lawyer and a non-practising certified public accountant in the PRC. Since September 2014, he has been a partner and person in charge at Beijing Baoying Law Firm* (北京市寶盈律師事務所). Prior to his current position, Mr. Luo worked as a practicing lawyer and partner in Beijing Pucheng Law Firm* (北京市普誠律師事務所) from January 2009 to August 2014.

NON-EXECUTIVE DIRECTOR

Mr. Lin Shaopeng ("Mr. Lin")

Aged 61, joined the Company as a consultant in December 2014 and a Non-executive Director of the Company on 18 December 2017. He has been providing advisory services to the Group's toys operation since December 2014. Mr. Lin is also a director of several subsidiaries of the Company. Mr. Lin has extensive experience in factory and logistics management in the PRC.

*   For identification purpose only

BIOGRAPHICAL DETAILS OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kwok Kim Hung Eddie ("Mr. Kwok"), *Chairman of the Audit Committee and member of the Nomination Committee and the Remuneration Committee*

Aged 48, joined the Company as an Independent Non-executive Director on 7 March 2019. Mr. Kwok holds a Master of Professional Accounting degree from The Hong Kong Polytechnic University, a Master of Corporate Governance degree from The Open University of Hong Kong and a Honours Diploma in Accounting from Hong Kong Shue Yan University (formerly known as Hong Kong Shue Yan College). Mr. Kwok is a member of the Hong Kong Institute of Certified Public Accountants, and an associate member of each of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

Mr. Kwok has over 23 years of experience in the field of accounting and financial management. Mr. Kwok has been an independent non-executive director of Siberian Mining Group Company Limited, a company listed on the Stock Exchange (stock code: 1142), since February 2014, and an independent non-executive director of Zhejiang Rui Yuan Intelligent Control Technology Company Limited, a company listed on GEM of the Stock Exchange (stock code: 8249), since June 2012. Prior to his current positions, Mr. Kwok served as a financial controller, the company secretary and one of the authorised representatives of Forebase International Holdings Limited, a company listed on the Stock Exchange (stock code: 2310).

Mr. Ng Wai Hung ("Mr. Ng"), *Chairman of the Nomination Committee and member of the Audit Committee and the Remuneration Committee*

Aged 56, joined the Company as an Independent Non-Executive Director on 21 May 2019. Mr. Ng admitted as a solicitor of the High Court of Hong Kong in March 1992. Mr. Ng is a practising solicitor and a partner in Iu, Lai & Li, a Hong Kong firm of solicitors and notaries. Mr. Ng practises in the areas of securities, corporate finance and commercial law in Hong Kong.

Mr. Ng has been a non-executive director of Coolpad Group Limited, a company listed on the Stock Exchange (stock code: 2369), since January 2018. Mr. Ng has also been serving as an independent non-executive director of three companies listed on the Stock Exchange, namely Lajin Entertainment Network Group Limited (formerly known as China Star Cultural Media Group Limited, stock code: 8172) since March 2015, Xinyi Automobile Glass Hong Kong Enterprises Limited (stock code: 8328) since July 2016 and 1957 & Co. (Hospitality) Limited (stock code: 8495) since November 2017.

In the last three years, Mr. Ng served as an independent non-executive director of Fortune Sun (China) Holdings Limited (stock code: 352), GOME Retail Holdings Ltd. (stock code: 493), Sustainable Forest Holdings Limited (stock code: 723), Trigiant Group Limited (stock code: 1300), Kingbo Strike Limited (stock code: 1421), Tech Pro Technology Development Limited (stock code: 3823) and YTO Express (International) Holdings Limited (formerly known as On Time Logistics Holdings Limited, stock code: 6123) (all being companies listed on the Stock Exchange) and resigned in September 2017, May 2017, December 2017, August 2017, June 2017, March 2017 and December 2017, respectively.

BIOGRAPHICAL DETAILS OF DIRECTORS

Ms. Shi Xiaolei ("Ms. Shi"), *Chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee*

Aged 35, joined the Company as an Independent Non-executive Director on 21 May 2019. Ms. Shi obtained a bachelor's degree in management from Shandong University in July 2006 and a Master of Arts degree in Industrial Relations and Personnel Management from The University of Warwick in December 2008. Ms. Shi is a Certified Tax Adviser of The Taxation Institute of Hong Kong.

Ms. Shi has been the chief operation officer and chief tax officer of Milestone Asset Management (Cayman) Co., Ltd since March 2019. Prior to her current positions, Ms. Shi worked at Deloitte for over 9 years in international tax and business advisory. She has extensive experience in the areas of providing tax services in relation to initial public offerings, mergers and acquisitions, and business model optimization, and advising multinational corporations and public companies in Hong Kong and PRC. Ms. Shi worked at Deloitte Suzhou office from October 2009 to March 2013 as a senior tax advisor. From April 2013 to February 2019, Ms. Shi worked at Deloitte Hong Kong office, and her last position was senior manager in tax and business advisory.

REPORT OF THE DIRECTORS

The Directors hereby present their report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 43 to the consolidated financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Company and an indication of likely future development in the Company's business, can be found in the Chairman's Statement and the Management Discussion and Analysis set out on pages 4 to 12 of this annual report. This discussion forms part of this Report of the Directors.

RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss on page 57.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2019 (2018: nil).

FIVE YEARS FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 164.

SHARE CAPITAL

Details of movement in the share capital of the Company during the year and details of share capital of the Company are set out in note 33 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserve available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda and the Bye-laws of the Company, amounted to HK$nil (2018: HK$nil).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the Companies Act 1981 of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for approximately HK$635.5 million of the total sales for the year and sales to the largest customer accounted for approximately 87.9%. Purchases from the Group's five largest suppliers accounted for approximately HK$83.6 million of the total purchases for the year and purchases from the largest supplier accounted for approximately 4.0%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers during the year.

DIRECTORS

Executive Directors:

Mr. Zhao Deyong	(appointed on 16 May 2019)
Mr. Liu Michael Xiao Ming	(appointed on 10 May 2019)
Mr. Luo Lianjun	(appointed on 10 May 2019)
Mr. Xing Wei	(removed on 10 May 2019)
Mr. Wei Guo	(removed on 10 May 2019)

Non-executive Director:

Mr. Lin Shaopeng

Independent Non-executive Directors:

Mr. Kwok Kim Hung Eddie	(appointed on 7 March 2019)
Mr. Ng Wai Hung	(appointed on 21 May 2019)
Ms. Shi Xiaolei	(appointed on 21 May 2019)
Mr. Li Fang	(resigned on 7 March 2019)
Mr. Lau Shun Pong Johnson	(resigned on 10 April 2019)
Mr. Lai Ming Wai	(resigned on 11 April 2019)

DIRECTORS' SERVICE CONTRACTS

None of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

UPDATES ON DIRECTORS' INFORMATION

There is no updated information of directors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Details of the directors' and the chief executive's remuneration are set out in note 12 to the consolidated financial statements.

INDEMNITY OF DIRECTORS

The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and other officers of the Company during the year.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "MATERIAL RELATED PARTY TRANSACTIONS" disclosure in note 42 to the consolidated financial statements, no contract of significance to which the Company or any of its subsidiaries was a party and in which a director or the controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, the interests of each of the directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules were as follows:

Long positions in the shares and underlying shares of the Company

Save as disclosed in the "EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS" disclosure in note 34 to the consolidated financial statements, as at 31 December 2019, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in note 34 to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and "EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS" disclosure in note 34 to the consolidated financial statements, at no time during the year ended 31 December 2019 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 debentures of, the Company or any other body corporate, and none of the Directors or their spouse or minor children had any rights to subscribe for the securities of the Company, or had exercised any such rights during the year.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2019, the following interests of more than 5% of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in the shares of the Company

Name of shareholder	Capacity and nature of interest	Personal interest	Corporate interest	Number of shares held	Approximate percentage of the Company's issued share capital *(Note 3)*
China Strategic Holdings Limited ("CSH")	Interest of controlled corporation	–	651,995,472	651,995,472 *(Note 1)*	17.81%
Mr. Ji Xiang ("Mr. Ji")	Interest of controlled corporation	–	496,976,000	496,976,000 *(Note 2)*	13.57%
Mr. Shen Jia ("Mr. Shen")	Beneficial owner	400,000,000	–	400,000,000	10.92%

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (Continued)

Notes:

1. CSH had an indirect interest in the Company through its 100% indirect ownership in U Credit (HK) Limited, which had security interest in 651,995,472 shares of the Company. U Credit (HK) Limited had enforced the security interest in 651,995,472 shares on 4 July 2019.

2. 496,976,000 shares were held by Excel Jade Limited, which was owned as to 100% by Mr. Ji. Accordingly, Mr. Ji was deemed to be interested in 496,976,000 shares of the Company under the SFO.

3. The percentage of shareholding is calculated on the basis of 3,661,864,729 shares of the Company in issue as at 31 December 2019.

Save as disclosed above, the Company had not been notified of other relevant interests or short positions in the shares and underlying shares of the Company as at 31 December 2019 as required pursuant to section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of at least 25% of the Company's issued shares at the date of the annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group recognises the importance of compliance with laws and regulations and any non-compliance may bring significant impact on the Group's operations. The Group's products are exported globally and the major markets include the USA, the European union, Japan and the PRC. The Group complied with those importing requirements, including product safety and material selections, imposed by these importing countries. Compliance with the PRC regulations are also essential to the Group manufacturing operations in the PRC. The Group is continuously monitoring the evolving regulations and ensure its compliance.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands the importance of maintaining a good relationship with its employees, customers and suppliers to meet its immediate and long-term business goals. During the year ended 31 December 2019, there were no material and significant dispute between the Group and its employees, customers and suppliers.

ENVIRONMENTAL POLICY AND PERFORMANCE

The Group encourages environmental protection and is committed to fulfil its environmental, social and corporate responsibilities. Various investments in optimizing energy use and paper use were made and will be made. Measures were made to prevent or minimize pollutions and provide a safe and healthy working environment. The Group continues to review the latest technology and the best practices in the industry for adoption to address the environmental, social and corporate responsibilities.

AUDITORS

The consolidated financial statements for the year ended 31 December 2019 have been audited by Moore Stephens CPA Limited who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Zhao Deyong
Chairman

Hong Kong, 18 March 2020

CORPORATE GOVERNANCE REPORT

The Board is committed to maintaining high standards of corporate governance practices at all times. The Board believes that good corporate governance helps the Company to safeguard the interests of its shareholders and to enhance the performance of the Group.

CORPORATE GOVERNANCE

During the financial year ended 31 December 2019, the Company had complied with all the applicable code provisions of the Corporate Governance Code set out in Appendix 14 of the Listing Rules except for the following deviation with reason as explained.

Pursuant to Code A.6.7, the independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders.

Two Executive Directors and one Non-executive Director of the Company were unable to attend the special general meeting of the Company held on 10 May 2019 due to other prior business engagements. One Non-executive Director of the Company was unable to attend the annual general meeting of the Company held on 4 December 2019 due to other prior business engagement. However, there was at least one Independent Non-executive Director presented at each meeting to enable the Board to develop a balanced understanding of the views of shareholders of the Company.

Two Independent Non-executive Directors were resigned on 10 April 2019 and 11 April 2019 respectively. Upon the resignation of two Independent Non-executive Directors, the number of Independent Non-executive Directors falls below the minimum number of independent non-executive directors as required under Rules 3.10(1) and 3.10A of the Listing Rules. The number of members of the Audit Committee also below the minimum number as required under Rule 3.21 of the Listing Rules. Furthermore, there is a vacancy in the Nomination Committee and the Remuneration Committee for the period from 10 April 2019 to 21 May 2019.

Non-Compliance with Financial Reporting Provisions of the Listing Rules

On 28 March 2019, the Company announces that as additional time will be required to provide the required information to the auditors of the Company to perform the audit work in respect of the financial information of the Group for the year ended 31 December 2018, the Company could not timely publish its annual results and annual report as required under the Listing Rules.

On 3 May 2019, SHINEWING (HK) CPA Limited ("Shinewing") resigned as the auditor of the Group after taking into account several factors, including among others:

1. several major outstanding audit matters including, but not limited to, the disposal transaction of subsidiaries of the Group and the use of going concern basis underlying the preparation of the financial statements of the Group for the year ended 31 December 2018; and

2. a direct confirmation received by Shinewing from a debtor of the Group during the course of audit which indicated that the confirmed balances/transactions appear to have involved arrangements with certain directors of the Company that were not reflected in the books and records of the Group's subsidiary.

CORPORATE GOVERNANCE (Continued)

Non-Compliance with Financial Reporting Provisions of the Listing Rules (Continued)

Following the resignation of Shinewing, Prism CPA Limited ("Prism") was appointed as the auditors of the Group on 8 May 2019. Prism will accept the appointment as auditors of the Group after the satisfactory completion of their client acceptance procedures. Further on 6 June 2019, Prism stated that they were unable to accept the appointment as auditors of the Group as they were unable to commit to the timetable set by the Board regarding the completion of the audit work on the consolidated financial statements of the Group for the year ended 31 December 2018. Subsequently, the Company appoint Moore Stephens CPA Limited as the auditors of the Group with effect from 6 June 2019.

As such, the Company was not able to timely comply with the financial reporting provisions under the Listing Rules in (i) announcing the annual results for the financial years ended 31 December 2018 and interim results for the six month periods ended 30 June 2019; and (ii) publishing the related annual reports and interim reports for the above-mentioned years and periods.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Specific enquiries have been made with the Directors and they have confirmed their compliance with the Own Code and the Model Code during the year ended 31 December 2019.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

The overall management and control of the Group's business are vested in the Board. The Board is responsible for establishing policies, strategies and plans, providing leadership in creating value and overseeing the Group's financial performance on behalf of shareholders of the Company.

The Board reserves for its decision on all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

The day-to-day management, administration and operations of the Group are delegated to the executive director and senior management of the Company. Prior to entering into any significant transactions, the executive director and senior management of the Company have to obtain Board approval.

As at the date of this annual report, the Board comprises seven Directors, including three Executive Directors, namely Mr. Zhao Deyong (Chairman), Mr. Liu Michael Xiao Ming and Mr. Luo Lianjun; one Non-executive Director, namely Mr. Lin Shaopeng; and three Independent Non-executive Directors, namely Mr. Kwok Kim Hung Eddie, Mr. Ng Wai Hung and Ms. Shi Xiaolei. The Company has received from each of the Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors are independent in accordance with the independence guidelines set out in the Listing Rules. Biographical details of the Directors are set out under the section headed "BIOGRAPHICAL DETAILS OF DIRECTORS" on pages 28 to 30 of this annual report.

The Company will provide a comprehensive, formal and tailored induction to each newly appointed director on his/her first appointment in order to enable him/her to have appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

BOARD OF DIRECTORS (Continued)

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Directors are continually updated on developments in the statutory and regulatory regime and the business environment 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. Continuing briefing and professional development for directors are arranged where necessary.

During the year ended 31 December 2019, three regular full Board meetings and two general meetings were held and the attendance of each director is set out as follows:

	Number of attendance	
Name of directors	**Board Meetings**	**General Meetings**
Executive Directors		
Mr. Zhao Deyong (appointed on 16 May 2019)	3/3	1/2
Mr. Liu Michael Xiao Ming (appointed on 10 May 2019)	3/3	1/2
Mr. Luo Lianjun (appointed on 10 May 2019)	3/3	1/2
Mr. Xing Wei (removed on 10 May 2019)	N/A	0/2
Mr. Wei Guo (removed on 10 May 2019)	N/A	0/2
Non-executive Director		
Mr. Lin Shaopeng	3/3	0/2
Independent Non-executive Directors		
Mr. Kwok Kim Hung Eddie (appointed on 7 March 2019)	3/3	2/2
Mr. Ng Wai Hung (appointed on 21 May 2019)	3/3	1/2
Ms. Shi Xiaolei (appointed on 21 May 2019)	3/3	1/2
Mr. Li Fang (resigned on 7 March 2019)	N/A	N/A
Mr. Lau Shun Pong Johnson (resigned on 10 April 2019)	N/A	N/A
Mr. Lai Ming Wai (resigned on 11 April 2019)	N/A	N/A

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

There are two key aspects of the management of the Company – the management of the Board and the day-to-day management of the Group’s business. The Company supports that there should be a clear division of these responsibilities at the Board level to ensure a balance of power and authority, so that power is not concentrated in any one individual. Currently, Mr. Zhao Deyong, the Chairman of the Board and the Executive Director of the Company, takes up the responsibility of the management of the Board. Mr. Liu Michael Xiao Ming, the Executive Director and Chief Executive Officer of the Company is responsible for the day-to-day management of the Group’s business.

