



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

(Incorporated in Bermuda with limited liability)
(Stock Code: 724)

**ANNUAL
REPORT
2020**

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Corporate Information

EXECUTIVE DIRECTORS

Ms. Li Yang (*Chairman*)
Mr. Huang Hanshui
Mr. Yang Junjie

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Chi Fai
Mr. Zhang Jue

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. Ho Chi Fai
Mr. Zhang Jue

INVESTMENT COMMITTEE

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

COMPANY SECRETARY

Ms. Tsang Man Sze

AUDITOR

SHINEWING (HK) CPA Limited
Registered Public Interest
Entity Auditor

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18th Floor, Times Media Centre
133 Wan Chai Road
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
PO Box HM1022
Hamilton HM DX
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

SHARE LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 724

WEBSITE

www.irasia.com/listco/hk/ruixin

Results Overview and Financial Highlights

RESULTS OVERVIEW

For the year ended 31 December 2020 (the “Reporting Period”), Ruixin International Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) reported revenue of approximately HK\$358.5 million, representing an increase of 7.8% as compared with approximately HK\$332.7 million for the year ended 31 December 2019 (the “Corresponding Period”).

Loss for the Reporting Period decreased to approximately HK\$56.4 million from approximately HK\$60.3 million for the Corresponding Period. Loss attributable to owners of the Company was approximately HK\$56.4 million for the Reporting Period as compared with approximately HK\$60.3 million for the Corresponding Period. The decrease in loss for the Reporting Period was mainly due to, among others, the decrease in operating loss, which is partly offset by the increase in imputed interest expenses on convertible notes. The decrease in operating loss for the Reporting Period was mainly due to, among others, the reduction in loss from the electronic products business and cost control measures. The reduction in loss from the electronic products business for the Reporting Period was mainly due to, among others, the increase in revenue mainly owing to a quicker resumption after the lockdown in the manufacturing process in China in early 2020 and the sales of different product mix.

The imputed interest expenses on convertible notes (the “Non-cash Item”) arose as a result of accounting treatment under the provisions of the applicable accounting standards and was of non-cash nature. Before the Non-cash Item, the Group made a loss of approximately HK\$40.5 million for the Reporting Period, as compared with a loss of approximately HK\$46.3 million for the Corresponding Period.

FINANCIAL HIGHLIGHTS

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Revenue | 358,522 | 332,743 |
| Gross profit | 21,888 | 18,842 |
| Loss for the year | (56,383) | (60,282) |
| Imputed interest expenses on convertible notes | (15,861) | (14,014) |
| Loss for the year before imputed interest expenses on convertible notes | (40,522) | (46,268) |

Management Discussion and Analysis

BUSINESS AND FINANCIAL REVIEW

The electronic products business reported an increase of approximately 7.8% in revenue from approximately HK\$332.7 million in the Corresponding Period to approximately HK\$358.5 million in the Reporting Period. The increase was mainly due to a quicker resumption after the lockdown in the manufacturing process in the the People's Republic of China (the "PRC" or "China") in early 2020 and the sales of different product mix. Attributable to sales of different product mix, the gross margin has improved slightly from approximately 5.7% in the Corresponding Period to approximately 6.1% in the Reporting Period.

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

As at 31 December 2020 and the date of this report, the principal amount of convertible notes that remained outstanding was HK\$158.4 million with a conversion price of HK\$0.22 per share and the maturity date is 31 January 2022. The Company, through one of its indirect wholly-owned subsidiaries in Hong Kong, has signed a loan agreement with Mr. Li Weimin ("Mr. Li"), a substantial shareholder of the Company, for an unsecured and non-interest bearing loan of HK\$20 million for a term of two years maturing in October 2021 (the "2019 HK Shareholder Loan"). As at the date of this report, total amount of the 2019 HK Shareholder Loan received by the Company is approximately HK\$17.3 million, and the amount that remains outstanding is approximately HK\$2.7 million (the "Remaining 2019 HK Shareholder Loan"). RIEV has signed a loan agreement with Mr. Li for an unsecured and non-interest bearing loan of VND7.3 billion (equivalent to approximately HK\$2.5 million) for a term of one year and extended for another year maturing in August 2021 (the "2019 Vietnam Shareholder Loan"). As at the date of this report, as far as the Company is aware, RIEV has received the full amount of the 2019 Vietnam Shareholder Loan. The Group hopes to extend the 2019 HK Shareholder Loan and the 2019 Vietnam Shareholder Loan before maturity (together the "2019 Shareholder Loans").

Management Discussion and Analysis

The Group incurred a loss of approximately HK\$56.4 million for the Reporting Period, and had net liabilities of approximately HK\$48.9 million and bank balances and cash of approximately HK\$7.8 million as at 31 December 2020. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. The Company's auditor expressed a disclaimer of opinion on the consolidated financial statements of the Group for the Reporting Period. Because of the significance of material uncertainties relating to the Group's ability to continue as a going concern, the auditors have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion (the "Disclaimer of Opinion"). In all other respects, in the opinion of the Company's auditor, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

However, the Group's net current assets were approximately HK\$81.3 million with a current ratio of 1.6 times as at 31 December 2020, indicating that in principle its current assets are sufficient to cover its current debt and other payables due within one year. The Group had no bank borrowings and the convertible notes accounted for approximately 51.6% of total liabilities as at 31 December 2020. Excluding the convertible notes, the Group would have been in net assets. The convertible notes will mature in more than twelve months from the end of the Reporting Period. Furthermore, as the convertible note holder is a substantial shareholder of the Company, the Company believes that the convertible note holder will not request the Company to redeem the convertible notes causing the Company insolvent when the convertible notes mature. The maturity date of the convertible notes has been extended for three times and the Company hopes to extend again before maturity on 31 January 2022.

Nonetheless, the Company believes that the Group's bank balances and cash are on the low side as at 31 December 2020. The Covid-19 pandemic has affected the transfer of the 2019 Shareholder Loans to the Group and total amount of the 2019 Shareholder Loans received by the Group was approximately HK\$6.0 million during the Reporting Period. However, with a good control in trade receivables (2020: HK\$135.7 million vs. 2019: HK\$134.6 million) and an increase in trade payables (2020: HK\$99.8 million vs. 2019: HK\$92.8 million) and other payables (2020: HK\$17.6 million vs. 2019: HK\$11.0 million), net cash used by the Group in operating activities was approximately HK\$5.5 million and bank balances and cash went down by approximately HK\$3.4 million during the Reporting Period. The Group managed to continue its operation during the Reporting Period amid concerns about its going concern basis. The increase of approximately HK\$6.6 million in other payables was mainly resulted from, among others, accrued director fees, salaries, and professional fees, of which the Company has delayed payments as part of the measures to improve liquidity.

Management Discussion and Analysis

Subsequent to the Reporting Period, the Group received the 2019 Shareholder Loans in the amount of approximately HK\$10.8 million, and the remaining 2019 Shareholder Loans is approximately HK\$2.7 million as at the date of this report, namely the Remaining 2019 HK Shareholder Loan. According to Mr. Li based on the latest communication, he remains committed to the Remaining 2019 HK Shareholder Loan and has provided the Company with a letter of undertaking that he will transfer the Remaining 2019 HK Shareholder Loan to the Company by end-June 2021 (the “Letter of Undertaking”).