NON-EXECUTIVE DIRECTORS

Each of the Non-executive Director and Independent Non-executive Director is appointed for a term of twelve-month period which automatically renews for successive twelve-month periods unless terminated by either party in writing prior to the expiry of the term. The Non-executive Directors and all the Independent Non-executive Directors are also subject to retirement by rotation and re-election at least once every three years at the annual general meetings of the Company in accordance with the Company's Bye-laws.

REMUNERATION COMMITTEE

The Remuneration Committee has specific written terms of reference as set out in the CG Code. As at the date of this annual report, the Remuneration Committee comprises three Independent Non-executive Directors, namely Mr. Kwok Kim Hung Eddie, Mr. Ng Wai Hung and Ms. Shi Xiaolei. Ms. Shi Xiaolei is the Chairman of the Remuneration Committee.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's remuneration policy and structure and the remuneration packages of directors and senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his associates will participate in deciding his own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions. The full terms of reference of the Remuneration Committee are available on the Company's website and the Stock Exchange's website.

The Remuneration Committee met two times during the year ended 31 December 2019 to review the remuneration packages for directors. The attendance of each member is set out as follows:

Name of member	Number of attendance
Mr. Kwok Kim Hung Eddie (appointed on 7 March 2019)	2/2
Mr. Ng Wai Hung (appointed on 21 May 2019)	2/2
Ms. Shi Xiaolei (appointed on 21 May 2019)	2/2
Mr. Li Fang (resigned on 7 March 2019)	N/A
Mr. Lau Shun Pong Johnson (resigned on 10 April 2019)	N/A
Mr. Lai Ming Wai (resigned on 11 April 2019)	N/A

NOMINATION COMMITTEE

The Nomination Committee has specific written terms of reference as set out in the CG Code. As at the date of this annual report, the Nomination Committee comprises three Independent Non-executive Directors, namely Mr. Kwok Kim Hung Eddie, Mr. Ng Wai Hung and Ms. Shi Xiaolei. Mr. Ng Wai Hung is the Chairman of the Nomination Committee.

The Nomination Committee is mainly responsible for making recommendations to the Board on the appointment of directors, evaluation of board composition, assessment of the independence of independent non-executive directors and the management of the Board succession. The full terms of reference of the Nomination Committee are available on Company's website and the Stock Exchange's website.

The Nomination Committee met one time during the year ended 31 December 2019 to review the appointment of the directors, the structure, size and composition of the Board. The attendance of each member is set out as follows:

Name of member	**Number of attendance**
Mr. Kwok Kim Hung Eddie (appointed on 7 March 2019)	1/1
Mr. Ng Wai Hung (appointed on 21 May 2019)	1/1
Ms. Shi Xiaolei (appointed on 21 May 2019)	1/1
Mr. Li Fang (resigned on 7 March 2019)	N/A
Mr. Lau Shun Pong Johnson (resigned on 10 April 2019)	N/A
Mr. Lai Ming Wai (resigned on 11 April 2019)	N/A

The Board had adopted a board diversity policy (the "Policy") in September 2013 and amended by resolutions of the Board passed on 21 October 2019 which sets out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates will be considered against selection criteria, having regard for the benefits of diversity on the Board. Selection of candidates will be based on range of diversity perspectives, which would include but not limited to gender, age, cultural and educational background, ethnicity, 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. The Nomination Committee will monitor the implementation of the Policy and will from time to time review the Policy, as appropriate, to ensure the effectiveness of the Policy.

AUDIT COMMITTEE

The Audit Committee has specific written terms of reference as set out in the CG Code. As at the date of this annual report, the Audit Committee comprises three Independent Non-executive Directors, namely Mr. Kwok Kim Hung Eddie, Mr. Ng Wai Hung and Ms. Shi Xiaolei. Mr. Kwok Kim Hung Eddie is the Chairman of the Audit Committee.

The main duties of the Audit Committee are reviewing the financial information and reports of the Group and considering any significant or unusual items raised by the financial officers of the Group or external auditor before submission to the Board; reviewing the relationship with and the terms of appointment of the external auditor and making the relevant recommendation to the Board; and reviewing the Group's financial reporting system, internal control system and risk management system. The Audit Committee is also delegated the corporate governance function of the Board to monitor, procure and manage corporate governance compliance within the Group. The full terms of reference of the Audit Committee are available on Company's website and the Stock Exchange's website.

The Audit Committee met two times during the year ended 31 December 2019 and the attendance of each member is set out as follows:

Name of member	Number of attendance
Mr. Kwok Kim Hung Eddie (appointed on 7 March 2019)	2/2
Mr. Ng Wai Hung (appointed on 21 May 2019)	2/2
Ms. Shi Xiaolei (appointed on 21 May 2019)	2/2
Mr. Li Fang (resigned on 7 March 2019)	N/A
Mr. Lau Shun Pong Johnson (resigned on 10 April 2019)	N/A
Mr. Lai Ming Wai (resigned on 11 April 2019)	N/A

The following is a summary of work performed by the Audit Committee during the year ended 31 December 2019:

1. Reviewed and approved the remuneration and terms of engagement of the Company's auditor; and reviewed and made recommendations to the Board on the appointment of the Company's auditor;

2. reviewed and discussed the Group's management accounts; and

3. adoption of internal control review report in order to assess the internal control system of the Group.

AUDITOR AND AUDITOR'S REMUNERATION

The consolidated financial statements of the Company for the year ended 31 December 2019 have been audited by Moore Stephens CPA Limited ("Moore Stephens"). The statement of the external auditor of the Company about its reporting responsibilities on the Company's consolidated financial statements for the year ended 31 December 2019 is set out in the section headed "Independent Auditor's Report" on pages 49 to 56 of this annual report.

During the year ended 31 December 2019, the following fees were paid or payable to Moore Stephens, the auditor of the Company:

	HK$'000
Fee for audit services *(Note a)*	1,800
Total	1,800

Notes:

(a) The audit services provided by Moore Stephens.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of financial statements of the Company for each financial period with a true and fair presentation of the financial position of the Group. The Company's financial statements are prepared in accordance with all statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and the related interpretations, adjustments and estimates made are prudent and reasonable and the financial statements have been prepared on a going concern basis. The Directors are aware of conditions indicating the existence of material uncertainty related to going concern, and are of the view that the Group will continue as a going concern for the reasons stated as set out in the paragraph "The Group's ability to continue as a going concern basis" under "Basis of Preparation of the Consolidated Financial Statements" on pages 64 and 65 of this report. The statement made by the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the section headed "Independent Auditor's Report" of this annual report.

CORPORATE GOVERNANCE FUNCTIONS

In order to establish the duties and responsibilities of the Board in performing its corporate governance functions, the Board has delegated certain corporate governance functions to the Audit Committee, which include (i) developing and reviewing policies and practices on corporate governance; (ii) reviewing and monitoring the training and continuous professional development of directors and senior management; (iii) reviewing and monitoring the policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and directors; and (v) reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

INTERNAL CONTROL

The Board recognises its responsibilities for maintaining an adequate system of internal control to safeguard the Group's assets and shareholders' interests. An internal control system, including a defined management structure with limits of authority, is designed to help achieving business objectives, safeguarding assets against unauthorised use, and maintaining proper accounting records for the provision of reliable financial information for internal use and for publication. The internal control system is set up to provide reasonable, but not absolute, assurance against material misstatement of financial statements or loss of assets and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

The Group has a positive attitude to internal controls improvements. For the purpose of strengthening its existing internal control system, the Company has appointed an independent professional firm to perform a review of the Group's selected internal control cycles during the year ended 31 December 2019. The internal control review report has been reviewed by the Audit Committee. The Group is considering the recommendations on the deficiencies identified by the independent professional firm and the recommendations will be followed up on a regular basis and discussed with the Audit Committee.

COMPANY SECRETARY

Mr. Yip Chun Chung ("Mr. Yip") was appointed as the Company Secretary of the Company on 7 March 2019 and resigned on 1 December 2019. Following Mr. Yip's resignation, Mr. Liu Ze Kui, Alex ("Mr. Liu") was appointed as the Company Secretary of the Company on 1 December 2019. Mr. Liu is a full time employee of the Company who has day-to-day knowledge of the Company. Mr. Liu has taken no less than 15 hours of the relevant professional training during the year ended 31 December 2019.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene a special general meeting

According to bye-law 58 of the Company's Bye-laws, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda (the "Companies Act").

Procedures for shareholders to put forward proposals at general meetings

Pursuant to the Companies Act, any number of shareholders representing not less than one-twentieth of the total voting rights of all the shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or not less than one hundred shareholders, can request the Company in writing to:

(a) give to shareholders of the Company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting;

(b) circulate to shareholders of the Company entitled to have notice of any general meeting send to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

The requisition must be deposited to the Company not less than six weeks before the meeting in case of a requisition requiring notice of a resolution or not less than one week before the meeting in case of any other requisition.

SHAREHOLDERS' RIGHTS (Continued)

Procedures for shareholders to propose a person for election as a director of the Company

According to bye-law 88 of the Company's Bye-laws, no person other than a director retiring at the general meeting of the Company shall, unless recommended by the Board for election, be eligible for election to the office of director at any general meeting of the Company unless a notice in writing of the intention to propose such person for election as a director, signed by a shareholder of the Company (other than the person to be proposed for election as a director) duly qualified to attend and vote at the general meeting of the Company for which such notice is given, and a notice in writing signed by such person of his/her willingness to be elected shall have been lodged at the Company's head office in Hong Kong or at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven days and the period for lodgement of such notice(s) shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns in writing to the Company Secretary of the Company at the Company's head office in Hong Kong at Rooms 2202–2203, 22/F., Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong.

INVESTOR RELATIONS

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual and interim reports, constitutional documents, notices, announcements and circulars and the Company's website at www.winshine.com and www.tricor.com.hk/webservice/000209. Information on the Company's website will be updated from time to time.

MOORE

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大華馬施雲
會計師事務所有限公司

TO THE SHAREHOLDERS OF WINSHINE SCIENCE COMPANY LIMITED
瀛晟科學有限公司
(incorporated in Bermuda with limited liability)

Qualified Opinion

We have audited the consolidated financial statements of Winshine Science Company Limited ("the Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 57 to 163, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects on the corresponding comparative figures of the matters described in the section of "Basis for Qualified Opinion" of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

Comparative information of the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows

As detailed in our auditor's report dated 30 October 2019 on the consolidated financial statements of the Group for the year ended 31 December 2018 (the "2018 Audit Report"), we expressed a disclaimer of opinion on the consolidated financial statements due to the scope limitations concerning the matters described in (i) and (ii) below.

(i) Impairment losses on the Group's deposit paid for refurbishment of properties and other receivables

During the year ended 31 December 2018, the Group recognised impairment losses on (i) deposit paid in 2016 for refurbishment of properties amounting to approximately RMB54.7 million (equivalent to approximately HK$64.6 million) and (ii) other receivables which arose in February 2016 in connection with an acquisition of certain assets and assumption of certain liabilities through the acquisition of the entire equity interest of a subsidiary, amounting to approximately RMB33.2 million (equivalent to approximately HK$39.3 million). We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves about the nature and validity of the deposits paid in 2016 and as to whether, and if so how much of, the impairment losses recognised in consolidated profit or loss for the year ended 31 December 2018 in respect of the other receivables and the deposits for the refurbishment of the properties referred to above should be recognised in financial years prior to the year ended 31 December 2018.

(ii) Inability to obtain sufficient appropriate audit evidence concerning certain transactions and loans made by a subsidiary of the Group

During the year ended 31 December 2018, the Group recognised certain transactions (the "Transactions") and loans (the "Loans") made by a subsidiary of the Group established in Hainan, the PRC in respect of which we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves regarding the nature and business rationale for making the short-term fund advance arrangements, and whether any party related to related parties of the Group was involved in the transactions, particularly given the influence and involvement of a former director of the Company (the "Ex-Director") in the arrangements for the Transactions given the discovery of discrepancies between the direct confirmation received from the Debtor (as defined in the 2018 Audit Report) and the accounting records by the then auditor in March 2019, and therefore we did not consider that we had obtained sufficient appropriate audit evidence to satisfy ourselves that the Ex-Director was not related to those counterparties, other than those whom expressively identified as such by the Ex-Director, for the Loans and short-term fund advance arrangements under the Transactions and thus that these parties were not related parties in accordance with Hong Kong Accounting Standard 24 "Related Party Disclosures". Accordingly, we were unable to conclude whether the associated related party transaction disclosures in respect of the financial year ended 31 December 2018 were complete and accurate as well as satisfying ourselves about the nature and the underlying commercial reasons of entering into the above transactions.

Any adjustments found to be necessary in respect of the matters described in (i) and (ii) above might have significant effects on the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year ended 31 December 2018. Our audit opinion on the consolidated financial statements for the year ended 31 December 2018 was modified accordingly. Our opinion on the current year's consolidated financial statements is also modified because of the possible effects of these matters on the comparability of the current year's figures and the corresponding figures.

We conducted our audit on the consolidated financial statements in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on the consolidated financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the "Basis of Qualified Opinion" section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of inventories	
We identified the impairment assessment of inventories as a key audit matter because the amounts of inventories were significant and the assessment of provision for stock obsolescence required significant management judgement and involved high level of estimation uncertainty. The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than cost. The management of the Group reviewed the inventory ageing report at the end of the reporting period to identify inventories that are no longer saleable in the market and estimated the net realisable value for those items based primarily on the latest invoice prices and current market conditions. As at 31 December 2019, the carrying amount of inventories is HK$67,541,000 and write down of inventories of HK$4,406,000 was charged to profit or loss for the year then ended.	Our key procedures in relation to evaluating the impairment assessment of inventories included: • obtaining understanding of and evaluating the Group's provision policy on inventories; • reviewing and assessing the management's process of the identification of obsolete or slow-moving inventories and estimation of the net realisable value of these inventories; • testing the accuracy of the inventory ageing analysis, on a sampling basis, and analysing the level of the aged inventory and their associated provisions; • obtaining the inventory ageing report to identify long aged inventories and assessing whether allowance for inventories was properly provided for; and • reviewing and evaluating net realisable value of inventories, on a sample basis, with reference to subsequent usage and sales information and performing testing on a sample basis, by tracing to the supporting documents.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
We identified the valuation of investment properties as a key audit matter due to the key source of estimation uncertainty and the significant assumptions and judgments involved in the valuation. As disclosed in note 19 to the consolidated financial statements, the Group's investment properties amounted to HK$110,518,000 as at 31 December 2019. Gain of fair value change of investment properties of HK$7,045,000 was recognised in the consolidated statement of profit or loss for the year then ended. The fair value of the Group's investment properties was determined by adopting the valuation techniques with significant unobservable inputs, assumptions of market conditions and judgments on appropriate valuation techniques and inputs adopted. The Group also worked closely with the independent qualified valuer to establish and determine the appropriate valuation techniques.	Our key procedures in relation to assessing valuation assessment of investment properties included: • reviewing the valuation report from independent qualified valuer and holding discussion with management and independent qualified valuer to understand the valuation basis, methodology used and underlying assumptions applied; • evaluating management's process in respect of reviewing the valuation performed by independent qualified valuer; • evaluating the competence, capabilities and objectivity of independent qualified valuer; • obtaining the underlying data including comparables of market transactions being used by the independent qualified valuer and assessing whether they are appropriate and supportable; and • performing market research and analysis to assess whether the changes in fair value of investment properties resulted from the valuation was reasonable and consistent with market trends to our knowledge.

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate evidence to determine whether any adjustments were necessary to the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year ended 31 December 2018 in respect of the matters described in sub-sections (i) and (ii) therein. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to these matters.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Moore Stephens CPA Limited
Certified Public Accountants

Lai Hung Wai
Practising Certificate Number: P06995

Hong Kong, 18 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	6	**649,490**	636,882
Cost of sales		**(574,551)**	(567,137)
Gross profit		**74,939**	69,745
Other income, gains and losses	7	**16,822**	16,589
Impairment loss on deposit paid for refurbishment of properties	8	**–**	(64,627)
Impairment loss on other receivables	8	**–**	(39,315)
Provision of expected credit loss for loan receivables, net	20	**(1,082)**	(2,045)
Provision of expected credit loss for loan interest receivables	25	**(1,008)**	–
Provision of expected credit loss for trade receivables	23	**(434)**	(138)
Selling and distribution costs		**(6,403)**	(8,183)
Administrative expenses		**(73,907)**	(80,047)
Research and development expenses		**(2,523)**	(1,972)
Changes in fair value of financial assets at fair value through profit or loss		**(10,689)**	(9,999)
Other operating expenses		**(14,404)**	(15,616)
Finance costs	9	**(14,785)**	(8,745)
Loss before tax		**(33,474)**	(144,353)
Income tax expense	10	**(8,948)**	(9,272)
Loss for the year	11	**(42,422)**	(153,625)
Loss for the year attributable to the owners of the Company		**(42,422)**	(153,625)
Loss per share	15		
Basic and diluted		**(HK1.16 cents)**	(HK4.20 cents)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	**2019** **HK$'000**	2018 HK$'000
Loss for the year		**(42,422)**	(153,625)
Other comprehensive income (expense)			
Items that will not be reclassified to profit or loss:			
Gain on revaluation of properties	*16*	**4,741**	1,678
Deferred tax (charge) credit arising from revaluation surplus of properties	*32*	**(400)**	800
		4,341	2,478
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(5,977)**	(14,426)
Other comprehensive expense for the year		**(1,636)**	(11,948)
Total comprehensive expense for the year		**(44,058)**	(165,573)
Total comprehensive expense for the year attributable to the owners of the Company		**(44,058)**	(165,573)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	16	**135,168**	126,570
Right-of-use assets	17	**9,185**	–
Prepaid land premiums	18	**–**	3,729
Investment properties	19	**110,518**	105,912
Loan receivables	20	**–**	13,987
Deferred tax assets	32	**7,517**	8,808
		262,388	259,006
Current assets			
Financial assets at fair value through profit or loss	21	**6,891**	17,580
Inventories	22	**67,541**	89,424
Prepaid land premiums	18	**–**	143
Trade receivables	23	**84,779**	43,245
Loan receivables	20	**9,615**	4,510
Amount due from a related party	24	**–**	228
Prepayments, deposits and other receivables	25	**17,088**	35,221
Pledged bank deposits	26	**58,170**	–
Bank balances and cash	26	**89,280**	75,489
		333,364	265,840
Current liabilities			
Trade payables	27	**148,159**	117,862
Other payables and accruals	28	**35,330**	54,041
Contract liabilities	29	**542**	1,745
Borrowings	30	**209,441**	160,422
Lease liabilities	31	**3,458**	–
Tax payables		**2,083**	2,133
		399,013	336,203
Net current liabilities		**(65,649)**	(70,363)
Total assets less current liabilities		**196,739**	188,643
Non-current liabilities			
Borrowings	30	**45,000**	–
Lease liabilities	31	**2,005**	–
Deferred tax liabilities	32	**29,455**	24,306
		76,460	24,306
Net assets		**120,279**	164,337

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Note	2019 HK$'000	2018 HK$'000
Capital and reserves			
Share capital	33	**366,186**	366,186
Deficit		**(245,907)**	(201,849)
Total equity		**120,279**	164,337

The consolidated financial statements on pages 57 to 163 were approved and authorised for issue by the board of directors on 18 March 2020 and are signed on its behalf by:

ZHAO Deyong
Executive Director

LIU Michael Xiao Ming
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to owners of the Company							
	Issued share capital	**Share premium**	**Asset revaluation reserve**	**Statutory reserve fund**	**Share options reserve**	**Exchange fluctuation reserve**	**Accumulated losses**	**Total equity**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2018	366,186	942,400	52,886	10,230	58,693	39,234	(1,139,719)	329,910
Loss for the year	–	–	–	–	–	–	(153,625)	(153,625)
Other comprehensive income (expense) for the year	–	–	2,478	–	–	(14,426)	–	(11,948)
Total comprehensive income (expense) for the year	–	–	2,478	–	–	(14,426)	(153,625)	(165,573)
Revaluation reserve realised	–	–	(1,889)	–	–	–	1,889	–
Share options lapsed *(note 34)*	–	–	–	–	(7,907)	–	7,907	–
Appropriation to statutory reserve fund	–	–	–	700	–	–	(700)	–
At 31 December 2018	**366,186**	**942,400**	**53,475**	**10,930**	**50,786**	**24,808**	**(1,284,248)**	**164,337**
Loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(42,422)**	**(42,422)**
Other comprehensive income (expense) for the year	**-**	**-**	**4,341**	**-**	**-**	**(5,977)**	**-**	**(1,636)**
Total comprehensive income (expense) for the year	**-**	**-**	**4,341**	**-**	**-**	**(5,977)**	**(42,422)**	**(44,058)**
Revaluation reserve realised	**-**	**-**	**(1,981)**	**-**	**-**	**-**	**1,981**	**-**
Share options lapsed *(note 34)*	**-**	**-**	**-**	**-**	**(13,070)**	**-**	**13,070**	**-**
Appropriation to statutory reserve fund	**-**	**-**	**-**	**814**	**-**	**-**	**(814)**	**-**
At 31 December 2019	**366,186**	**942,400**	**55,835**	**11,744**	**37,716**	**18,831**	**(1,312,433)**	**120,279**

Note: The Group's subsidiaries in the People's Republic of China (the "PRC") are required to allocate at least 10% of net profit according to their PRC audited financial statements to a statutory reserve fund until the balance of such reserve has reached 50% of the subsidiaries' registered capital. Any further appropriation is optional. The statutory reserve fund shall only be used for making up losses or for capitalisation into share capital, provided that the remaining balance is not less than 20% of the registered capital of the entity after such capitalisation.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 HK$'000	2018 HK$'000
Operating activities		
Loss before tax	**(33,474)**	(144,353)
Adjustments for:		
Finance costs	**14,785**	8,745
Interest income	**(2,107)**	(3,685)
Amortisation of prepaid land premiums	**–**	144
Depreciation of property, plant and equipment	**10,029**	9,588
Depreciation of right-of-use assets	**3,535**	–
Unrealised loss on fair value of financial assets at fair value through profit or loss	**10,689**	9,999
Gain on fair value changes of investment properties	**(7,045)**	(8,979)
Gain on disposal of property, plant and equipment	**(73)**	(129)
Impairment loss on deposit paid for refurbishment of properties	**–**	64,627
Impairment loss on other receivables	**–**	39,315
Reversal of provision of expected credit loss for loan receivables	**(3,290)**	–
Provision of expected credit loss for loan receivables	**4,372**	2,045
Provision of expected credit loss for loan interest receivables	**1,008**	–
Provision of expected credit loss for trade receivables	**434**	138
Write-off on trade receivables	**139**	256
Write down of inventories, net	**4,406**	2,749
Operating cash flows before movements in working capital	**3,408**	(19,540)
Decrease (increase) in inventories	**12,380**	(12,473)
(Increase) decrease in trade receivables	**(42,107)**	71,061
Decrease (increase) in prepayments, deposits and other receivables	**16,725**	(18,233)
Increase (decrease) in trade payables	**31,300**	(56,685)
Increase (decrease) in other payables and accruals	**3,094**	(12,165)
Decrease in contract liabilities	**(1,203)**	(497)
Cash generated from (used in) operations	**23,597**	(48,532)
Income tax paid	**(2,695)**	(9,269)
Net cash from (used in) operating activities	**20,902**	(57,801)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 HK$'000	2018 HK$'000
Investing activities			
Purchases of property, plant and equipment		**(15,637)**	(12,832)
Payment for right-for-use assets		**(114)**	–
Proceeds on disposal of property, plant and equipment		**1,146**	500
Deposit refunded for termination of disposal of a subsidiary	28	**(21,214)**	–
Deposit received for disposal of a subsidiary	28	**–**	26,803
Repayment from (advance to) a related company		**228**	(236)
Advances of loan receivables		**–**	(16,000)
Receipts of loan receivables		**7,800**	8,359
Interest received		**1,200**	3,685
Withdrawal of pledged bank deposits		**–**	21,207
Placement of pledged bank deposits		**(59,214)**	–
Net cash (used in) from investing activities		**(85,805)**	31,486
Financing activities			
Proceeds from borrowings		**689,340**	547,232
Repayment of borrowings		**(591,176)**	(566,990)
Interest paid		**(14,785)**	(8,745)
Repayment of lease liabilities		**(3,271)**	–
Net cash from (used in) financing activities		**80,108**	(28,503)
Net increase (decrease) in cash and cash equivalents		**15,205**	(54,818)
Cash and cash equivalents at beginning of the year		**75,489**	131,523
Effect of foreign exchange rate changes		**(1,414)**	(1,216)
Cash and cash equivalents at end of the year, represented by bank balances and cash		**89,280**	75,489

1. CORPORATE INFORMATION

Winshine Science Company Limited (the "Company", together with its subsidiaries collectively referred to as the "Group") is a limited liability company incorporated in Bermuda. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section to the annual report. The Company's shares are listed on The Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Due to the delay in publication of the 2018 annual results and pursuant to the requirements of Rule 13.50 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), trading in the shares of the Company on the Stock Exchange had been suspended with effect from 1 April 2019 and resumed at 27 February 2020.

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 43.

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

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(a) Matters arising from the change in directors

With effect from the conclusion of an extraordinary general meeting on 10 May 2019, the two executive directors of the Company were removed and two new executive directors were appointed into the board of directors of the Company (the "New Board" or the "directors"). The directors of the Company have reviewed the Group's corporate governance structure and identified that there were appropriate key management personnel in the subsidiaries of the Company who were responsible for the relevant operating and financial functions and could direct the relevant activities of the subsidiaries in previous years and prior to the change to the New Board. In the opinion of the directors of the Company, the accounting books and records of the Company and its subsidiaries have been properly maintained for the year ended 31 December 2019.

Based on the directors' assessment, the directors are of the view that they are able to fulfil their responsibilities to prepare the consolidated financial statements.

(b) The Group's ability to continue as a going concern basis

The Group continues to adopt the going concern basis in preparing its consolidated financial statements. For the year ended 31 December 2019, the Group incurred a loss of approximately HK$42,422,000 and as at 31 December 2019, the Group had net current liabilities of approximately HK$65,649,000. The Group's bank balances and cash and pledged bank deposits amounted to approximately HK$89,280,000 and HK$58,170,000 respectively, in contrast to its borrowings of approximately HK$254,441,000, of which approximately HK$209,441,000 are repayable within the next twelve months as disclosed in note 30.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(b) The Group's ability to continue as a going concern basis (Continued)

In order to improve the Group's financial position, the directors of the Company have been implementing various measures as follows:

i. negotiating with respective lenders to renew and extend existing borrowings upon their maturities, in which (a) an extension agreement for the borrowings of HK$45,000,000 entered into between the Company and the holder of the Bonds to extend the repayment terms to 31 March 2021; (b) an extension agreement in connection with the unsecured revolving loan facility amounting to HK$50,000,000 which has been entered into between the Company and a substantial shareholder of the Company prior to its maturity date on 30 September 2020 to further extend the credit facility to 31 March 2021 and such facility is un-utilised as at the end of the reporting period and up to the date of the approval of the consolidated financial statements; and (c) the bank facilities granted to the Group are secured by mortgage over or pledge of the Group's assets, the directors of the Company consider that it is highly probable that such bank facilities can be renewed at its maturity in June 2020, details of which are set out in note 30 to the consolidated financial statements;

ii. implementing an active cost-saving measures to control administrative costs through various ways to improve operating cash flows at a level sufficient to finance the working capital requirements of the Group; and

iii. reviewing its investments and actively considering to realise certain of investment properties and/or listed securities held for trading, in order to enhance the cash flow position of the Group whenever it is necessary.

On the basis of the above considerations and taking into account the above measures, the directors of the Company are of the opinion that, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from the date of issuance of these consolidated financial statements and accordingly, these consolidated financial statements have been prepared on a going concern basis.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

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

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases" ("HKAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 16 "Leases" (Continued)

As a lessee (Continued)

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

(i) relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review;

(ii) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

(iii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

(iv) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment.

(v) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities range from 6.0% to 10.0%.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 16 "Leases" (Continued)

As a lessee (Continued)

	At 1 January 2019 *HK$'000*
Operating lease commitments disclosed as at 31 December 2018	8,591
Lease liabilities discounted at relevant incremental borrowing rates	7,965
Less: Recognition exemption – short-term leases	(774)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 and lease liabilities as at 1 January 2019	7,191
Analysed as	
Current	2,935
Non-current	4,256
	7,191

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 16 "Leases" (Continued)

As a lessee (Continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets *HK$'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	7,191
Reclassified from prepaid lease payments (note)	3,872
	11,063
By class:	
Land and buildings	7,191
Leasehold land	3,872
	11,063

Note:

Upfront payments for leasehold lands in the PRC were classified as prepaid land premiums as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK$143,000 and HK$3,729,000 respectively were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 16 "Leases" (Continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2018	Adjustments	**Carrying amounts under HKFRS 16 at 1 January 2019**
		HK$'000	*HK$'000*	***HK$'000***
Non-current assets				
Prepaid land premiums	*18*	3,729	(3,729)	**–**
Right-of-use assets	*17*	–	11,063	**11,063**
Current assets				
Prepaid land premiums	*18*	143	(143)	**–**
Current liabilities				
Lease liabilities		–	2,935	**2,935**
Non-current liabilities				
Lease liabilities		–	4,256	**4,256**

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
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[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

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

2 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.

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

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

Except for the amendments to HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

4. 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 Listing Rules on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

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

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.

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

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

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

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to investment properties which are subsequently measured under fair value model and financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any identified impairment loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers

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

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 Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

Principal versus agent

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

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

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 3)

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

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3)

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 applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Short-term leases and leases of low-value assets

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3) (Continued)

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

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

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

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

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3) (Continued)

Refundable rental deposits

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

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3) (Continued)

Lease liabilities (Continued)

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

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

- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

Taxation

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as lessee (prior to 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.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in note 3)

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

The Group as lessor (prior to 1 January 2019)

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset. Other than investment properties measured under fair value model, such costs are recognised as an expense on a straight-line basis over the lease term.

Leasehold land and building (prior to 1 January 2019)

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Leasehold land and building (prior to 1 January 2019) (Continued)

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid land premiums" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing 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 of monetary items, and on the 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 operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange fluctuation reserve.

Borrowing costs

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries in accordance with the rules of the MPF Scheme and are recognised as an expense when employees have rendered services entitling them to the contribution payable.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain amounts for the employees in the PRC, pursuant to the local municipal government regulations. The contributions are recognised as an expense when employees have rendered services entitling them to the contribution.

Short-term employee benefits

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

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Share-based payments

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

Equity-settled share-based payment transactions (Continued)

Share options granted to employees (Continued)

When share options are exercised, the amount previously recognised in share options reserve will be transferred to accumulated losses. 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 options reserve will be transferred to accumulated losses.