To further improve its liquidity, subsequent to the Reporting Period, the Company, through one of its indirect wholly-owned subsidiaries in Hong Kong, has signed another loan agreement with Mr. Li for an unsecured and non-interest bearing loan of HK\$20 million for a term of two years (the “2021 HK Shareholder Loan”). The 2021 HK Shareholder Loan will be advanced to the Company in three drawdowns by September 2021, March 2022 and September 2022, respectively. RIEV has also signed another loan agreement with Mr. Li for an unsecured and non-interest bearing loan of VND5.0 billion (equivalent to approximately HK\$1.7 million) for a term of one year (the “2021 Vietnam Shareholder Loan”) (together with the 2021 HK Shareholder Loan, the “2021 Shareholder Loans”). The 2021 Vietnam Shareholder Loan will be advanced to RIEV in two drawdowns by May and November 2021, respectively. As the date of this report, RIEV has received the 2021 Vietnam Shareholder Loan in the amount of approximately VND0.7 billion (equivalent to approximately HK\$0.2 million).

Based on the information currently available to the board (the “Board”) of directors (the “Director(s)”) of the Company, the Directors and the audit committee of the Company (the “Audit Committee”) are of the view that with the amount of shareholder loans received subsequent to the Reporting Period, internally generated cashflows, the grant of the Remaining 2019 HK Shareholder Loan according to the Letter of Undertaking, and the grant of the 2021 Shareholder Loans according to the loan agreements signed, the Group will be able to settle the payables and lease liabilities, and have sufficient working capital to meet its financial obligations as they fall due for the next twelve months from the end of the Reporting Period. Accordingly, the consolidated financial statements for the Reporting Period have been prepared on a going concern basis.

Management Discussion and Analysis

However, the Company wishes to highlight that the successful outcome of the aforementioned is subject to multiple uncertainties, as amid the impact from the Covid-19 pandemic, the progress in the advance of the Remaining 2019 HK Shareholder Loan and the 2021 Shareholder Loans, and cash flows generated from operations will affect the liquidity and going concern of the Group. As set out in the Company's announcement dated 12 May 2020, the Covid-19 pandemic has caused severe disruptions to economic activities worldwide and created significant uncertainties in the current business environment. The Company understands from Mr. Li that his business and source of funds are mainly in Vietnam. The lockdown and travel restrictions due to the Covid-19 pandemic have affected and delayed his business projects and cash flows in Vietnam, and accordingly the transfer of the 2019 Shareholder Loans to the Group. However, Mr. Li has overcome difficulties and advanced the majority of the 2019 Shareholder Loans to the Group as at the date of this report. According to Mr. Li, he remains committed to the outstanding shareholder loans and expects to advance the Remaining 2019 HK Shareholder Loan according to the Letter of Undertaking and the 2021 Shareholder Loans according to the loan agreements signed. The Company will monitor the development of the Covid-19 pandemic and maintain continuous communication with Mr. Li in respect of the Remaining 2019 HK Shareholder Loan and the 2021 Shareholder Loans.

The Audit Committee has critically reviewed the management's position concerning the Disclaimer of Opinion and agreed with the management's position. The auditor reported to and discussed with the Audit Committee about going concern and the Disclaimer of Opinion with details as set out in note 1 to the consolidated financial statements and the Independent Auditor's Report on pages 54 to 56 of this report. For more details about the going concern issue of the Group and the disclaimer of opinion by the Company's auditor, please refer to the paragraphs headed "Going Concern Basis" in the Corporate Governance Report on pages 29 and 30 of this report, note 1 to the consolidated financial statements and the Independent Auditor's Report on pages 54 to 56 of this report. Apart from the shareholder loans, the Company has made a request to its bank in Hong Kong for a commercial loan but its request was declined by the bank due to the loss-making position of the Group. The Company has also tried but not able to raise funds from the market on acceptable terms as at the date of this report. The Group will continue to seek other source of funding to improve its cash and financial position.

Management Discussion and Analysis

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

As at 31 December 2020, the Group had bank balances and cash of approximately HK\$7.8 million (2019: HK\$11.2 million). The Group's current ratio (measured as total current assets to total current liabilities) was 1.6 times (2019: 2.0 times).

As at 31 December 2020, the Company had outstanding zero coupon convertible notes due on 31 January 2022 with an aggregate principal amount of HK\$158.4 million (2019: HK\$158.4 million) and a conversion price of HK\$0.22 (2019: HK\$0.22) per share.

As at 31 December 2020, the Group had no outstanding bank borrowings (2019: nil) and loans from a substantial shareholder of approximately HK\$8,917,000 (2019: HK\$2,950,000) which is unsecured, non-interest bearing and repayable on maturity. The gearing ratio, which is calculated by total interest bearing borrowings to total equity, was nil as at 31 December 2020 and 2019.

As at 31 December 2020, the Group had no capital expenditure commitments (2019: approximately HK\$191,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements.

SIGNIFICANT INVESTMENTS

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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

CHARGE ON GROUP'S ASSETS

As at 31 December 2020, the Group did not have any assets pledged (2019: nil).

Management Discussion and Analysis

FOREIGN EXCHANGE EXPOSURES

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

CONTINGENT LIABILITY

Details of the contingent liability of the Group are set out in note 38 to the consolidated financial statements.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2020, the Group had 468 (2019: 367) full time employees in Hong Kong, the PRC (including 429 (2019: 321) subcontractor’s staff for the outsourced production of electronic products) and Vietnam. Total staff costs (including Directors’ remuneration) for the Reporting Period amounted to approximately HK\$28.4 million (2019: HK\$30.4 million). The employees are remunerated with reference to the qualification, experience, responsibility and performance of the individual, the performance of the Group and the market practices. Apart from the basic remuneration package, the mandatory provident fund scheme, the central provident scheme in the PRC and the state pension scheme in Vietnam, the Company also operates a share option scheme based on which the Board may, at its discretion, grant options to eligible employees of the Group.

FUTURE OUTLOOK

The Covid-19 pandemic is the first fully global crisis since World War II and it has plunged the world economy into the worst peacetime global contraction since the Great Depression, with a historic collapse of 3.5% in 2020 as estimated by the IMF. According to reports dated 11 December 2020 and 23 January 2021 in the financial times (the “FT”), while we are still in the middle of the worst crisis, surging optimism is built on the three foundations of global health, politics and economic policy. The effectiveness of vaccines against coronavirus and the start of their rollout across the world have dimmed fears that economies would suffer a series of chronic stop-start cycles with periodic waves of infections and lockdowns. In economic policy, the world has moved to a new conventional wisdom of maintaining the unprecedented 2020 fiscal and monetary stimulus until economies have entrenched recoveries, brought unemployment down and vanquished threats of deflation. According to the IMF, in this crisis, despite some early disruption, global supply chains have shown resilience and agility, and merchandise trade has recovered in lockstep with the recovery in manufacturing, surpassing pre-pandemic levels. Despite the high and rising human toll of the pandemic, economic activity appears to be adapting to subdued contact-intensive activity with the passage of time.

Management Discussion and Analysis

Although recent vaccine approvals have raised hopes of a turnaround in the pandemic later this year, renewed waves and new variants of the virus pose concerns for the outlook, according to the IMF. Much now depends on the outcome of the race between a mutating virus and vaccines to end the pandemic, and on the ability of policies to provide effective support until that happens. Amid exceptional uncertainty, the IMF projected the global economy to grow by 5.5% in 2021 and 4.2% in 2022. The IMF has warned that greater success with vaccinations and therapeutics and additional policy support could improve outcomes, while slow vaccine rollout, virus mutations, and premature withdrawal of policy support can worsen outcomes. If downside risks were to materialise, a tightening of financial conditions could amplify the downturn at a time when public and corporate debts are at record high worldwide. Furthermore, the strength of the recovery is projected to vary significantly across countries and because of the partial nature of the rebound, over 150 economies are expected to have per-capita income below their 2019 levels in 2021. The projected cumulative output loss over 2020-2025 relative to the pre-pandemic projected levels remains substantial at US\$22 trillion. According to a report dated 6 January 2021 in the FT, the World Bank forecast that world GDP would grow by 4% in 2021 and warned that any delay in vaccine rollout risks more than halving this year's growth rate.

China's economy expanded by 6.5% in the fourth quarter of 2020, bringing the full year growth to 2.3% and making the country the only major economy to post positive growth last year. This was a remarkable shift from the first quarter of 2020 when the economy suffered a dramatic collapse of 6.8% as the coronavirus pandemic ravaged the country in the early part of the year, but was still China's weakest in more than 40 years. According to the IMF, effective containment measures, a forceful public investment response, and central bank liquidity support have facilitated China's strong recovery. China has resumed to its pre-pandemic projected level in the fourth quarter of 2020, ahead of all large economies. The IMF expects China and the U.S. to be by far the most successful at steering their economies through the pandemic. China successfully implemented effective containment measures to aggressively curb the spread of Covid-19. In contrast, the U.S. has struggled to contain its virus but its government spent more on economic stimulus than almost any other country. Nonetheless, the nature of recovery in China has been distinctly lopsided. Since factories began reopening in China following the historic shutdown over the Lunar New Year in 2020, industrial production vastly outgrew consumption, with exports helping power growth, even as imports struggled to gain momentum (according to reports dated 18 and 26 January 2021 in the FT, and 18 January 2021 in the South China Morning Post (the "SCMP")).

Management Discussion and Analysis

The pandemic has exposed, in part, the extent to which China is the workshop of the world. Efforts at diversification have taken a back seat to the race to secure protective equipment, many of which are made in China. The country's dominant position, too, in the manufacturing of consumer electronics has helped its factories to thrive when billions are looking for distraction from months at home in lockdown. China may have attracted a flow of manufacturing orders and "hot money", but as Covid-19 generally is gradually brought under control, this can be expected to change. Diversification from China, too, remains a priority for other countries. Beyond exports, the long-awaited rebalancing of the economy away from fixed capital investment and towards consumption, as well as the deleveraging of the country's vast debt boom, has been at best delayed. Changing pandemic dynamics and external environment pose a multitude of uncertainties and the foundation for China's economic recovery is yet to be consolidated. China's economic recovery continued in January and February 2021 but at a slower pace, with the official manufacturing PMI falling to 50.6 in February 2021 and 51.3 in January 2021 from 51.9 in December 2020, as the resurgence of coronavirus in parts of the country took a toll on business sentiment and might have depressed activity in February 2021 more than usual, especially in the service sector (according to reports dated 18 and 19 January 2021 in the FT, 19 and 31 January and 28 February 2021 in the SCMP). The IMF projected China's economy to grow by 8.1% in 2021 and 5.6% in 2022.

The Covid-19 pandemic has forced the world to a lockdown for a certain extent. In addition, global trade dispute and tariff battle between China and the United States, and geopolitics are expected to increase uncertainties and new pressure to the global economy. Customer orders of electronic components would be affected. The Group will take extra caution in observing the development on both the tariff battle and the coronavirus and responding to the change in the market from time to time in order to minimise its impact on the Group.

Biographical Details of Directors

EXECUTIVE DIRECTORS

Ms. Li Yang (“Ms. Li”), aged 28, was appointed as an executive Director and the chairman of the Board (the “Chairman”) on 22 January 2020. Ms. Li graduated from the University of Sussex in 2015 with a bachelor’s degree in law. She obtained a Master of Laws degree in international corporate governance and financial regulation from the University of Warwick in 2016. Ms. Li worked as a paralegal at a large law firm in the PRC from November 2017 to May 2019. She was also the chairman of RIEV, a subsidiary of the Company in Vietnam, from June 2018 to August 2019 and she is currently a director of certain subsidiaries of the Company in Hong Kong. Ms. Li is the daughter of Mr. Li Weimin, a substantial shareholder (as defined in the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)) of the Company.

Mr. Huang Hanshui (“Mr. Huang”), aged 50, was appointed as an executive Director on 9 March 2010. Mr. Huang holds a Master of Business Administration (MBA) degree from the National University of Singapore and a Bachelor of Arts degree from Xiamen University. Mr. Huang has over 25 years of experience in various areas, including financial and compliance management, equity research, strategic management, human resources services and sales & marketing. Prior to joining the Company, he worked as an equity analyst in Nomura Securities and Standard & Poor’s. Mr. Huang is currently the chief financial officer of the Company and a director of certain subsidiaries of the Company.

Mr. Yang Junjie (“Mr. Yang”), aged 44, was appointed as an executive Director on 24 June 2019. Mr. Yang graduated from the Party School of Luohe Municipal Committee of Henan Province* (河南省漯河市委黨校) with a diploma in computer science in July 1996 and was awarded the degree of Executive Master of Business Administration at the Euro-China International Business College in July 2009. He worked as a department manager in CITIC Logistics Company Limited* (中信物流有限公司) (“CITIC Logistics”) from April 1999 to January 2006. He was assigned by CITIC Logistics to serve as the deputy general manager of Ningbo Lingxin Logistics Company Limited* (寧波菱信物流有限公司), being a company held as to 40% by CITIC Logistics, from January 2006 to December 2013. The Company indirectly held 90% of the entire equity interest in CITIC Logistics from November 2011 to December 2012. Mr. Yang was the manager of Vietex Company Limited (越南快運有限公司*), being a company indirectly held as to 49% by Mr. Li Weimin and his associate(s) (as defined under the Listing Rules), from April 2015 to March 2017. Mr. Yang was the legal representative and general manager of RIEV from March 2017 to August 2019 and he is currently the chairman of RIEV.

* For identification purpose only

Biographical Details of Directors

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Chi Fai (“Mr. Ho”), aged 64, was appointed as an independent non-executive Director on 15 January 2004. Mr. Ho graduated from the Hong Kong Polytechnic University in 1979 with a Higher Diploma in Accountancy. Prior to joining the Company, he had over 20 years of experience working in an international bank with particular expertise in money market operations and accounting and was the financial controller of a computer manufacturer and an electronic components manufacturer.