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 tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment including buildings, leasehold land 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 or fair value less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Property, plant and equipment measured using revaluation model

Any revaluation increase arising from revaluation of property, plant and equipment is recognised in other comprehensive income and accumulated in revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognise in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of property, plant and equipment is recognised in profit or loss to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated losses.

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

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

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties measured using the fair value model

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties (Continued)

Investment properties measured using the fair value model (Continued)

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Intangible assets

Internally-generated intangible assets – research and development expenditure

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

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

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

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

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or 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 a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

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.

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

Financial instruments

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets

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

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

All other financial assets are subsequently measured at financial assets at fair value through profit or loss ("FVTPL"), except that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

A financial asset is classified as held for trading if:

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

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or fair value through other comprehensive income ("FVTOCI") as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

(i) Amortised cost and interest income

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

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, loan receivables, other receivables, amount due from a related party, pledged bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

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

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; or

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

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

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

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

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

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(iii) Credit-impaired financial assets

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

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL (Continued)

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

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group. Loans receivables are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at amortised cost

Financial liabilities including borrowings, trade payables and other payables are subsequently measured at amortised cost, using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Derecognition of financial liabilities

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgments, 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 on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Going concern considerations

The assessment of the going concern assumption involves making a judgment by the directors of the Company, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The directors of the Company consider that the Group has the ability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast doubts about the going concern assumption are set out in note 2.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgments in applying accounting policies (Continued)

Deferred taxation on investment properties

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the Group's deferred taxation on investment properties, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. The Group has recognised deferred tax on changes in fair value of investment property taking into account the land appreciation tax ("LAT") in the PRC which the Group will be subject to on the fair value changes of the investment property on disposal.

Key sources of estimation uncertainty

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

Deferred tax asset

As at 31 December 2019, a deferred tax asset of HK$7,517,000 (31 December 2018: HK$8,808,000) in relation to unused tax losses for an operating subsidiary has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the other tax losses of the subsidiaries in Hong Kong and the PRC of HK$118,291,000 (2018: HK$119,675,000) and Renminbi ("RMB") 29,436,000 (equivalent to approximately HK$32,859,000) (2018: RMB23,688,000 (equivalent to approximately HK$27,033,000)) respectively due to the unpredictability of future profit streams. The realisability 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 taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Fair value measurement and valuation processes of the investment properties

The investment properties are carried in the consolidated statement of financial position at their fair values at the end of each reporting period as disclosed in note 19. The fair values have been based on a valuation on the properties conducted by an independent firm of professional valuer using property valuation techniques which involve certain assumptions of market conditions.

In estimating the fair value of the Group's investment properties, the Group uses market-observable data to the extent they are available. Where Level 1 inputs are not available, the Group engages third party qualified professional valuer to perform the valuation of the Group's investment property. At the end of each reporting period, the management of the Group works closely with the qualified external valuer to establish and determine the appropriate valuation techniques and inputs for Level 2 and Level 3 fair value measurements. The management of the Group first considers and adopts Level 2 inputs where inputs can be derived from observable quoted prices in the active market. When Level 2 inputs are not available, the Group adopts valuation techniques that include Level 3 inputs. Where there is a material change in the fair values of the investment properties, the causes of the fluctuations are reported to the board of directors of the Company. Changes to assumptions and inputs would result in changes in the fair values of the Group's investment properties and corresponding adjustments to the amount of gain or loss reported in profit or loss.

Information about the valuation techniques and inputs used in determining the fair values of the Group's investment properties are disclosed in note 19.

Fair value measurement and valuation processes of the leasehold buildings

The leasehold buildings are stated at revalued amount less accumulated depreciation in the consolidated statement of financial position at the end of each reporting period as disclosed in note 16. The revalued amount has been based on a valuation on the buildings conducted by an independent firm of professional valuer using property valuation techniques which involve certain assumptions of market conditions.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Fair value measurement and valuation processes of the leasehold buildings (Continued)

In estimating the revalued amount of the Group's leasehold buildings, the Group uses market-observable data to the extent they are available. Where Level 1 inputs are not available, the Group engages third party qualified professional valuer to perform the valuation of the Group's leasehold buildings. At the end of each reporting period, the management of the Group works closely with the qualified external valuer to establish and determine the appropriate valuation techniques and inputs for Level 2 and Level 3 fair value measurements. The management of the Group first considers and adopts Level 2 inputs where inputs can be derived from observable quoted prices in the active market. When Level 2 inputs are not available, the Group adopts valuation techniques that include Level 3 inputs. Where there is a material change in the revalued amount of the leasehold buildings, the causes of the fluctuations are reported to the board of directors of the Company. Changes to assumptions and inputs would result in changes in the revalued amount of the Group's leasehold buildings and corresponding adjustments to the amount of gain or loss reported in other comprehensive income.

Information about the valuation techniques and inputs used in determining the revalued amount of the Group's leasehold buildings are disclosed in note 16.

Impairment of property, plant and equipment and right-of-use assets

The recoverable amount of an asset is the greater of its fair value less cost 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, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods. The carrying amounts of the property, plant and equipment and right-of-use assets as at the end of the reporting period are HK$135,168,000 and HK$9,185,000 (1 January 2019: HK$126,570,000 and HK$11,063,000) respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Impairment assessment of inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than cost. The management of the Group reviewed the inventory ageing report at the end of the reporting period to identify inventories that are no longer saleable in the market and estimated the net realisable value for those items based primarily on the latest invoice prices and current market conditions.

During the year ended 31 December 2019, write down of inventories of HK$4,406,000 (2018: HK$2,749,000) was charged to profit or loss. As at 31 December 2019, the carrying amount of the Group's inventories is HK$67,541,000 (2018: HK$89,424,000).

Provision of ECL for trade receivables

For trade receivables, the Group applies the simplified approach to provide for ECL as prescribed by HKFRS 9, which requires the use of the lifetime ECL for all trade receivables, except for those debtors with significant outstanding balances or credit impaired. The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Management reassesses the provision at each balance sheet date.

The information about the ECL and the Group's trade receivables are disclosed in notes 23 and 40(b).

As at 31 December 2019, the gross carrying amount of trade receivables is HK$85,351,000 (2018: HK$43,383,000), and the provision of ECL is HK$572,000 (2018: provision of ECL is HK$138,000).

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Provision of ECL for loan receivables

Impairment of loan receivables is assessed on 12m ECL basis when there had been no significant increase in credit risk since initial recognition. However, when there has been a significant increase in credit risk since origination, the allowances will be based on the lifetime ECL. Assessment are done based on the Group's historical credit loss experience, general conditions, internal credit ratings and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions. The provision of ECL is sensitive to changes in estimates.

The information about the ECL and the Group's loan receivables are disclosed in notes 20 and 40(b), respectively.

As at 31 December 2019, the gross carrying amount of loan receivables is HK$16,000,000 (2018: HK$23,800,000), and the provision of ECL is HK$6,385,000 (2018: HK$5,303,000).

6. REVENUE AND OPERATING SEGMENTS

Revenue represents revenue arising on sale of toy products for the year. All revenue is recognised at a point in time upon delivery of the goods to customers.

The Group manufactured toy products in accordance with the performance obligations as set out in each sales contracts with its customers. The performance obligations in sales contracts have an original expected duration of one year or less. The Group has applied the practical expedient in HKFRS 15 and hence information about the Group's remaining performance obligations that are unsatisfied (or partially satisfied) as of the end of the reporting period is not disclosed. The Group recognised the incremental costs of obtaining a contract as an expense when incurred since the amortisation period of the asset that the Group otherwise would have recognised was one year or less.

6. REVENUE AND OPERATING SEGMENTS (Continued)

	2019	2018
	HK$'000	*HK$'000*
Revenue from sales of finished goods of toy products	**649,490**	636,882

The Group is organised and its businesses are managed by divisions, which are a mixture of both business lines and geographical locations. Information reported internally to the executive directors of the Company, being the chief operating decision maker, for the purposes of resources allocation and performance assessment of segment performance focuses on types of goods or services delivered or provided. The Group has presented the following three reportable segments. No operating segments have been aggregated in arriving at the following reportable segments of the Group.

1. Securities investments: this segment derives its profits or losses from dividends received from, and other gains or losses from, equity securities investments.

2. Toys: this segment derives its revenue from manufacturing for sale of toys.

3. Medical and health: this segment is under development stage in which research and development expenses for the medical and health technology development have been incurred.

The chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

All assets are allocated to reportable segments other than refundable deposits, certain property, plant and equipment, certain prepayments and certain bank balances and cash, which are grouped as unallocated corporate assets.

All liabilities are allocated to reportable segments other than certain accruals, which are grouped as unallocated corporate liabilities.

Segment (loss) profit before tax excludes unallocated interest income and unallocated corporate expenses which are not directly attributable to the business activities of any operating segment.

6. REVENUE AND OPERATING SEGMENTS (Continued)

(a) Segment revenue, results, assets and liabilities

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

For the year ended 31 December 2019 and 2018

	Securities investments		Toys		Medical and health		Total	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
Reportable segment revenue								
Revenue from external customers	–	–	649,490	636,882	–	–	649,490	636,882
Reportable segment (loss) profit before tax	(10,690)	(10,001)	13,065	7,396	(2,523)	(1,972)	(148)	(4,577)
Unallocated corporate income							13,306	17,026
Unallocated corporate expenses							(46,632)	(156,802)
Loss before tax							(33,474)	(144,353)

6. REVENUE AND OPERATING SEGMENTS (Continued)

(a) Segment revenue, results, assets and liabilities (Continued)

	Securities investments		Toys		Medical and health		Unallocated		Total	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Other segment information (included in the measure of segment profit or loss or segment assets)										
Depreciation of property, plant and equipment	**–**	–	**(9,274)**	(8,169)	**–**	–	**(755)**	(1,419)	**(10,029)**	(9,588)
Depreciation of right-of-use assets	**–**	–	**(917)**	–	**–**	–	**(2,618)**	–	**(3,535)**	–
Amortisation of prepaid land premiums	**–**	–	**–**	(144)	**–**	–	**–**	–	**–**	(144)
Provision of ECL for trade receivables	**–**	–	**(434)**	(138)	**–**	–	**–**	–	**(434)**	(138)
Provision of ECL for loan receivables	**–**	–	**–**	–	**–**	–	**(4,372)**	(2,045)	**(4,372)**	(2,045)
Provision of ECL for loan interest receivables	**–**	–	**–**	–	**–**	–	**(1,008)**	–	**(1,008)**	–
Reversal of provision of ECL for loan receivables	**–**	–	**–**	–	**–**	–	**3,290**	–	**3,290**	–
Write-off on trade receivables	**–**	–	**(139)**	(256)	**–**	–	**–**	–	**(139)**	(256)
Write down of inventories, net	**–**	–	**(4,406)**	(2,749)	**–**	–	**–**	–	**(4,406)**	(2,749)
Gain (loss) on disposal of property, plant and equipment	**–**	–	**197**	129	**–**	–	**(124)**	–	**73**	129
Change in fair value of investment properties	**–**	–	**–**	–	**–**	–	**7,045**	8,979	**7,045**	8,979
Changes in fair value of financial assets at FVTPL	**(10,689)**	(9,999)	**–**	–	**–**	–	**–**	–	**(10,689)**	(9,999)
Bank interest income	**–**	–	**32**	454	**–**	–	**56**	266	**88**	720
Interest expense	**–**	–	**(11,420)**	(6,044)	**–**	–	**(3,365)**	(2,701)	**(14,785)**	(8,745)
Research and development expenses	**–**	–	**–**	–	**(2,523)**	(1,972)	**–**	–	**(2,523)**	(1,972)
Purchases of property, plant and equipment	**–**	–	**15,637**	12,395	**–**	–	**–**	437	**15,637**	12,832
Addition of right-of-use assets	**–**	–	**1,678**	–	**–**	–	**–**	–	**1,678**	–

6. REVENUE AND OPERATING SEGMENTS (Continued)

(b) Segment assets and liabilities

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

As at 31 December 2019

	Securities investments *HK$'000*	**Toys** *HK$'000*	**Medical and health** *HK$'000*	**Total** *HK$'000*
Reportable segment assets	**6,896**	**436,890**	**–**	**443,786**
Unallocated corporate assets				**151,966**
Total assets				**595,752**
Reportable segment liabilities	**–**	**(400,967)**	**–**	**(400,967)**
Unallocated corporate liabilities				**(74,506)**
Total liabilities				**(475,473)**

As at 31 December 2018

	Securities investments *HK$'000*	Toys *HK$'000*	Medical and health *HK$'000*	Total *HK$'000*
Reportable segment assets	17,580	302,466	–	320,046
Unallocated corporate assets				204,800
Total assets				524,846
Reportable segment liabilities	–	(283,438)	–	(283,438)
Unallocated corporate liabilities				(77,071)
Total liabilities				(360,509)

6. REVENUE AND OPERATING SEGMENTS (Continued)

(c) Geographical information

The following is an analysis of geographical location of (i) the Group's revenue and (ii) the Group's non-current assets including property, plant and equipment, right-of-use assets (2018: prepaid land premiums), investment properties and deposit paid for refurbishment of properties. The geographical location of customers refers to the customers' place of domicile. The geographical locations of property, plant and equipment, right-of-use assets (2018: prepaid land premiums), investment properties and deposit paid for refurbishment of properties are based on the physical location of the asset under consideration.

	Revenue from external customers		Non-current assets	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**11,432**	35,860	**4,348**	245
The PRC	**–**	–	**250,523**	235,966
United States	**621,695**	551,242	**–**	–
Europe	**16,363**	45,168	**–**	–
Japan	**–**	4,612	**–**	–
	649,490	636,882	**254,871**	236,211

(d) Information about major customers

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

	2019	2018
	HK$'000	*HK$'000*
Revenue from manufacturing for sale of toys segment		
Customer A	**570,776**	488,474

7. OTHER INCOME, GAINS AND LOSSES

	2019 HK$'000	2018 HK$'000
Bank interest income	**88**	720
Loan interest income	**2,019**	2,965
Changes in fair value of investment properties	**7,045**	8,979
Net foreign exchange gain	**4,279**	2,077
Mould income	**1,114**	79
Rental income	**1,870**	1,529
Compensation loss for refurbishment of properties	**–**	(437)
Gain on disposal of property, plant and equipment, net	**73**	129
Net agency commission income *(note 25(i))*	**–**	445
Sundry income	**334**	103
	16,822	16,589

8. IMPAIRMENT LOSSES AND PROVISION FOR EXPECTED CREDIT LOSSES

	2019 HK$'000	2018 HK$'000
Impairment loss on deposit paid for refurbishment of properties *(note)*	**–**	64,627
Impairment loss on other receivables *(note)*	**–**	39,315
Provision of ECL for loan receivables *(notes 20 and 40(b))*	**4,372**	2,045
Provision of ECL for loan interest receivables *(notes 25 and 40(b))*	**1,008**	–
Reversal of provision of ECL for loan receivables *(note 20)*	**(3,290)**	–
Provision of ECL for trade receivables *(notes 23 and 40(b))*	**434**	138

Note:

On 17 February 2016, the Group entered into a sale and purchase agreement (the "Acquisition Agreement") with third parties (the "Vendors") for the acquisition of certain assets and recognised certain liabilities through the acquisition of the entire equity interest of 宜諾科技(蘇州)有限公司 (Yi Nuo Technology (Suzhou) Co., Ltd., ("Yi Nuo")), a company established in the PRC, at a cash consideration of RMB64,500,000 (equivalent to approximately HK$74,500,000). The main assets of Yi Nuo are a parcel of land and the building thereon in Suzhou, Jiangsu Province, the PRC ("Suzhou Building") and a receivable amounting to RMB37,536,000 (equivalent to approximately HK$44,348,000) due from one of the Vendors ("Vendor B") which shall be settled within six months upon the completion of the acquisition according to payment schedule agreed with Vendor B (the "Receivable"). Out of the RMB64,500,000 (equivalent to approximately HK$74,500,000) cash consideration, RMB4,410,000 (equivalent to approximately HK$5,033,000) remained unsettled upon the completion of the acquisition. As at 31 December 2018, the amount due from Vendor B and the aforementioned outstanding cash consideration remained unsettled, while the directors of the Company considered that the amount of the Receivable (net of consideration payable) owing from Vendor B was uncollectible and hence an impairment loss of RMB33,177,000 (equivalent to approximately HK$39,315,000) for such receivables owing from Vendor B after netting off against the remaining consideration payable due to Vendor B was recognised in consolidated profit or loss for the year ended 31 December 2018.