Mr. Zhang Jue (“Mr. Zhang”), aged 35, was appointed as an independent non-executive Director on 20 February 2016. Mr. Zhang obtained a bachelor’s degree with a major in Financial Management from Shanghai University of Finance and Economics in 2007 and a Master’s degree of Accounting from Tsinghua University in 2015. Mr. Zhang has over 13 years of experience in various areas, including investment, financial management, market research and auditing. Mr. Zhang worked as a senior manager from December 2012 to December 2013 and as the financial controller from December 2013 to June 2014 in China New Town Development Company Limited, the shares of which is listed on the main board of the Stock Exchange (stock code: 1278). From December 2012 to June 2017, he served as a vice president in Beijing Black Eagle Fu Cheng Investment Management Co. Ltd. * (北京黑鷹富成投資管理有限公司) and/or its related companies. Since July 2017, he served as a vice general manager of Beijing Qingkong Xinye Investment Management Co. Ltd. * (北京青控新業投資管理有限公司). Mr. Zhang is currently a director of CCL Cold Storage Logistics Co., Ltd. * (北京中冷物流股份有限公司) and Shanghai Shaohua Culture Communication Co. Ltd.* (上海韶華文化傳播股份有限公司), the shares of which are quoted on the National Equities Exchange and Quotations of the PRC (stock code: 835382 and 871677, respectively).

* For identification purpose only

Report of the Directors

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries as at 31 December 2020 are set out in note 39 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the Reporting Period are set out in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income on pages 57 and 58 of this report.

The Board does not recommend the payment of final dividend for the Reporting Period (2019: nil).

SUMMARY OF FINANCIAL INFORMATION

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the Reporting Period are set out in note 30 to the consolidated financial statements.

CONVERTIBLE NOTES

Details of movements in the convertible notes of the Company during the Reporting Period are set out in note 28 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the Reporting Period are set out in the consolidated statement of changes in equity and note 32 to the consolidated financial statements, respectively.

Report of the Directors

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company did not have any reserves available for distribution, as computed in accordance with the Companies Act 1981 of Bermuda (2019: nil). The Company's share premium account of approximately HK\$2,374,265,000 (2019: HK\$2,374,265,000) could be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the largest customer and the five largest customers of the Group accounted for 30.09% and 57.94%, respectively, of the total revenue of the Group for the Reporting Period.

The aggregate purchases attributable to the largest supplier and the five largest suppliers of the Group accounted for 42.27% and 70.49%, respectively, of the total purchases of the Group for the Reporting Period.

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

Report of the Directors

DIRECTORS

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

Executive Directors

Ms. Li Yang *(appointed on 22 January 2020)*
Mr. Lam Yat Keung *(resigned on 22 January 2021)*
Mr. Huang Hanshui
Mr. Yang Junjie

Independent non-executive Directors

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

Pursuant to Bye-law 87, Mr. Ho Chi Fai and Mr. Yang Junjie will retire by rotation at the forthcoming annual general meeting of the Company (the "2021 AGM") and, being eligible, will offer themselves for re-election at the 2021 AGM.

None of the Directors being proposed for re-election at the 2021 AGM has a director service contract with the Company which is not determinable by the Company within one year without payment of compensations, other than statutory compensation.

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

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

Report of the Directors

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

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

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

As at 31 December 2020, none of the Directors, the chief executives of the Company (the "Chief Executives") or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO), or which had to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in "Share option scheme" as set out in note 31 to the consolidated financial statements, at no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and neither the Directors nor the Chief Executives, or any of their spouses or children under the age of 18, had any rights to subscribe for the equity or debt securities of the Company, or had exercised any such rights.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2020, the register of substantial Shareholder maintained by the Company pursuant to Section 336 of the SFO shows that the following Shareholder had notified the Company of relevant interests in the issued share capital of the Company.

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

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

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

Save as disclosed above, the Company had not been notified any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 31 December 2020.

SHARE OPTION SCHEME

At the Company's annual general meeting held on 8 June 2012, the Company terminated the old share option scheme and adopted a new share option scheme. Details are set out in note 31 to the consolidated financial statements.

MANAGEMENT CONTRACTS

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

Report of the Directors

CONNECTED TRANSACTION

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

SHINEWING (HK) CPA Limited will retire and, being eligible, will offer themselves for re-appointment as auditor of the Company at the 2021 AGM.

On behalf of the Board

Li Yang
Chairman

Hong Kong, 31 March 2021

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

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

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

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

Corporate Governance Report

BOARD OF DIRECTORS

As at the date of this report, the Board comprises a balanced composition of Directors who possess a wide spectrum of relevant skills and experience, including three executive Directors and two independent non-executive Directors. All Directors are expressly identified in all corporate communications. The biographical details of each Director are set out on pages 12 and 13 of this report. The Board has established four Board committees, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Investment Committee (together the “Board Committees”).

During the Reporting Period, the attendance of the Directors at the Board meetings, Audit Committee meetings, Remuneration Committee meetings, Nomination Committee meetings, Investment Committee meeting and the Company’s annual general meeting held on 8 June 2020 (“2020 AGM”) is given below and their respective responsibilities are discussed later in this report.

| | 2020 AGM | Board meetings | No. of meetings attended/held | | Nomination Committee meetings | Investment Committee meeting |
|---|-------------|-------------------|--------------------------------|---------------------------------------|-------------------------------------|------------------------------------|
| | | | Audit Committee meetings | Remuneration Committee meetings | | |
| Executive Directors | | | | | | |
| Ms. Li Yang (appointed on 22 January 2020) | 1/1 | 5/6(note) | N/A | N/A | N/A | N/A |
| Mr. Lam Yat Keung (resigned on 22 January 2021) | 1/1 | 6/6 | N/A | N/A | N/A | N/A |
| Mr. Huang Hanshui | 1/1 | 6/6 | N/A | N/A | N/A | N/A |
| Mr. Yang Junjie | 1/1 | 6/6 | N/A | N/A | N/A | N/A |
| Independent non-executive Directors | | | | | | |
| Mr. Ho Chi Fai | 1/1 | 6/6 | 2/2 | 3/3 | 3/3 | 1/1 |
| Ms. Liu Yanfang (resigned on 1 January 2020) | N/A | N/A | N/A | N/A | N/A | N/A |
| Mr. Zhang Jue | 1/1 | 6/6 | 2/2 | 3/3 | 3/3 | 1/1 |

Note: Ms. Li Yang was appointed as an executive Director and the Chairman after holding of the Board meeting.

Corporate Governance Report

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

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

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

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

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

The Company has received from each independent non-executive Director an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company is of the opinion that the independent status of them remains intact as at 31 December 2020.

Corporate Governance Report

DIRECTORS' TRAINING

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

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

DIRECTORS' INSURANCE

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

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

APPOINTMENT, RE-ELECTION AND REMOVAL

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

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

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

Corporate Governance Report

NOMINATION COMMITTEE

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

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

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

During the Reporting Period, three Nomination Committee meetings were held to review the structure, size and composition of the Board, the retirement and re-appointment arrangement of the Directors in the 2020 AGM, review the effectiveness of the Board Diversity Policy, and make recommendations to the Board for consideration of appointment of a new executive Director and a new director in certain subsidiaries of the Company. The terms of reference of the Nomination Committee are consistent with the terms set out in the relevant section of the CG Code.

Corporate Governance Report

REMUNERATION COMMITTEE

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

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

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

AUDIT COMMITTEE

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

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

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

Corporate Governance Report

AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about its reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 54 to 56 of this report.

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

| | HK\$'000 |
|---------------------|------------------|
| Audit services | 858 |
| Non-audit services: | |
| – Taxation services | 74 |
| – Others | 24 |
| | <hr/> 98 |
| | <hr/> 956 |

DIVIDEND POLICY

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

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

Corporate Governance Report

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

CORPORATE GOVERNANCE FUNCTIONS

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

- (a) to develop and review the Company's policies and practices on corporate governance;
- (b) to review and monitor the training and continuous professional development of Directors and senior management;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual applicable to employees of the Company and Directors; and
- (e) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

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

Corporate Governance Report

RESPONSIBILITY FOR PREPARATION AND REPORTING OF FINANCIAL STATEMENTS

The management has regularly provided explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval. The Directors acknowledge their responsibility for preparing the financial statements and presenting a balanced, clear and understandable assessment of the Company's annual and interim reports, other financial disclosures required under the Listing Rules and reports to regulators. The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Group is set out in the "Independent Auditor's Report" on pages 54 to 56 of this report.

GOING CONCERN BASIS

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

The Group incurred a loss of approximately HK\$56.4 million for the Reporting Period, and had net liabilities of approximately HK\$48.9 million and bank balances and cash of approximately HK\$7.8 million as at 31 December 2020. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

However, the Group had net current assets of approximately HK\$81.3 million with a current ratio of 1.6 times as at 31 December 2020, indicating that in principle its current assets are sufficient to cover its current debt and other payables due within one year. The Group had no bank borrowings and the convertible notes accounted for approximately 51.6% of total liabilities as at 31 December 2020. Excluding the convertible notes, the Group would have been in net assets. The convertible notes will mature in more than twelve months from the end of the Reporting Period. Furthermore, as the convertible note holder is a substantial shareholder of the Company, the Company believes that the convertible note holder will not request the Company to redeem the convertible notes causing the Company insolvent when the convertible notes mature. The maturity date of the convertible notes has been extended for three times and the Company hopes to extend again before maturity on 31 January 2022. The Group also hopes to extend the 2019 Shareholder Loans before maturity.

Corporate Governance Report

Nonetheless, the Company believes that the Group's bank balances and cash are on the low side as at 31 December 2020. The Covid-19 pandemic has affected the transfer of the 2019 Shareholder Loans to the Group and total amount of the 2019 Shareholder Loans received by the Group was approximately HK\$6.0 million during the Reporting Period. Subsequent to the Reporting Period, the Group received the 2019 Shareholder Loans in the amount of approximately HK\$10.8 million and Mr. Li expects to transfer the Remaining 2019 HK Shareholder Loan of approximately HK\$2.7 million by end-June 2021 according to the Letter of Undertaking. To further improve its liquidity, subsequent to the Reporting Period, the Group has entered into another two loan agreements for the 2021 Shareholder Loans of approximately HK\$21.7 million. Based on the information currently available to the Board, the Directors and the Audit Committee consider that with the amount of shareholder loans received subsequent to the Reporting Period, internally generated cashflows, the grant of the Remaining 2019 HK Shareholder Loan according to the Letter of Undertaking, and the grant of the 2021 Shareholder Loans according to the loan agreements signed, the Group will be able to settle its payables and lease liabilities, and have sufficient working capital to meet its financial obligations as they fall due for the next twelve months from the end of the Reporting Period. Accordingly, the consolidated financial statements for the Reporting Period have been prepared on a going concern basis.

However, the Company wishes to highlight that the successful outcome of the aforementioned is subject to multiple uncertainties, as amid the impact from the Covid-19 pandemic, the progress in the advance of the Remaining 2019 HK Shareholder Loan and the 2021 Shareholder Loans, and cash flows generated from operations will affect the liquidity and going concern of the Group. For further details, please refer to the paragraphs headed "Business and Financial Review" in Management Discussion and Analysis on pages 4 to 7 of this report and note 1 to the consolidated financial statements.

Corporate Governance Report

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

Corporate Governance Report

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

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

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

COMPANY SECRETARY

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

COMMUNICATION WITH SHAREHOLDERS

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

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

Corporate Governance Report

SHAREHOLDERS' RIGHTS

Convening a special general meeting by Shareholders

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

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

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

Putting forward proposals at general meetings

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

Putting forward enquiries to the Board

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

Environmental, Social and Governance Report

ABOUT THIS REPORT

This is the Environmental, Social and Governance (“ESG”) Report (the “ESG Report”) published by the Group. With an aim to increase stakeholders’ confidence in the Group, as well as to provide a thorough illustration of the Group’s progress on environmental and social sustainability, the ESG Report disclosed the Group’s measures and performance on sustainable development topics in a transparent and open way.

SCOPE AND REPORTING PERIOD

All the information in the ESG Report reflects the ESG performance of the Group for the Reporting Period. The ESG Report covers the Group’s overall environmental and social performance of the business operations. In relation to the Group’s corporate governance matters, please refer to the Corporate Governance Report on pages 20 to 33 of this report. Unless otherwise stated, the ESG Report focuses on its business operations in Hong Kong and Vietnam, which represent the majority of Group’s environmental and social impacts.

APPROACH TO ESG AND REPORTING

The Group’s ESG attitude is to unceasingly improve the disclosure transparency and the undertaking of ESG responsibilities. Consequently, the ESG Report is published annually by the Group for public review in order to demonstrate the Group’s transparency and responsibility in ESG matters. The Group seeks to be a responsible corporate citizen and have faith in that transparency and accountability are vital factors for building trust with its stakeholders.

The Board is committed to contributing to the sustainable development of the society and the environment, and is therefore responsible for evaluating and determining the risks in relation to ESG areas at the Group level. The Board formulated a clear vision and key strategies and guided management to ensure that ESG risks are identified and mitigated, and proper ESG reporting measures and systems are in place.

Environmental, Social and Governance Report

PRINCIPLES

The ESG Report preparation and presentation of related information are in accordance with Appendix 27 of Listing Rules. As such, the Group is able to produce a balanced report, focusing on the key material issues.

According to the guideline, the following principles are underpinned:

1. **Materiality:** the ESG issues that have major impacts on investors and other stakeholders must be set out in the ESG Report. The ESG Report content is guided by our materiality assessment, and focuses on business operations in Hong Kong and Vietnam, which represent the majority of Group's environmental and social impacts.
2. **Quantitative:** If key performance indicators ("KPIs") have been established, they must be measurable and applicable to valid comparisons under appropriate conditions. They must also be able to describe the purpose and impacts of quantitative information. The KPIs listed in Appendix 27 of the Listing Rules are reported quantitatively as far as possible.
3. **Balance:** The ESG Report must provide an unbiased picture of the ESG performance of the Group. It should avoid selecting, omitting, or presenting formats that may inappropriately influence a decision or judgment by the reader.
4. **Consistency:** The ESG Report should use consistent and disclose statistical methodologies to allow meaningful comparisons of related data over time. Any changes to the methods used must be specified in the ESG Report. There is no major change in methodology compared to the previous ESG Report.