8. IMPAIRMENT LOSSES AND PROVISION FOR EXPECTED CREDIT LOSSES (Continued)

Note: (Continued)

Furthermore, on 8 August 2016, the Group had entered into a refurbishment agreement with Vendor B for the Suzhou Building with a contract sum of RMB58,000,000 (equivalent to approximately HK$68,500,000), of which deposits of an aggregated amount of RMB54,700,000 (equivalent to approximately HK$64,627,000) were paid to the Vendor B during November and December 2016. As at 31 December 2018, the deposits were unutilised and the refurbishment work has not been completed. The Group has recognised an impairment loss of the deposits of RMB54,700,000 (equivalent to approximately HK$64,627,000) in its consolidated profit or loss for the year ended 31 December 2018 to fully write down the carrying amount of these deposits.

9. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest on bank loans	6,416	3,195
Interest on corporate bonds	3,052	2,701
Interest on revolving loans	3,768	2,849
Interest on short-term loans	1,141	–
Interest on lease liabilities	408	–
	14,785	8,745

10. INCOME TAX EXPENSE

	2019 HK$'000	2018 HK$'000
Hong Kong Profits Tax		
Current year	95	–
Overprovision in prior years	–	(872)
PRC Enterprise Income Tax		
Current year	2,957	2,565
(Over) underprovision in prior years	(424)	17
	2,628	1,710
Deferred tax expense *(note 32)*	6,320	7,562
Income tax expense	8,948	9,272

10. INCOME TAX EXPENSE (Continued)

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 the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amounts involved arising from the implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

The tax affairs of a subsidiary (incorporated in Hong Kong) of the Group for the period starting from 1 January 2004 were under field audit by the Hong Kong Inland Revenue Department ("IRD"). In prior year, the subsidiary submitted a reply to the IRD where the subsidiary agreed to withdraw certain deduction claims made in prior years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

The provision for LAT is calculated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided at ranges of progressive rates on the appreciation value, with certain allowable deductions.

The Group is liable to withholding taxes on dividends distributed by the subsidiaries established in the PRC in respect of earnings generated from 1 January 2008. Pursuant to the PRC Enterprise Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate of 5% is applied to the Group as there is a double tax treaty between the PRC and Hong Kong and the relevant Hong Kong companies should be qualified for the preferential tax rate based on the prescribed conditions.

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

10. INCOME TAX EXPENSE (Continued)

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

	2019 HK$'000	2018 HK$'000
Loss before tax	**(33,474)**	(144,353)
Notional tax on loss before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	**(5,066)**	(32,080)
Tax effect of tax losses not recognised	**1,639**	2,789
Tax effect of income not taxable for tax purpose	**(1,551)**	(53)
Tax effect of expenses not deductible for tax purpose	**10,394**	33,992
Tax effect of deductible temporary differences not recognised	**–**	366
Effect of withholding tax at 5% on the distributable profits of the Company's subsidiaries in the PRC	**387**	718
Deferred tax effects of LAT	**3,851**	4,395
Overprovision in prior years	**(424)**	(855)
Utilisation of deductible temporary differences previously not recognised	**(53)**	–
Utilisation of tax losses previously not recognised	**(229)**	–
Income tax expense for the year	**8,948**	9,272

11. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2019 HK$'000	2018 HK$'000
Employee benefit expense (including directors' remunerations):		
Wages and salaries *(note a)*	**114,953**	131,325
Other employee benefits	**5,404**	4,157
Contributions to defined contribution retirement plans	**9,681**	17,463
	130,038	152,945
Auditors' remuneration	**1,831**	4,009
Cost of inventories recognised as an expense (included in cost of sales) *(note b)*	**568,886**	560,588
Depreciation of property, plant and equipment	**10,029**	9,588
Depreciation of right-of-use assets	**3,535**	–
Amortisation of prepaid land premiums	**–**	144
Write-off on trade receivables	**139**	256
Write down of inventories, net (included in cost of sales)	**4,406**	2,749
Operating lease charges in respect of land and buildings	**1,712**	6,153

Notes:

(a) HK$37,225,000 and HK$1,185,000 of the employee benefit expenses are included in administrative expenses and selling and distribution costs respectively, the remaining are included in cost of sales.

(b) Cost of inventories included cost of materials consumed in production and sub-contracting labor costs amounting to HK$301,949,000 (2018: HK$268,691,000) and HK$47,204,000 (2018: HK$54,016,000) respectively.

(c) Other operation expenses included professional fees amounting to HK$11,075,000 (2018: HK$4,927,000).

During the year ended 31 December 2019, professional fees amounting to HK$2,822,000 (2018: nil) and HK$3,789,000 (2018: nil), were incurred for consulting and legal advice services for the purposes of holding special general meeting of the Company and resumption of trading in the shares of the Company on The Stock Exchange of Hong Kong Limited respectively.

During the year ended 31 December 2018, professional fees amounting to HK$484,000 were included in other operating expenses which were incurred for consulting and due diligence services for various potential investment projects that the Group planned to invest in the future.

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is as follows:

	Notes	Fees HK$'000	Salaries allowances and benefits in kind HK$'000	Retirement benefit scheme contributions HK$'000	Total remuneration HK$'000
2019					
Executive directors:					
Mr. Liu Michael Xiao Ming	*(i)*	–	2,669	–	2,669
Mr. Luo Lian Jun	*(ii)*	–	154	–	154
Mr. Zhao Deyong	*(iii)*	–	652	–	652
Mr. Xing Wei	*(iv)*	–	1,546	8	1,554
Mr. Wei Guo	*(v)*	–	864	8	872
		–	5,885	16	5,901
Non-executive director:					
Mr. Lin Shaopeng		120	1,886	23	2,029
		120	1,886	23	2,029
Independent non- executive directors:					
Mr. Kwok Kim Hung Eddie	*(vi)*	98	–	–	98
Mr. Ng Wai Hung	*(vii)*	74	–	–	74
Ms. Shi Xiao Lei	*(viii)*	74	–	–	74
Mr. Li Fang	*(ix)*	22	–	–	22
Mr. Lau Shun Pong Johnson	*(x)*	33	–	–	33
Mr. Lai Ming Wai	*(xi)*	34	–	–	34
		335	–	–	335
Total directors' and chief executive's emoluments		455	7,771	39	8,265

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

	Notes	Fees HK$'000	Salaries allowances and benefits in kind HK$'000	Retirement benefit scheme contributions HK$'000	Total remuneration HK$'000
2018					
Executive directors:					
Mr. Xing Wei	*(iv)*	–	4,364	18	4,382
Mr. Wei Guo	*(v)*	–	1,999	4	2,003
		–	6,363	22	6,385
Non-executive director:					
Mr. Lin Shaopeng		120	1,704	21	1,845
		120	1,704	21	1,845
Independent non- executive directors:					
Mr. Li Fang	*(ix)*	120	–	–	120
Mr. Lau Shun Pong Johnson	*(x)*	120	–	–	120
Mr. Lai Ming Wai	*(xi)*	120	–	–	120
		360	–	–	360
Total directors' and chief executive's emoluments		480	8,067	43	8,590

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

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

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

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

Notes:

(i) Appointed on 10 May 2019.

(ii) Appointed on 10 May 2019.

(iii) Appointed on 16 May 2019.

(iv) Removed on 10 May 2019.

(v) Removed on 10 May 2019.

(vi) Appointed on 7 March 2019.

(vii) Appointed on 21 May 2019.

(viii) Appointed on 21 May 2019.

(ix) Resigned on 7 March 2019.

(x) Resigned on 10 April 2019.

(xi) Resigned on 11 April 2019.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the years ended 31 December 2019 and 2018.

As at 31 December 2019 and 2018, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 34 to the Group's consolidated financial statements.

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three (2018: three) directors, details of whose remuneration are set out in note 12 above. Details of the remuneration of the remaining two (2018: two) individuals are as follows:

	2019 ***HK$'000***	2018 *HK$'000*
Salaries, allowances and benefits in kind	**3,755**	3,896
Retirement benefit scheme contributions	**100**	78
	3,855	3,974

13. FIVE HIGHEST PAID EMPLOYEES (Continued)

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	Number of individuals	
	2019	2018
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**1**	1

14. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company for both years, nor has any dividend been proposed since the end of the reporting period.

15. LOSS PER SHARE

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

	2019	2018
	HK$'000	*HK$'000*
Loss		
Loss attributable to owners of the Company for the purposes of basic and diluted loss per share	**(42,422)**	(153,625)
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**3,661,865**	3,661,865

The computation of diluted loss per share for the years ended 31 December 2019 and 2018 does not assume the exercise of share options granted by the Company since such assumed exercise would result in a decrease in loss per share.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
2019							
At 1 January 2019							
Cost or valuation	101,000	1,235	60,227	36,486	6,355	1,284	206,587
Accumulated depreciation	–	(1,130)	(44,970)	(29,987)	(3,930)	–	(80,017)
Carrying amount	101,000	105	15,257	6,499	2,425	1,284	126,570
Year ended 31 December 2019							
Opening net carrying amount	101,000	105	15,257	6,499	2,425	1,284	126,570
Additions	–	1,699	8,282	3,710	878	1,068	15,637
Disposals	–	–	(274)	(127)	(672)	–	(1,073)
Transfer	–	–	2,233	–	–	(2,233)	–
Surplus on revaluation	4,741	–	–	–	–	–	4,741
Depreciation	(3,741)	(487)	(2,484)	(2,624)	(693)	–	(10,029)
Exchange realignment	–	(25)	(452)	(189)	(4)	(8)	(678)
Closing net carrying amount	102,000	1,292	22,562	7,269	1,934	111	135,168
At 31 December 2019							
Cost or valuation	102,000	2,898	67,687	38,613	5,937	111	217,246
Accumulated depreciation	–	(1,606)	(45,125)	(31,344)	(4,003)	–	(82,078)
Carrying amount	102,000	1,292	22,562	7,269	1,934	111	135,168
Analysis of cost or valuation:							
At cost	–	1,292	22,562	7,269	1,934	111	33,168
At valuation	102,000	–	–	–	–	–	102,000
	102,000	1,292	22,562	7,269	1,934	111	135,168

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
2018							
At 1 January 2018							
Cost or valuation	103,000	1,015	59,105	34,673	6,560	–	204,353
Accumulated depreciation	–	(791)	(47,472)	(29,046)	(3,761)	–	(81,070)
Carrying amount	103,000	224	11,633	5,627	2,799	–	123,283
Year ended 31 December 2018							
Opening net carrying amount	103,000	224	11,633	5,627	2,799	–	123,283
Additions	–	231	6,662	4,030	580	1,329	12,832
Disposals	–	–	(193)	(155)	(23)	–	(371)
Surplus on revaluation	1,678	–	–	–	–	–	1,678
Depreciation	(3,678)	(345)	(2,083)	(2,639)	(843)	–	(9,588)
Exchange realignment	–	(5)	(762)	(364)	(88)	(45)	(1,264)
Closing net carrying amount	101,000	105	15,257	6,499	2,425	1,284	126,570
At 31 December 2018							
Cost or valuation	101,000	1,235	60,227	36,486	6,355	1,284	206,587
Accumulated depreciation	–	(1,130)	(44,970)	(29,987)	(3,930)	–	(80,017)
Carrying amount	101,000	105	15,257	6,499	2,425	1,284	126,570
Analysis of cost or valuation:							
At cost	–	1,235	60,227	36,486	6,355	1,284	105,587
At valuation	101,000	–	–	–	–	–	101,000
	101,000	1,235	60,227	36,486	6,355	1,284	206,587

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Leasehold buildings	Over the remaining lease terms of 26 years (2018: 27 years)
Leasehold improvements	10% to 33%
Plant and machinery	10% to 15%
Furniture, fixtures and office equipment	15% to 20%
Motor vehicles	20%

(a) The carrying amounts of the leasehold buildings of the Group at 31 December 2019 would have been approximately HK$38,474,000 (2018: HK$39,954,000) had they been carried at cost less accumulated depreciation.

(b) At 31 December 2019, the Group's leasehold buildings in the PRC with carrying amounts of approximately HK$102,000,000 (2018: HK$101,000,000) were pledged to secure general banking facilities granted to the Group (note 30).

(c) The leasehold buildings situated in the PRC of HK$102,000,000 (2018: HK$101,000,000) are located on the leasehold lands as disclosed in notes 17 and 18 to the consolidated financial statements.

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

(d) Fair value measurement of the Group's leasehold buildings

The Group's leasehold buildings were revalued on 31 December 2019 and 2018 by RHL Appraisal Limited, an independent qualified professional valuer not connected to the Group.

The fair value of the leasehold buildings was determined based on the depreciated replacement cost approach calculated based on the current cost of replacement of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The valuations were carried out by RHL Appraisal Limited, which has among their staff members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's finance department worked closely and had discussions with the surveyors on the valuation assumptions and valuation results when the valuation was performed at the annual reporting date. There has been no change to the valuation technique during the year.

In estimating the fair value of the leasehold buildings, the highest and best use of the properties is their current use.

Details of the Group's leasehold buildings and information about the fair value hierarchy as at the end of the reporting period are as follows:

Fair value hierarchy

The following table presents the fair value of the Group's leasehold buildings measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 "Fair Value Measurement". The leasehold buildings located in the PRC are measured at Level 3 fair value category as at 31 December 2019 and 2018.

	Fair value hierarchy	**Fair value as at 31 December 2019**	Fair value hierarchy	Fair value as at 31 December 2018
		HK$'000		*HK$'000*
Leasehold buildings in the PRC	**Level 3**	**102,000**	Level 3	101,000

During the years ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

(d) Fair value measurement of the Group's leasehold buildings (Continued)

Information about Level 3 fair value measurements

For the years ended 31 December 2019 and 2018

	Valuation techniques	Unobservable input	Range	Weighted average
Leasehold buildings in the PRC	Depreciated Replacement cost approach	General average annual rate of increase in construction costs since construction completed	2.18% to 5.00% (2018: 2.18% to 6.07%)	4.13% (2018: 4.48%)

A significant increase in the general increase rate of construction cost used would result in a significant increase in fair value, and vice versa.

17. RIGHT-OF-USE ASSETS

	Leasehold lands HK$'000	Leased properties HK$'000	Total HK$'000
As at 1 January 2019			
Carrying amount	3,872	7,191	11,063
As at 31 December 2019			
Carrying amount	3,729	5,456	9,185
For the year ended 31 December 2019			
Depreciation charge	143	3,392	3,535
Expense relating to short-term leases and other lease with lease terms end within 12 months of the date of initial application of HKFRS 16	–	1,712	1,712
Total cash outflow for leases	–	5,391	5,391
Additions to right-of-use assets	–	1,678	1,678

17. RIGHT-OF-USE ASSETS (Continued)

For both years, the Group leases various offices and industrial buildings for its operations. Lease contracts are entered into for fixed term of 2 years to 3 years, but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

At 31 December 2019, the Group's leasehold land under right-of-use assets in the PRC with carrying amounts of approximately HK$3,729,000 were pledged to secure general banking facilities granted to the Group (note 30).

The leasehold land is held under a medium term lease and is situated in the PRC.