STAKEHOLDER ENGAGEMENT

Stakeholder engagement can help companies understand wide-ranging views and identify material environmental and social issues. Not only do effective feedbacks from stakeholders contribute to the inclusive and unbiased appraisal of the Group's ESG performance, but also empowers the Group to improve its performance based on the feedbacks.

Hence, the Group engages its stakeholders through on-going communications and collects their opinions on the ESG aspects that they consider applicable and significant. Key stakeholders include employees, customers, suppliers, investors and business partners, etc.. The Group keeps an open and transparent discussion with its stakeholders through various channels including meetings, surveys and workshops. This year the Group saw emphasis and stakeholder expectation on anti-corruption, product responsibility, supply chain management, use of resources, etc. Aligned with the Group's guiding principles and values on all sides of environment, workplace and community, these important considerations have been further elaborated in the ESG Report.

Environmental, Social and Governance Report

The Group engages with various stakeholders who have diverse expectations on the Group. The Group will continue effective interactions with stakeholders, collect opinions from stakeholders through various channels and conduct materiality analysis. Simultaneously, the Group will continue to improve the content of the ESG Report and the presentation of the information to meet the expectations of stakeholders.

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

A. ENVIRONMENT

The Group's most material impact on the environment is confined to the premises in which the Group operates business of manufacturing and trading of electronic and electrical parts and components. Still, management considers it imperative to take on the obligation in the context of conserving the environment. In addition to compliance with all applicable local environmental laws and regulations, the Group will continue to strive for enhanced energy efficiency and carbon reduction. The following are some of our initiatives on environmental conservation.

1. EMISSIONS

The operation of the Group does not involve significant discharges or wastes into water bodies, land, and air. The Group's environmental impacts covered in the ESG Report are the Greenhouse Gases ("GHG") emissions resulted from energy consumption associated with the business operations, the gaseous emissions from operation of vehicles, and disposal of waste paper.

Environmental, Social and Governance Report

(a) *Gaseous Emissions and GHG Emissions*

The major sources of gaseous and GHG emissions are the operation of vehicles, and energy consumptions.

The major gaseous emissions of the Group are nitrogen oxides, sulphur oxides and particulate matters generated from fuel consumed by the Group’s vehicles. The figures have been slightly decreased compared to the Corresponding Period due to lower mileage and fuel consumption by the vehicles.

The Group’s GHG emissions mainly come from electricity purchased and vehicular fuel consumption for day-to-day operations. The total GHG generated by the Group during the Reporting Period decreased compared to the Corresponding Period due to lower vehicular fuel consumption.

Along with diverse approaches of slashing carbon emission through controlling electricity consumption, the Group also actively uses conference call system platforms and email discussions to replace unnecessary business travels to reduce indirect carbon footprint by reducing business travels.

| Emissions Data from the Vehicles | Emission (kilogram) | |
|------------------------------------|---------------------|-------|
| | 2020 | 2019 |
| Nitrogen Oxides (NO _x) | 29.74 | 30.32 |
| Sulphur Oxides (SO _x) | 0.11 | 0.18 |
| Particulate Matters (PM) | 2.84 | 2.87 |

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

Environmental, Social and Governance Report

| Scope of GHG Emission | Emission Source | Emission (in tonnes of CO ₂ e) | | Intensity (Emission/Employee) | | Total Emission (in percentage) | |
|-------------------------|---|--|--------|----------------------------------|------|-----------------------------------|-------|
| | | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Scope 1 | | | | | | | |
| Direct Emission | Consumption of Fuel by the Group's Vehicles | 18.54 | 32.78 | 0.48 | 0.67 | 22.45 | 32.41 |
| Scope 2 | | | | | | | |
| Indirect Emission | Purchased Electricity* | 63.03 | 66.24 | 1.62 | 1.35 | 76.34 | 65.50 |
| Scope 3 | | | | | | | |
| Other Indirect Emission | Disposal of Paper Waste | 1.00 | 2.11 | 0.03 | 0.04 | 1.21 | 2.09 |
| Total | | 82.57 | 101.13 | 2.13 | 2.06 | 100 | 100 |

Table 2 – Total GHG emissions during the Reporting Period

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

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

(b) Waste Management

The Group supports the code of proper waste management and is dedicated to the appropriate handling and disposal of all wastes from business operations. The nature of the Group's business did not generate a significant amount of hazardous waste, while the non-hazardous waste covered in the ESG Report was waste paper during the Reporting Period.

Environmental, Social and Governance Report

Materials are reused or segregated for recycling whenever practical. Practices include reusing single-sided paper, envelopes and folders etc., as well as diverting retired electrical and electronic equipment such as computer, printer, photocopier, kettle and microwave, etc. to charitable organisations or recyclers for processing. As an example, recyclable waste paper in the Group's operations in Hong Kong is centrally collected by ECO Association and the property management company.

| Non-hazardous Waste | Unit | Consumption Quantity | | Intensity (Consumption/Employee) | |
|---------------------|-------|----------------------|------|-------------------------------------|------|
| | | 2020 | 2019 | 2020 | 2019 |
| Paper | tonne | 0.21 | 0.44 | 0.01 | 0.01 |

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

The Group promoted green messages and encouraged employees to participate in green activities in the Reporting Period. The Group consistently partners with non-profit organisations such as Greeners Action, Food Grace, People's Food Bank of St. James' Settlement, etc. to participate in recycling of red pockets, collection of surplus Chinese New Year food, and recycling of electronic equipment, etc.. Through these activities, environmental awareness and environmental-benign behaviours are promoted in the Group and the community.

(c) Compliance

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

Environmental, Social and Governance Report

2. USE OF RESOURCES

The Group observes the notion of energy conservation and green production. The main resources consumed by the Group's operations are primarily electricity, fuel and water, but do not involve a significant amount of packaging materials for finished products.

The Group upholds the principle of resources management and is committed to the proper use of all resources. The Group aims to improve its energy utilisation efficiency to achieve low-carbon operation. To reduce the ecological footprints as well as the operating costs, the Group also actively monitors and manages the use of resources. Details of energy and water consumptions and reduction initiatives are discussed in the following sessions.

| Resources | Unit | Consumption Quantity | | Intensity (Consumption/Employee) | |
|--------------|----------------|----------------------|-----------|-------------------------------------|----------|
| | | 2020 | 2019 | 2020 | 2019 |
| Electricity* | kWh | 90,040.00 | 83,848.50 | 2,308.72 | 1,711.19 |
| Fuel | L | 6,867.11 | 12,028.99 | 176.08 | 245.49 |
| Water | m ³ | 183.00 | 151.76 | 4.69 | 3.10 |

Table 4 – Resources consumption during the Reporting Period

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

Environmental, Social and Governance Report

(a) *Electricity*

With an aim to conserve energy resources and reduce carbon footprint and other emissions associated with electricity consumption, the Group supports energy efficiency.

The Group has prioritised electrical equipment with better energy efficiency, utilised LED lighting system, adopted light zoning based on actual operating needs, and installed timing devices in some equipment for automatic shutdown during non-office hours.

The Group has also formulated and educated employees about the following measures so as to achieve an environmentally friendly approach, including turning off unnecessary electrical appliances, and setting them in a sleep state during idle periods, maintaining a room temperature of 25.5°C and maintaining equipment regularly.

Compared to the Corresponding Period, fuel consumption has decreased due to lower vehicle mileage in the Reporting Period, while consumption of other resources such as electricity and water increased.

(b) *Water*

Water shortages and excessive demand can pose water stress. The Group is aware that sustainable and responsible use of water resources is a key issue globally.

Though the Group does not use a significant amount of water, the Group still promotes water-saving practices in the workplace. To exemplify, the Group posts water-saving slogans in conspicuous places so as to raise the awareness of water conservation.

(c) *Paper*

The Group endeavours to enhance the usage of resources by applying the “Use Less, Waste Less” concept. The Group actively encourages green filing and records. Employees are encouraged to use their computers to review files rather than printing them. When printing is necessary, they are reminded to print on both sides of the paper whenever possible.

Environmental, Social and Governance Report

3. *THE ENVIRONMENT AND NATURAL RESOURCES*

Protecting nature and the environment has become an integral part of the corporate culture of a socially responsible enterprise. The Group is dedicated to reducing any adverse effects that may pose to the environment. Upholding a strong pledge, the Group executed controls on energy consumption and resources consumption.

The Group treasures employees' involvement towards the common goal. The Group therefore assigns dedicated staff to promote environmental protection measures, such as conserving energy and reducing emissions at work, delivering latest environmental information and conveying details on seminars and events held by environmental groups and policy institutions to the employees. Furthermore, the Group implements green measures together with external partners. The Group gives priority to local suppliers and suppliers with ISO 14001 environmental management system certification as long as the products and services delivered meet the requirements.

The Group shall continuously seek ways to maximise the value created, while minimising resource consumption and environmental impact so as to strive for sustainable development.

4. *CLIMATE CHANGE*

The Group mainly operates in Hong Kong and Vietnam. Among the phenomena of climate change, the Group identified typhoon as a more possible threat resulted from climate change. In response, the Group has established mitigation measures to minimise the adverse effect caused by typhoon on employees and properties. The Group assigned designated person to inspect the facilities regularly and before a typhoon to reduce the risk of casualties and property losses. The Group has also purchased insurance to cover possible losses caused by natural disasters.

Environmental, Social and Governance Report

B. SOCIAL

1. EMPLOYMENT AND LABOUR PRACTICES

The Group believes that employees are valuable resources of an enterprise and also the foundation for long-term corporate development. As a result, the Group is committed to strictly abiding the relevant employment laws and regulations, and building a strong team of employees who share the Group's mission and vision. The Group is also devoted to providing a safe, healthy, discrimination-free, and reasonable working environment for employees.

(a) Remuneration

The Group aims to provide a fair and competitive remuneration package to attract and retain talents. The package, which is reviewed periodically, is a combination in the form of basic salary, incentives bonus, mandatory provident fund, and other fringe benefits which base on the employee's performance and qualification. Fair terms on working hours, holidays, termination of contract, fringe benefits and leave entitlement are stipulated on the employment contracts signed between employees and the Group. The Group also provides employees with retirement schemes in accordance with the law. Employees are dismissed based merely on reasonable and legitimate reasons and are provided with notification of the termination of the employment contract in writing. All remuneration and compensation are consistent with legal and regulatory requirements.

(b) Equal Opportunity

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

Environmental, Social and Governance Report

(c) Supporting Health and Wellness

The Group attaches great importance to the physical and psychological health of the employees. Consequently, the Group endeavours to create a pleasant working environment and establish a harmonious labour relationship. The Group recognises that a good work-life balance can improve employees' work performance, and does not encourage working overtime. The Group also regularly organises entertainment activities such as birthday parties, festive gatherings, and other activities for employees to strengthen the team cohesion.

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

(d) Compliance

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

Environmental, Social and Governance Report

Breakdown of employees during the Reporting Period by gender, age group, employment type, and geographical region:

| | Number of employees |
|-------------------------------|----------------------------|
| By gender | |
| Male | 16 |
| Female | 23 |
| Total | <u>39</u> |
| By age group | |
| below 25 | 0 |
| 25-34 | 11 |
| 35-44 | 11 |
| 45-54 | 8 |
| 55-64 | 8 |
| over 65 | 1 |
| Total | <u>39</u> |
| By employment type | |
| Full-time | 39 |
| Part-time | 0 |
| Total | <u>39</u> |
| By geographical region | |
| Hong Kong | 32 |
| Vietnam | 4 |
| Others | 3 |
| Total | <u>39</u> |

Table 5 – Breakdown of employees by gender, age group, employment type, and geographical region

Environmental, Social and Governance Report

Breakdown of employees turnover rate by gender, age group and geographical region during the Reporting Period:

| | Turnover Rate (%) |
|-------------------------------|--------------------------|
| By gender | |
| Male | 37.8 |
| Female | 11.8 |
| By age group | |
| below 25 | 200.0 |
| 25-34 | 8.0 |
| 35-44 | 16.7 |
| 45-54 | 40.0 |
| 55-64 | 12.5 |
| over 65 | 0.0 |
| By geographical region | |
| Hong Kong | 14.1 |
| Vietnam | 0.0 |
| Others | 88.9 |

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

Note: Due to the very small number of employees below 25 years old, the turnover rate of that age group is very volatile and can reach extreme value.

2. HEALTH AND SAFETY

The Group strives to strictly abide by the relevant laws and regulations on occupational health and safety, and foster a safe working environment. The Group have established safety management to effectively eliminate potential safety risks.

(a) Response to COVID-19

The Group has taken a series of measures following the guidelines issued by relevant authority to cope with the threat of the COVID-19 pandemic. The Group arranged employees to work from home, to work in shifts, and implemented flexible working hours allowing employees to avoid busy and crowded hours.

Environmental, Social and Governance Report

Employees were required to wear surgical masks in the workplace and maintain social distancing of at least 1.5 meters, wash their hands frequently, and keep personal and workplace clean and hygienic. The Group also provided employees with anti-epidemic supplies, such as alcohol handrub, wipes, disinfectant sprays, thermometers, etc.. The Group also established internal procedures to handle any employees with symptoms of infectious diseases.

Physical meetings were replaced with conference calls or other information technologies as far as possible. Infrared temperature detectors and alcohol handrub were placed at the entrance of the office. The time and contact information of visitors were recorded for traceability.

(b) Health and Safety Management

The Group has spared no effort to strengthen occupational health and safety. For instance, in Hong Kong, in addition to complying with occupational safety and health laws and regulations, the Group proactively builds safe working environments to achieve the goal of “zero accidents” in the workplace.