18. PREPAID LAND PREMIUMS

	2018
	HK$'000
Current portion	143
Non-current portion	3,729
	3,872

During the year ended 31 December 2018, the Group disposed of a portion of prepaid land premiums with carrying amount of HK$236,000 at a consideration of HK$3,861,000. Gain on disposal of the portion of prepaid land premiums of HK$3,625,000 was recognised in profit or loss during the year ended 31 December 2018.

At 31 December 2018, the Group's prepaid land premiums in the PRC with carrying amounts of approximately HK$3,872,000 were pledged to secure general banking facilities granted to the Group (note 30).

The leasehold land is held under a medium term lease and is situated in the PRC.

19. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2018	101,926
Increase in fair value recognised in profit or loss	8,979
Exchange adjustments	(4,993)
At 31 December 2018	105,912
Increase in fair value recognised in profit or loss	7,045
Exchange adjustments	(2,439)
At 31 December 2019	110,518
Unrealised gain on property revaluation included in profit or loss (included in other income, gains and losses)	7,045

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes and land held for undetermined future use, which is regarded as held for capital appreciation purpose, are measured using the fair value model and are classified and accounted for as investment properties.

The fair values of the Group's investment properties as at 31 December 2019 have been arrived at on the basis of a valuation carried out on the respective dates by Savills Real Estate Valuation (Guangzhou) Ltd (2018: Roma Appraisals Limited), an independent qualified professional valuer not connected to the Group who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment properties being valued.

In determining the fair values of the relevant properties, the Group engages third party qualified valuers to perform the valuation. The management of the Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The management of the Group reports the findings to the board of directors of the Company to explain the cause of fluctuations in the fair values of the investment properties.

19. INVESTMENT PROPERTIES (Continued)

In estimating the fair values of the properties, the highest and best use of the properties is their current use.

	Valuation technique(s)	Significant unobservable input(s)	Sensitivity
Warehouse located in Suzhou, the PRC – completed properties	Depreciated replacement cost approach (2018: Direct comparison approach) (note)	General average annual rate of increase in construction costs since construction completed consisted of 2.38% (2018: Recent transaction price, taking into account the differences in location, and individual factors, such as frontage and size, between the comparables and the property, at an average rate of RMB2,100 per square metre per month).	A significant increase in increase rate of construction cost would result in a significant increase in fair value, and vice versa (2018: A significant increase in the recent transaction price would result in a significant increase in fair value, and vice versa.
Leasehold land located in Suzhou, the PRC	Direct comparison approach	Recent transaction price, taking into account the differences in location, and individual factors, such as frontage and size, between the comparables and the property, at an average rate of RMB448 (2018: RMB420) per square metre per month.	A significant increase in the recent transaction price would result in a significant increase in fair value, and vice versa.
Leasehold land located in Haikou, the PRC	Direct comparison approach	Recent transaction price, taking into account the differences in location, and individual factors, such as frontage and size, between the comparables and the property, at an average rate of RMB610 (2018: RMB566) per square metre.	A significant increase in the recent transaction price would result in a significant increase in fair value, and vice versa.

19. INVESTMENT PROPERTIES (Continued)

Note:

The Management considers that there is no readily available market comparables for the warehouse located in Suzhou as at 31 December 2019. Based on the market information available to the Group, depreciated replacement cost approach is considered as a feasible approach to achieve a reasonable valuation.

Details of the Group's investment properties and information about the fair value hierarchy as at the end of the reporting period are as follows:

	Fair value hierarchy	**Fair value as at 31 December 2019**	Fair value hierarchy	Fair value as at 31 December 2018
		HK$'000		*HK$'000*
Located in Suzhou, the PRC				
Warehouse	**Level 3**	**28,154**	Level 3	30,358
Leasehold land held for capital appreciation	**Level 3**	**22,193**	Level 3	18,147
		50,347		48,505
Located in Haikou, the PRC				
Leasehold land held for capital appreciation	**Level 3**	**60,171**	Level 3	57,407

There were no transfers into or out of Level 3 for both years.

20. LOAN RECEIVABLES

	2019 HK$'000	2018 HK$'000
Fixed-rate loan receivables	**16,000**	23,800
Less: provision of ECL	**(6,385)**	(5,303)
	9,615	18,497
Analysed as		
Current	**9,615**	4,510
Non-current	**–**	13,987
	9,615	18,497

As at 31 December 2019, the loans are unsecured, carry interest at fixed rates of 10% (2018: ranged from 10% to 12%) per annum. Loan with gross carrying value amounting to nil (2018: HK$16,000,000) is repayable more than one year and loans with gross carrying values of amounting to HK$16,000,000 (2018: HK$7,800,000) are repayable within one year. As at 31 December 2019 and 2018, the loan receivables were neither past due nor impaired. Pursuant to loan agreements, the Group retains a discretionary right to demand the repayment from the borrowers in full before the maturity of the loans.

The Group has a policy for assessing the impairment on loan receivables on an individual basis. The assessment also includes evaluation of collectability and ageing analysis of accounts and on the management's judgment, including the current creditworthiness and past collection history of each borrower. In determining the recoverability of the loan receivables, the Group considers any change in the credit quality of the loan receivables from the date credit was initially granted up to the reporting date. This includes assessing the credit history of the business, such as financial difficulties or default in payments and current market conditions.

20. LOAN RECEIVABLES (Continued)

During the year ended 31 December 2019, in determining the expected credit losses for these assets, the directors of the Company have taken into account the financial position of the counterparties as well as the future prospects of the industries in which the borrowers operate and considered various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of these financial assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case. The ECL is assessed individually for the counterparties.

Provision of ECL for loan receivables is assessed on 12m ECL basis when there has been no significant increase in credit risk since initial recognition. However, when there has been a significant increase in credit risk since origination, the provision will be based on the lifetime ECL. As a result, the gross carrying amount of nil (2018: HK$16,000,000) is assessed on 12m ECL basis whereas the gross carrying amount of HK$16,000,000 (2018: HK$7,800,000) is assessed on the lifetime ECL. The provision of ECL on the loan receivables amounted to HK$4,372,000 (2018: HK$2,045,000) during the year ended 31 December 2019, details of which are set out in note 40(b).

The loan receivables amounting to HK$16,000,000 as at 31 December 2019, with maturity date in February 2020, have been extended the repayment terms to February 2021 based on the extension agreement dated on 8 February 2020.

A loan receivable with gross carrying amount of HK$7,800,000 has been fully repaid to the Group during the year ended 31 December 2019. The provision of ECL for the loan receivable carried from prior years amounting to HK$3,290,000 has been reversed during the year ended 31 December 2019.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for loan receivables.

No ageing analysis is disclosed, as in the opinion of the directors of the Company, the ageing analysis does not give additional value in view of the nature of business of money lending.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 HK$'000	2018 HK$'000
Listed securities held for trading		
Equity securities listed in Hong Kong	**6,891**	17,580

At 31 December 2019, the Group has invested in four (2018: four) equity securities listed in Hong Kong. The fair values were based on quoted prices of the respective securities in active markets for identical assets.

At 31 December 2019 and 2018, no financial assets at FVTPL have been pledged as security.

22. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	**21,629**	23,847
Work in progress	**37,263**	41,175
Finished goods	**8,649**	24,402
	67,541	89,424

23. TRADE RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables, gross	**85,351**	43,383
Less: provision of ECL	**(572)**	(138)
Trade receivables, net	**84,779**	43,245

At as 31 December 2019, the gross carrying amount of trade receivables arising from contracts with customers amounted to approximately HK$85,351,000 (31 December 2018: HK$43,383,000).

23. TRADE RECEIVABLES (Continued)

The following is an ageing analysis of trade receivables (net of provision of ECL) presented based on the invoice dates which are approximate to the revenue recognition date:

	2019	2018
	HK$'000	*HK$'000*
0 to 30 days	**41,720**	29,817
31 to 90 days	**42,433**	13,413
Over 90 days	**626**	15
	84,779	43,245

The Group's trading terms with its customers are mainly on credit with credit periods generally ranging from 30 to 180 days. The Group seeks to maintain strict control over its outstanding receivables, and overdue balances are reviewed regularly by management. Trade receivables are non-interest bearing.

Expected credit loss of trade receivables

At the end of the reporting period, the Group reviews trade receivables for evidence of impairment on both an individual and a collective basis. The provision of ECL for receivables is recognised based on the credit history of its customers, indication of financial difficulties, default in payments, and current market conditions. After the above assessment performed by the directors of the Company, a provision of ECL of HK$434,000 was provided for current year and the directors consider that the trade debtors are of good credit quality (2018: HK$138,000).

23. TRADE RECEIVABLES (Continued)

Ageing of trade receivables which are past due but not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2019 HK$'000	2018 HK$'000
Neither past due nor impaired	**73,452**	42,903
Past due but not impaired		
Less than 1 month past due	**10,701**	342
1 to 3 months past due	**626**	–
	84,779	43,245

Trade receivables that were neither past due nor impaired related to customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired are related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no allowance for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

24. AMOUNT DUE FROM A RELATED COMPANY

As at 31 December 2018, included in amount due from a related company was a balance of RMB200,000 (equivalent to approximately HK$228,000) due from a company of which Mr. Wei Guo, a then executive director of the Company, is the shareholder. The amount was non-trade in nature, unsecured, interest-free and repayable on demand. The amount has been repaid during the year ended 31 December 2019.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Value-added tax recoverable arising from toys segment	**5,902**	3,805
Others	**5,813**	1,586
Prepayments	**2,590**	7,372
Loan interest receivables *(note i)*	**1,820**	1,921
Rental deposits	**963**	985
Other receivables arising from agency services *(note ii)*	**–**	11,708
Other receivables arising from subsidiaries in Hainan *(note iii)*	**–**	7,844
	17,088	35,221

Notes:

(i) At the end of the reporting period, the directors of the Company have taken into account the financial position of the counterparties as well as the future prospects of the industries in which the borrowers operate and considered various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of these financial assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case. The ECL is assessed individually for the counterparties.

Provision of ECL for loan interest receivables is assessed on 12m ECL basis when there has been no significant increase in credit risk since initial recognition. However, when there has been a significant increase in credit risk since origination, the provision will be based on the lifetime ECL. As a result, the gross carrying amount of nil (2018: HK$1,921,000) is assessed on 12m ECL basis whereas the gross carrying amount of HK$2,828,000 (2018: nil) is assessed on the lifetime ECL. The provision of ECL on the loan interest receivables amounted to HK$1,008,000 (2018: nil) during the year ended 31 December 2019, details of which are set out in note 40(b).

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(ii) Receivables of United States dollar ("US$") 1,501,000 (equivalent to approximately HK$11,708,000) due from counterparties were in relation to the Group's rendering of agency services for purchases and sales of chemical goods and such amount was settled during the year ended 31 December 2019.

(iii) During the year ended 31 December 2018, the Group's subsidiary established in Hainan, the PRC (the "Subsidiary") signed a service agreement with a business development and advertising agent (the "Debtor") in respect of a plan for developing a resort village in Hainan with a contract sum of approximately RMB2,150,000 and the Group paid a sum of RMB1,980,000 of which a sum of RMB1,380,000 (equivalent to approximately HK$1,575,000) was purported to be a prepayment to the service fee which was not utilised and was recorded as other receivable as at 31 December 2018 and RMB600,000 was recorded as service fee in profit or loss during the year ended 31 December 2018. A further payment of RMB0.89 million was made in January 2019. As disclosed in the announcement dated 6 May 2019 made by the Company regarding the resignation of the then auditor for the consolidated financial statements for the year ended 31 December 2018, the then auditor of the Company received a direct confirmation from the Debtor during their audit which indicated that the balances/transactions (the "Transactions") involved arrangements with a former director of the Company (the "Ex-Director") that were not reflected in the books and records of the Subsidiary.

The Transactions entered with an intention to pursue business opportunities for the Group in Hainan, the deposits of RMB1,380,000 (equivalent to approximately HK$1,575,000) as at 31 December 2018 and the further payment of RMB893,000 (equivalent to approximately HK$1,019,000) made in January 2019, totally RMB2,273,000 (equivalent to approximately HK$2,594,000), were short-term advances made, under the control of the Ex-Director, to six parties through the Debtor, of which RMB400,000 was made to a related party of the Ex-Director. During the year ended 31 December 2019, certain recipients, including the related party with the Ex-Director, repaid the funds of RMB700,000 (equivalent to approximately HK$799,000) to the Group via the Debtor who also accepted that such amount would be used to settle its outstanding service fee, which was reduced to RMB1,300,000 (equivalent to approximately HK$1,484,000) as final settlement, with a further amount of RMB700,000 (equivalent to approximately HK$799,000) recognised to the profit or loss for the year ended 31 December 2018. Furthermore, in September 2019, the remaining RMB1,573,000 (equivalent to approximately HK$1,795,000) out of the RMB2,273,000 (equivalent to approximately HK$2,594,000) was repaid to the Subsidiary.

During the period from April 2018 to July 2018, the Subsidiary entered into loan arrangements with five parties outside the Group for a sum of approximately RMB14,182,000 (equivalent to approximately HK$16,185,000) (the "Loans"), of which RMB200,000 (equivalent to approximately HK$228,000) was made to a related party of that Ex-Director. The Loans were unsecured, interest-free and repayable within 12 months from the date of drawn down. During the year ended 31 December 2018, an amount of RMB10,200,000 out of a loan made to a party of RMB10,359,000 was repaid to the Subsidiary. The rest of the Loans totalling RMB3,982,000 (equivalent to approximately HK$4,543,000) including RMB200,000 (equivalent to approximately HK$228,000) due from a related company remained outstanding was repaid to the Subsidiary in April 2019. Also, the Subsidiary entered into a consultancy service agreement with another counterparty in relation to the plan for developing a resort village in Hainan, and made a deposit paid of RMB1,700,000 (equivalent to approximately HK$1,940,000) and recorded as other receivables as at 31 December 2018. This consultancy service agreement was terminated in April 2019, and such deposit paid was refunded to the Subsidiary. Besides, there was a purchasing agreement amounting RMB1,360,000 (equivalent to approximately HK$1,552,000) entered by the Subsidiary for purchasing certain horses from overseas, of which the amount recorded as prepayment and was stated as its recoverable amount based on market information at RMB473,000 (equivalent to approximately HK$540,000) as at 31 December 2018. During the year ended 31 December 2019, the management further performed the impairment review on such amount, and concluded that the remaining amount of RMB473,000 (equivalent to approximately HK$540,000) was written off.

The Group recognised lifetime ECL for other receivables based on individually significant debtors or the ageing of debtors collectively that are not individually significant by reference to past default experience of the debtor at the reporting date.

26. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

Bank balances carry interest at market rates which range from 0.001% to 1.15% per annum (2018: 0.001% to 1.2% per annum). The bank balances were deposited with banks with no recent history of default.

For the year ended 31 December 2018 and 2019, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

Pledged bank deposits represented deposits pledged to a bank to secure banking facilities and bank borrowings granted to the Group. As at 31 December 2019, deposits amounting to HK$58,170,000 (2018: nil) were pledged to secure bank borrowings (note 30).

The interest rates on the pledged bank deposits was 3.0% per annum in 2019 (2018: nil).

27. TRADE PAYABLES

The following is an aged analysis of trade payable presented based on the invoice date.

	2019 ***HK$'000***	2018 *HK$'000*
0 to 30 days	**58,318**	56,155
31 to 90 days	**46,087**	38,964
Over 90 days	**43,754**	22,743
	148,159	117,862

The trade payables are expected to be settled within one year.

28. OTHER PAYABLES AND ACCRUALS

	2019 *HK$'000*	2018 *HK$'000*
Accrued staff cost	**11,787**	12,503
Accruals	**10,422**	9,768
Other payables	**7,326**	5,050
Deposit received for disposal of a subsidiary *(note)*	**4,874**	25,891
Tenant deposits received	**921**	829
	35,330	54,041

Note:

On 28 December 2017, the Group entered into a sale and purchase agreement (the "Disposal Agreement") with an independent third party (the "Purchaser") to conditionally sell the entire share capital of Bright Triumph Development Limited, a company incorporated in the British Virgin Islands with limited liability and being the investment holding company of Yi Nuo, at a consideration of HK$142,000,000. On 19 March 2018, the Group received a deposit of RMB22,686,000 (equivalent to approximately HK$25,891,000) out of RMB28,400,000 as prescribed in the Disposal Agreement from the Purchaser.

However, in the opinion of the directors of the Company, the Purchaser was not in a position to proceed to the completion. On 23 April 2019, following negotiations, the parties mutually agreed to terminate the Disposal Agreement, and the Group and the Purchaser entered into a termination agreement (the "Termination Agreement"), pursuant to which the parties have agreed to terminate the Disposal Agreement with immediate effect, the respective rights and obligations of each party thereunder shall cease and no party to the Disposal Agreement shall have any claim against any other party. Pursuant to the Termination Agreement, the Group is required to refund the deposit received of RMB22,686,000 to the Purchaser. During the year ended 31 December 2019, the Group has refunded part of the deposit of approximately RMB18,320,000 (equivalent to approximately HK$20,908,000) to the Purchaser.

29. CONTRACT LIABILITIES

	2019 *HK$'000*	2018 *HK$'000*
Deposits received from customers	**542**	1,745

30. BORROWINGS

	2019 Contractual interest rate (%)	2019 HK$'000	2018 Contractual interest rate (%)	2018 HK$'000
Bank loans – secured *(note a)*	**Fixed rates of 3.35% to 5.22% per annum**	**154,715**	Fixed rates of 2.50% to 4.35% per annum	90,422
– secured *(note b)*	**Fixed rates of 4.00% per annum**	**54,726**	N/A	–
Corporate bonds – secured *(note c)*	**Fixed rates of 6.75% per annum**	**45,000**	Fixed rates of 6.00% per annum	45,000
Sub-total of secured borrowings		**254,441**		135,422
Revolving loans – unsecured *(note d)*	**Fixed rates of 12.00% per annum**	**–**	Fixed rates of 10.00% per annum	25,000
		254,441		160,422
Analysed as				
Non-current		**45,000**		–
Current		**209,441**		160,422
		254,441		160,422

The above loans are measured at amortised costs.

Notes:

(a) The bank borrowings were secured by mortgage over the Group's leasehold buildings and leasehold lands under right-of-use assets with aggregate carrying amount of approximately HK$102,000,000 and HK$3,729,000 respectively (2018: leasehold buildings and prepaid land premiums with aggregate carrying amount of approximately HK$101,000,000 and HK$3,872,000 respectively), as disclosed in notes 16 and 17 (2018: note 18) respectively.

The total banking facilities granted to the Group amounted to RMB150,000,000 (equivalent to approximately HK$167,452,000) (2018: RMB110,000,000 (equivalent to approximately HK$125,542,000)) of which approximately RMB138,590,000 (equivalent to HK$154,715,000) (2018: RMB79,228,000 (equivalent to HK$90,422,000)) were utilised as at 31 December 2019.

30. BORROWINGS (Continued)

Notes: (Continued)

(b) The bank borrowings were secured by pledge over the Group's bank deposits in note 26 of approximately HK$58,170,000 as at 31 December 2019 (2018: nil).

The total banking facilities amounted to RMB100,000,000 (equivalent to approximately HK$111,635,000) (2018: nil) are available to the Group when further security to be pledged to the bank, of which approximately RMB49,023,000 (equivalent to HK$54,726,000) (2018: nil) were utilised as at 31 December 2019.

(c) On 7 December 2016, corporate bonds amounted to HK$45,000,000 were issued by the Company, bearing interest of 6% per annum and payable semi-annually in arrears, and with maturity in two years, of which are secured by pledge of shares of a subsidiary of the Company.

The corporate bonds had become due and payable on its maturity date of 6 December 2018. As at 31 December 2018, the Group defaulted on the repayment of the corporate bonds and further negotiated with the bond holder for extension. On 23 August 2019, by successfully entering into a deed of waiver and a supplemental deed poll to the bond instrument executed by the Company, the Group was discharged and released from the obligation and liabilities which arose from the default and the maturity date has been extended to 30 September 2020. The corporate bonds then bear interest at 6.75% per annum from 7 December 2018 to 30 September 2020. As at 27 December 2019, an extension deed has been signed, which the maturity date has been further extended to 31 March 2021.

(d) As at 31 December 2019 and 31 December 2018, the Group's revolving loans without utilisation (2018: utilised with carrying amount of HK$ 25,000,000), were granted by a substantial shareholder of the Company and guaranteed by the Company. The revolving loans had unutilised amount of HK$50,000,000 (2018: HK$25,000,000) as at 31 December 2019. As at 8 October 2019, the Group has entered into an extension agreement to extend the maturity date to 30 September 2020. As at 31 December 2019, the Group has entered into another extension agreement to further extend the maturity date to 31 March 2021. According to the extension deed, a first floating charge has been incorporated over the assets of a subsidiary of the Group as a security to the lender on 7 February 2020.

31. LEASE LIABILITIES

	31 December 2019 *HK$'000*
Lease liabilities payable:	
Within one year	**3,458**
Within a period of more than one year but not more than two years	**1,847**
Within a period of more than two years but not more than five years	**158**
	5,463
Less: Amount due for settlement with 12 months shown under current liabilities	**(3,458)**
Amount due for settlement after 12 months shown under non-current liabilities	**2,005**

32. DEFERRED TAX (ASSETS) LIABILITIES

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 assets	**(7,517)**	(8,808)
Deferred tax liabilities	**29,455**	24,306
	21,938	15,498

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

	Accelerated tax depreciation *HK$'000*	Revaluation of properties *HK$'000*	Tax losses *HK$'000*	Withholding tax *HK$'000*	Total *HK$'000*
Deferred tax arising from:					
At 1 January 2018	27	16,445	(8,602)	1,190	9,060
Deferred tax charged (credited) to profit or loss for the year *(note 10)*	30	7,020	(206)	718	7,562
Deferred tax credited to other comprehensive income for the year	–	(800)	–	–	(800)
Exchange realignment		(245)		(79)	(324)
At 31 December 2018	57	22,420	(8,808)	1,829	15,498
Deferred tax charged (credited) to profit or loss for the year *(note 10)*	**(8)**	**4,650**	**1,291**	**387**	**6,320**
Deferred tax charged to other comprehensive income for the year	**–**	**400**	**–**	**–**	**400**
Exchange realignment	**–**	**(233)**	**–**	**(47)**	**(280)**
At 31 December 2019	**49**	**27,237**	**(7,517)**	**2,169**	**21,938**

32. DEFERRED TAX (ASSETS) LIABILITIES (Continued)

At the end of the reporting period, the Group has unused tax losses arising in Hong Kong of HK$163,848,000 (2018: HK$173,055,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$45,558,000 (2018: HK$53,380,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$118,290,000 (2018: HK$119,675,000) due to the unpredictability of future profit streams. All losses may be carried forward indefinitely.

As at 31 December 2019, the Group has tax losses arising in the PRC of RMB29,436,000 (equivalent to approximately HK$32,859,000) (2018: RMB23,688,000 (equivalent to approximately HK$27,033,000)) available for offsetting against future profits that may be carried forward for up to five years for EIT purpose. Deferred tax assets on these tax losses have not been recognised as it is not probable that future taxable profits against which the losses can be utilised will be available for the companies in which losses arose.

33. SHARE CAPITAL OF THE COMPANY

	Number of shares		Amount	
	2019	2018	**2019**	2018
	'000	*'000*	***HK$'000***	*HK$'000*
Ordinary shares of HK$0.10 each				
Authorised:				
At 1 January and 31 December	**7,000,000**	7,000,000	**700,000**	700,000
Issued and fully paid:				
At 1 January and 31 December	**3,661,865**	3,661,865	**366,186**	366,186

34. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

Details of share options granted in previous years and outstanding during the years ended 31 December 2019 and 2018 under the Scheme are as follows:

Name of grant	Date of grant	Exercisable period	Exercise price HK$ per share	Share closing price immediately before grant date HK$ per share
2015 grant	10 April 2015	10 April 2015 to 9 April 2020	0.465	0.425
2014 grant	30 December 2014	30 December 2014 to 29 December 2019	0.305	0.270

The movement of share options during the year ended 31 December 2019 is presented as follows:

	Name of grant	Number of share options		
		At 1 January 2019 *'000*	**Lapsed during the year** *'000*	**At 31 December 2019** *'000*
Executive directors				
Mr. Xing Wei *(note b)*	2015 grant	**10,000**	**(10,000)**	**–**
Independent non-executive directors				
Mr. Li Fang *(note c)*	2014 grant	**1,680**	**(1,680)**	**–**
	2015 grant	**140**	**(140)**	**–**
		1,820	**(1,820)**	**–**
Employees	2014 grant	**2,000**	**(2,000)**	**–**
	2015 grant	**1,000**	**–**	**1,000**
Other participants	2014 grant	**63,200**	**(63,200)**	**–**
	2015 grant	**131,300**	**–**	**131,300**
		197,500	**(65,200)**	**132,300**
Total		**209,320**	**(77,020)**	**132,300**

34. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (Continued)

During the year, the share options granted to Mr. Xing Wei and Mr. Li Fang in 2015 have been lapsed due to their resignation as directors and certain share options have been lapsed due to the expiration of the options granted.

The movement of share options during the year ended 31 December 2018 is presented as follows:

		Number of share options		
	Name of grant	At 1 January 2018 *'000*	Lapsed during the year *'000*	At 31 December 2018 *'000*
Executive directors				
Mr. Xing Wei *(note b)*	2015 grant	10,000	–	10,000
Independent non-executive directors				
Mr. Li Fang *(note c)*	2014 grant	1,680	–	1,680
	2015 grant	140	–	140
		1,820	–	1,820
Employees	2014 grant	7,000	(5,000)	2,000
	2015 grant	29,200	(28,200)	1,000
Other participants	2014 grant	63,200	–	63,200
	2015 grant	131,300	–	131,300
		230,700	(33,200)	197,500
Total		242,520	(33,200)	209,320

Notes:

(a) There were no share options granted, exercised or cancelled during the year ended 31 December 2019 and 2018.

(b) Mr. Xing Wei was other participants before his appointment as the director of the Company on 8 May 2017 and resigned as a director on 10 May 2019.

(c) Mr. Li Fang resigned as a director on 7 March 2019.

35. RETIREMENT BENEFITS PLANS

Defined contribution plans

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

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

The total expense recognised in profit or loss of HK$9,681,000 (2018: HK$17,463,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

36. CONTINGENT LIABILITIES

A subsidiary of the Company is a defendant in a legal action in Hong Kong involving the alleged claim of commission income by a consultant in relation to an investment project of the Group in the past. The claim against the subsidiary is approximately US$1,375,000 (equivalent to approximately HK$10,725,000) in aggregate. The directors of the Company believe, based on legal advice, that the case has a good arguable defence and therefore it is not probable that losses will be incurred. As a result, no provision has been made at the end of the reporting period in this regard.

37. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, 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	4,133
In the second to fifth year, inclusive	4,458
	8,591

For the year ended 31 December 2018, operating lease payments represent rentals payable by the Group for certain of its office properties and staff's residential properties. Leases for these properties are negotiated for an average term of one to two years with an early termination option by the Group. None of the leases includes contingent rentals.

The Group as lessor

The Group leases out its warehouse in Suzhou (classified as investment properties) under operating lease. The leases typically run for an initial period from one year to two years. The leases do not include contingent rentals.

Minimum lease payments receivable on leases are as follows:

	2019 ***HK$'000***
Within one year	**902**

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2018 *HK$'000*
Within one year	911

38. CAPITAL COMMITMENTS

	2019	2018
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements		
– in respect of the construction of properties	**54**	943

39. 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 debt, which includes the borrowings disclosed in note 30, net of bank balances and cash and equity attributable to owners of the Company, comprising issued share capital, accumulated losses and other reserves.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

40. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2019 *HK$'000*	2018 *HK$'000*
Financial assets		
Financial assets at FVTPL		
Mandatorily measured at FVTPL		
– Held-for-trading	**6,891**	17,580
Financial assets at amortised cost	**250,440**	161,503
	257,331	179,083
Financial liabilities		
Amortised cost	**415,721**	310,054
Lease liabilities	**5,463**	–
	421,184	310,054

b. Financial risk management objectives and policies

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

40. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk

(i) Currency risk

The Group mainly operates in Hong Kong and the PRC, with certain of their sales and purchases transactions being settled in US$, HK$ and RMB. The Group is thus exposed to currency risk arising from fluctuations on foreign currencies, primarily USD, HK$ and RMB, against the functional currency of the relevant group entities. The management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

As HK$ is pegged to USD, the Group does not have material exchange rate risk on such currency.

The Group's exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. Differences resulting from the translation of the financial statements of the entities within the Group into the Group's presentation currency are excluded.

	2019			2018		
	US$	**HK$**	**RMB**	US$	HK$	RMB
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Bank balances and cash	**91**	**29,993**	**16,588**	1,107	591	83
Pledged bank deposits	**–**	**13,109**	**–**	–	–	–
Borrowings	**–**	**(78,964)**	**–**	–	(90,422)	–
Overall exposure to currency risk	**91**	**(35,862)**	**16,588**	1,107	(89,831)	83

40. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis

The following table demonstrates the sensitivity at the end of reporting period to a reasonably possible change in the HK$ exchange rate against RMB for group entities with RMB or HK$ as functional currencies, with all other variables held constant, of the Group's loss for the year and accumulated losses.

	%	Increase (decrease) in loss for the year and accumulated losses HK$'000
2019		
If HK$ weakens against RMB	**5**	**(2,623)**
If HK$ strengthens against RMB	**(5)**	**2,623**
2018		
If HK$ weakens against RMB	5	(4,496)
If HK$ strengthens against RMB	(5)	4,496

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' loss for the year and accumulated losses measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group, including intra-group balances with foreign operations within the Group denominated in a currency other than the functional currency of the foreign operations, which expose the Group to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis for year ended 31 December 2018.

40. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate loan receivables, borrowings and lease liabilities. The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and pledged bank deposits. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and pledged bank deposits. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook.

Total interest income from financial assets that are measured at amortised cost is as follows:

	2019 ***HK$'000***	2018 *HK$'000*
Financial assets at amortised cost	**2,107**	3,685

Interest expense on financial liabilities not measured at FVTPL:

	2019 ***HK$'000***	2018 *HK$'000*
Financial liabilities at amortised cost	**14,377**	8,745
Lease liabilities	**408**	–
	14,785	8,745

40. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2018: 50 basis points) increase or decrease in variable-rate bank balances and pledged bank deposits are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2018: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2019 would decrease/increase by HK$445,000 (2018: decrease/increase by HK$376,000).

The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for the variable financial instruments in existence at that date. The 50 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis was performed on the same basis for year ended 31 December 2018.

The Group currently does not have an interest rate hedging policy. However, the management closely monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

40. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(iii) Equity price risk

The Group is exposed to equity price risk through its investments in equity securities measured at FVTPL. For equity securities measured at FVTPL quoted in the Stock Exchange, the management manages this exposure by maintaining a portfolio of investments with different risks. Decisions to buy and sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the index and other industry indicators, as well as the Group's liquidity needs.

The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to equity price risk at the reporting date.

If the prices of the respective equity instruments had been 10% (2018: 10%) higher/lower, the post-tax loss for the year ended 31 December 2019 would decrease/increase by HK$689,000 (2018: decrease/increase by HK$1,758,000) as a result of the changes in fair value of financial assets at FVTPL.

The sensitivity analysis indicates the instantaneous change in the Group's loss for the year that would arise assuming that the changes in the price of the respective trading securities had occurred at the end of the reporting period and had been applied to remeasure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. The analysis is performed on the same basis for year ended 31 December 2018.

40. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment

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

The credit risk of our Group mainly arises from trade receivables from toys segment, financial assets at FVTPL, deposits and other receivables, amount due from a related company, bank balances and cash, pledged bank deposit, loan receivables and interest receivables. The carrying amount of these balances represent out Group's maximum exposure to credit risk in relation to financial assets.

Trade receivables from toys segment

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model on trade balances individually. In this regard, the directors consider that the Group's credit risk is significantly reduced.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer having similar characteristics. The Group defines customers as having similar characteristics if they are related entities. Most of the customers are multi-national corporations with well known brands for their toy products and have satisfactory credit rating.

40. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Trade receivables from toys segment (Continued)

Concentration risk of trade receivables from toys segment

The Group has concentration of credit risk as 89.5% (2018: 64.5%) and 100.0% (2018: 96.7%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively. These customers are international toy retailers with good credit ratings.

Financial assets at FVTPL

Transactions involving financial assets at FVTPL are with counterparties of sound credit standing. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations.

Deposits and other receivables and amount due from a related company

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

Bank balances and pledged bank deposits

The credit risks on bank balances and pledged bank deposits are limited because the counterparties are banks with good reputation.

Concentration risk of bank balances and pledged bank deposits

At 31 December 2019, the Group had certain concentration of credit risk as 78.4% (2018: 41.9%) of the total of cash and cash equivalents and pledged bank deposits was deposited with one financial institution in the PRC (2018: Hong Kong) with high credit rating. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

40. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Loan receivables and interest receivables

At 31 December 2019, the Group had gross loan receivables and interest receivables of HK$16,000,000 (2018: HK$23,800,000) and HK$2,828,000 (2018: HK$1,921,000) respectively. Before entering into the loan agreements, the Group assesses the credit quality of borrowers and defines the terms of the loans. In addition, the Group reviews the recoverable amount of each individual loan at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has concentration of credit risk as the loans were made to two (2018: three) borrowers. In order to minimise the credit risk, the management of the Group has delegated a team responsible for monitoring procedures to ensure that follow-up action is taken to recover overdue loans. In view of the financial position of the borrowers, and the monitoring procedures adopted by the management, in the opinion of the directors of the Company, the credit risk in respect of the loan receivables could be monitored.

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 period. 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 forward-looking information. Especially the following indicators are incorporated:

- Internal and 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 borrower's ability to meet its obligations; and
- Significant changes in the expected performance and behaviour of the borrowing, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

40. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Loan receivables and interest receivables (Continued)

At 31 December 2018, the gross carrying amount of loan receivables is an amount of HK$7,800,000 due from a borrower whom the directors of the Company considered was credit-impaired. The directors of the Company assessed the financial position of the borrower as at 31 December 2018 and were of the opinion that the borrower might not be able to repay the loan receivable when it falls due. The provision of ECL for this loan receivable amounted to HK$3,290,000 as at 31 December 2018. During the year ended 31 December 2019, the loan receivable has been fully repaid to the Group and the provision of ECL for the loan receivable amounting to HK$3,290,000 has been reversed.

At 31 December 2019, the loan receivables and their loan interest receivables with gross carrying amounts of HK$16,000,000 and HK$2,828,000 respectively are amounts due from borrowers whom the directors of the Company considered were credit-impaired. The borrowers did not repay the loan interest receivable according to the schedule listed on the loan agreements. The directors of the Company were of the opinion that the borrowers might not be able to repay loan receivables when they fall due.

During the year ended 31 December 2019, the directors of the Company assessed the provision of ECL of these loan receivables and their loan interest receivables were HK$6,385,000 (2018: HK$3,290,000) and HK$1,008,000 (2018: nil) respectively with the assistance of Roma Appraisals Limited, an independent professional valuer not connected to the Group. Provision of ECL for loan receivables and loan interest receivables of HK$4,372,000 (2018: HK$2,045,000) and HK$1,008,000 (2018: nil) respectively were recognised in profit or loss during the year ended 31 December 2019.

Subsequent to the end of 31 December 2019, the loan receivables with gross carrying amount amounting to HK$16,000,000 have been extended the repayment terms from February 2020 to February 2021 based on the extension agreement dated on 8 February 2020.

40. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The Group's exposure to credit risk

In order to minimise credit risk, the Group has tasked its operation management team to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management team uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

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

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

40. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The Group's exposure to credit risk (Continued)

The table below details the credit quality of the Group's financial assets as well as the Group's maximum exposure to credit risk by credit risk rating grades:

At 31 December 2019	Notes	Internal credit rating	12-month or lifetime ECL	Gross carrying amount *HK$'000*	Loss allowance *HK$'000*	Net carrying amount *HK$'000*
Loan receivables	20	Default	Lifetime ECL	16,000	(6,385)	9,615
Trade receivables	23	Performing	Lifetime ECL (simplified approach)	85,351	(572)	84,779
Deposits and other receivables	25	Default	Lifetime ECL	2,828	(1,008)	1,820
		Performing	12-month ECL	6,776	–	6,776

At 31 December 2018	Notes	Internal credit rating	12-month or lifetime ECL	Gross carrying amount *HK$'000*	Loss allowance *HK$'000*	Net carrying amount *HK$'000*
Loan receivables	20	Performing	12-month ECL	16,000	(2,013)	13,987
		Default	Lifetime ECL	7,800	(3,290)	4,510
Trade receivables	23	Performing	Lifetime ECL (simplified approach)	43,383	(138)	43,245
Amount due from a related company	24	Performing	12-month ECL	228	–	228
Deposits and other receivables	25	Performing	12-month ECL	25,588	–	25,588
		Default	Lifetime ECL	43,616	(43,616)	–

40. 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 management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The Group relies on borrowings as a significant source of liquidity. As at 31 December 2019, the Group has available revolving loan facility of approximately HK$50,000,000 (31 December 2018: HK$25,000,000). Details of which are set out in note 30.

The following table details the Group's remaining contractual maturity for its financial liabilities and derivative instruments. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the lenders choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

40. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The table includes both interest and principal cash flows.

Liquidity tables

	Weighted average interest rate %	On demand or less than 1 month *HK$'000*	1 to 3 months *HK$'000*	3 months to 1 year *HK$'000*	Over 1 year *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
2019							
Borrowings	4.77	1,045	30,516	190,211	45,759	267,531	254,441
Trade payables	–	43,754	104,405	–	–	148,159	148,159
Other payables	–	13,121	–	–	–	13,121	13,121
Lease liabilities	5.68	326	652	2,689	2,044	5,711	5,463
		58,246	135,573	192,900	47,803	434,522	421,184

	Weighted average interest rate %	On demand or less than 1 month *HK$'000*	1 to 3 months *HK$'000*	3 months to 1 year *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
2018						
Borrowings	5.11	45,466	51,198	66,077	162,741	160,422
Trade payables	–	22,743	95,119	–	117,862	117,862
Other payables	–	31,770	–	–	31,770	31,770
		99,979	146,317	66,077	312,373	310,054

40. FINANCIAL INSTRUMENTS (Continued)

c. Fair value measurements of financial instruments

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. Level 1 valuation methodology has been applied to the financial assets at FVTPL of approximately HK$6,891,000 as at 31 December 2019 (2018: HK$17,580,000). In estimating the fair value, the Group uses market-observable data to the extent it is available.

During the years ended 31 December 2019 and 2018, there have been no significant transfers between Level 1 and 2 or transfers into or out of Level 3.

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The fair values of financial assets and financial liabilities have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Borrowings *HK$'000* *(note 30)*	**Interest payables** *HK$'000*	**Lease liabilities** *HK$'000* *(note 31)*	**Total** *HK$'000*
At 1 January 2018	184,662	–	–	184,662
Finance costs	–	8,745	–	8,745
Financing cash flows	(19,758)	(8,745)	–	(28,503)
Foreign exchange translation	(4,482)	–	–	(4,482)
At 31 December 2018	160,422	–	–	160,422
Adjustment upon application of HKFRS 16	–	–	7,191	7,191
As at 1 January 2019 (restated)	**160,422**	**–**	**7,191**	**167,613**
Finance costs	**–**	**14,377**	**408**	**14,785**
New leases entered	**–**	**–**	**1,564**	**1,564**
Financing cash flows	**98,164**	**(14,377)**	**(3,679)**	**80,108**
Foreign exchange translation	**(4,145)**	**–**	**(21)**	**(4,166)**
At 31 December 2019	**254,441**	**–**	**5,463**	**259,904**

42. MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	2019	2018
	HK$'000	*HK$'000*
Rental income received from a related company in which a key management personnel of the Company has significant influence	**312**	302
Interest expenses paid to a substantial shareholder of the Company	**1,925**	–
	2,237	302

Compensation of key management personnel

The remuneration of key management, comprising the directors of the Company, during the year was as follows:

	2019	2018
	HK$'000	*HK$'000*
Short-term benefits	**8,226**	8,547
Post-employment benefits	**39**	43
	8,265	8,590

The remuneration of key management, comprising the directors of the Company, is determined having regard to the performance of individuals and market trends.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below.

Name	Place of incorporation/ registration	Registered capital paid up	2019 Percentage of equity attributable to the company Direct	2019 Percentage of equity attributable to the company Indirect	2018 Percentage of equity attributable to the company Direct	2018 Percentage of equity attributable to the company Indirect	Principal activities
Alliance Credit Services Limited	Hong Kong	Ordinary HK$10,000	–	100%	–	100%	Provision of credit finance services
Big Crown Investments Limited	Hong Kong	Ordinary HK$1	–	100%	–	100%	Trading of securities
Billion Pride Group Limited	British Virgin Islands	Ordinary US$1	100%	–	100%	–	Investment holding
Central Information Limited	Hong Kong	Ordinary HK$100	–	100%	–	100%	Trading of securities and provision of management services
Chongxin Co., Limited	Hong Kong	Ordinary HK$1	–	100%	–	100%	Investment holding
Luxtone HK Limited	Hong Kong	Ordinary HK$1	–	100%	–	100%	Investment holding
Sewco (B.V.I.) Limited	British Virgin Islands	Ordinary US$401	100%	–	100%	–	Investment holding
Sewco Toys & Novelty Limited	Hong Kong	Ordinary HK$76,000,200 Non-voting deferred HK$420,000	–	100%	–	100%	Investment holding and trading of toys products
Talent Management Services Limited	Hong Kong	Ordinary HK$1	–	100%	–	100%	Provision of management services
中山崇高玩具製品廠有限公司 (Zhongshan Sewco Toys & Novelty Limited*)#	The PRC	Paid-up capital HK$124,300,000	–	100%	–	100%	Manufacturing and sales of toys products
北京琉石網絡技術有限公司#	The PRC	Paid-up capital US$3,548,720	–	100%	–	100%	Investment holding
宜諾科技(蘇州)有限公司# Yi Nuo Technology (Suzhou) Co., Limited	The PRC	Paid-up capital US$22,349,950	–	100%	–	100%	Lease of properties
海南瀛晟科技產業投資有限公司#	The PRC	Paid-up capital US$1,869,680	–	100%	–	100%	Investment holding
海南中置實業有限公司#	The PRC	Paid-up capital RMB$5,800,000	–	100%	–	100%	Investment holding

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

A wholly foreign-owned enterprise registered in the PRC.

* For identification purpose only.

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

44. EVENTS AFTER END OF THE REPORTING PERIOD

(i) On 8 January 2020, the Group entered into a sale and purchase agreement with a third party ("Third Party Purchaser"). Pursuant to the sale and purchase agreement ("Agreement"), the Group agreed to sell its 100% equity interest in a subsidiary ("Disposed Subsidiary"), which is engaged in research activities of genetically engineered bacteria for targeted cancer therapy for a cash consideration of HK$8,000,000.

During the year ended 31 December 2019, the Group received half of the consideration from the Third Party Purchaser. According to the Agreement, the transaction will be completed once the remaining consideration has been paid by the Third Party Purchaser to the Company within six months from the signing of the Agreement.

(ii) Since late 2019 to the beginning of 2020, a novel coronavirus broke out in Wuhan, the PRC. As the coronavirus rapidly spreads, it became a worldwide concern. It poses challenges across various industries as well as people's livelihoods. The Group is taking actions to minimise the impact of the coronavirus outbreak to its business operation. The Group adopted precautionary measures to protect its workplace from outbreak. Besides, the Group is also closely communicating with the business partners including the Group's customers and suppliers in order to manage the schedules on the planning of sales and purchases. The financial effects of the coronavirus outbreak on the Group's financial performance and financial position cannot be determined at this stage.

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	Notes	2019 HK$'000	2018 HK$'000
Non-current asset			
Interests in subsidiaries	(a)	**152,934**	148,595
Current assets			
Prepayments, deposits and other receivables		**282**	282
Bank balances and cash		**3,361**	31,930
		3,643	32,212
Current liabilities			
Other payables and accruals		**3,948**	5,199
Borrowing		**–**	45,000
		3,948	50,199
Net current liabilities		**(305)**	(17,987)
Total assets less current liabilities		**152,629**	130,608
Non-current liability			
Borrowing		**45,000**	–
Net assets		**107,629**	130,608
Capital and reserves			
Share capital	33	**366,186**	366,186
Reserves	(b)	**(258,557)**	(235,578)
Total equity		**107,629**	130,608

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Notes:

(a) The amounts due from subsidiaries are classified under non-current asset as the directors of the Company consider that the amounts due from subsidiaries are part of the investments in subsidiaries. The amounts are unsecured, interest free and repayable on demand.

(b) Movement in the Company's reserves

	Share premium	Contributed surplus	Share option reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2018	942,400	152,762	58,693	(1,198,203)	(44,348)
Total comprehensive expense for the year	–	–	–	(191,230)	(191,230)
Share option lapsed *(note 34)*	–	–	(7,907)	7,907	–
At 31 December 2018	942,400	152,762	50,786	(1,381,526)	(235,578)
Total comprehensive expense for the year	–	–	–	(22,979)	(22,979)
Share options lapsed *(note 34)*	–	–	(13,070)	13,070	–
At 31 December 2019	**942,400**	**152,762**	**37,716**	**(1,391,435)**	**(258,557)**

FIVE YEARS FINANCIAL SUMMARY

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

	Year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
Continuing operations					
Revenue	**649,490**	636,882	589,933	236,174	247,732
Cost of sales	**(574,551)**	(567,137)	(502,364)	(220,750)	(220,459)
Gross profit	**74,939**	69,745	87,569	15,424	27,273
Other income gains and losses	**16,822**	16,589	(7,027)	23,871	11,100
Selling and distribution costs	**(6,403)**	(8,183)	(9,441)	(5,063)	(8,025)
Administrative expenses	**(76,431)**	(186,172)	(101,277)	(75,763)	(123,604)
Research and development expenses	**(2,523)**	(1,972)	(6,389)	(20,690)	–
Changes in fair value of trading securities	**(10,689)**	(9,999)	(7,016)	(150,802)	(18,238)
Other operating expenses	**(14,404)**	(15,616)	(12,436)	(4,208)	(12,954)
Finance costs	**(14,785)**	(8,745)	(11,808)	(6,993)	(5,971)
Loss before taxation from continuing operations	**(33,474)**	(144,353)	(67,825)	(224,224)	(130,419)
Income tax expense	**(8,948)**	(9,272)	(9,908)	(3,072)	(2,842)
Loss for the year from continuing operations	**(42,422)**	(153,625)	(77,733)	(227,296)	(133,261)
Loss for the year	**(42,422)**	(153,625)	(77,733)	(227,296)	(133,261)

	As at 31 December				
	2019	2018	2017	2016	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES					
Total assets	**595,752**	524,846	752,852	512,545	575,714
Total liabilities	**(475,473)**	(360,509)	(419,684)	(256,981)	(186,817)
Total equity	**120,279**	164,337	333,168	255,564	388,897