(c) Employee Participation

The Group established mutual trust and earnest communication with employees in relation to occupational safety and health. Employees are required to stringently observe the Group’s regulations on occupational safety and fire safety. The Group constantly enhances employees’ knowledge, awareness and behaviour with regard to safety and hazard management through knowledge and experience sharing.

(d) Mutual Trust and Communication

Employees are encouraged to report any potential health and safety risks in their workplace. Whenever an incident occurs, responsible staff shall follow up immediately and implement effective control measures. Furthermore, the Group also dispatches personnel to supervise contractors and forbids any unsafe operations.

Environmental, Social and Governance Report

(e) Emergency Preparedness

Good emergency response requires early planning and preparations. Consequently, the Group improves fire safety by the below measures:

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

(f) Compliance

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

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

Environmental, Social and Governance Report

3. TRAINING AND DEVELOPMENT

Skilled and professionally trained employees are crucial to the Group's business growth and future success. Thus, on top of finding and retaining the best talents, the Group encourages employees to participate in personal development and job-related training courses. New employees are provided with on-the-job training and guidance, as well as supervision by experienced employees until they can work independently. The Group also frequently reviews the training and education needs of employees, supporting them to plan their career development, and encouraging them to participate in lectures, seminars, and training courses to develop their capability.

Training rates of employees during the Reporting Period by gender and employee category are as follows:

| | Percentage of employee trained (%) |
|-----------------------------|--|
| By gender | |
| Male | 31.3 |
| Female | 8.7 |
| By employee category | |
| Senior management | 54.5 |
| Middle management | 20.0 |
| Supervisor | 0.0 |
| General employee | 0.0 |

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

Environmental, Social and Governance Report

| | Average training hours completed per employee (hours) |
|-----------------------------|---|
| By gender | |
| Male | 0.5 |
| Female | 0.9 |
| By employee category | |
| Senior management | 0.8 |
| Middle management | 4.0 |
| Supervisor | 0.0 |
| General employee | 0.0 |

Table 8 – Average training hours completed by gender and employee category

4. LABOUR STANDARDS

The Group is committed to strictly complying with all applicable national laws and local regulations as well as relevant labour laws and regulations in the place where it operates. The Group has also established rigorous and systematic protocol for recruitment to ensure that the employment is in compliance with relevant laws and regulations. Child labour and forced labour are prohibited in the Group. Only applicants aged 18 or above are employed. Moreover, the Group does not tolerate forced labour and guarantee that every employee shall voluntarily engage in their work.

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

Environmental, Social and Governance Report

5. SUPPLY CHAIN MANAGEMENT

Supplier management is implemented in accordance with the Group's internal policy which governs the engagement of suppliers. Suppliers are subject to screening and evaluation procedures before selection. Onsite audit and inspection is conducted to ensure suppliers' capability in quality assurance, safety and environmental management. The outsourced electronic products production workshop located in Dongguan is the main subcontractor for the Group's business in electronic products. The Group assigns personnel to go on-site to supervise the production and delivery, thus ensuring quality products and services for the Group's customers.

The Group recognised the trend of using environmental-benign materials, and therefore communicate the message to our suppliers. The Group believes in communication, cooperation and joint growth in its supplier management policy. Through strengthened cooperation with suppliers, the Group aims at enhancing their capability to supply environmentally friendly products and evaluates the performance of its suppliers annually to set out improvement roadmap.

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

| | Number of suppliers |
|----------------|----------------------------|
| Mainland China | 35 |
| Hong Kong | 14 |
| Vietnam | 13 |

Table 9 – Number of suppliers by geographical region at the end of the Reporting Period

Environmental, Social and Governance Report

6. *PRODUCT/SERVICE RESPONSIBILITY*

(a) Policies and Procedures

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

The Group also respects intellectual property right such that all designs and tools including software and hardware are properly licensed. Moreover, the Group also attaches importance to consumer data protection and privacy in a way that document containing such data and information is properly stored with restricted access.

(b) Compliance

During the Reporting Period, there were no incidents of non-compliance with laws and regulations concerning breaches of product liability or privacy-related legislation. There is no product recall for safety and health reason, and no complaint received for the Reporting Period.

7. *ANTI-CORRUPTION*

(a) Policies and Procedures

The Group is dedicated to preserving business integrity. The Group sets out the relevant policies in the employee handbook to guide the employees to abide by the code of conduct. The code of conduct provides a clear definition of the provision and acceptance of interests, such as gifts and souvenirs, and ways to deal with conflicts of interest. Also, the Group specifies the ethical conduct of its employees through the internal control manuals approved by the Board. All employees are required to become acquainted with and to abide by these policies and procedures. Training on anti-corruption may also be provided to employee to enhance awareness.

Environmental, Social and Governance Report

The Group established a whistle-blowing policy that ensures any internal or external stakeholder can raise any issue through any of our independent and accessible whistle-blowing channels. Such reports, if any, shall be transmitted directly to the executive Directors for follow-up, investigation, and reporting. Corrective measures shall be taken.

(b) Compliance

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

8. COMMUNITY INVESTMENT

The Group considers that enterprises and communities are inseparable as a whole. The Group recognises the importance of contributing to the community where it operates and believes that benefiting the community is one of its social responsibility.

The Group encourages employees to participate in volunteer work, nurturing a culture of care and mutual support. The Group has supported the mooncakes for Charity fundraising activity of Community Chest of Hong Kong by ordering mooncakes coupons. The Group will continue to explore other means to contribute to the community and to build a healthy and sustainable society.

OUTLOOK

The Group will continue to review from time to time in response to the latest relevant requirements to strengthen its measures on environmental protection and social responsibility.

Independent Auditor's Report



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

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

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Ruixin International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 57 to 137, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR DISCLAIMER OF OPINION

Material uncertainties relating to going concern

As explained in note 1 to the consolidated financial statements, the Group incurred a net loss of approximately HK\$56,383,000 and had net cash outflows from operating activities of approximately HK\$5,516,000 during the year ended 31 December 2020. As at 31 December 2020, the Group had net liabilities of approximately HK\$48,856,000 and bank balances and cash of approximately HK\$7,806,000, while its trade payables, lease liabilities and other payables and accruals were approximately HK\$99,816,000, HK\$3,111,000 and HK\$17,556,000, respectively, which will be due in the coming twelve months from the end of the reporting period. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

Independent Auditor's Report

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

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

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

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Independent Auditor's Report

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA and to issue an auditor's report, solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Pang Wai Hang.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Pang Wai Hang

Practising Certificate Number: P05044

Hong Kong

31 March 2021

Consolidated Statement of Profit or Loss

For the year ended 31 December 2020

| | Notes | 2020 HK\$'000 | 2019 HK\$'000 |
|---|-------|------------------|------------------|
| Revenue | 7 | 358,522 | 332,743 |
| Cost of sales | | <u>(336,634)</u> | <u>(313,901)</u> |
| Gross profit | | 21,888 | 18,842 |
| Other income | 8 | 2,813 | 3,456 |
| Distribution costs | | (15,788) | (17,041) |
| Administrative expenses | | (41,455) | (47,815) |
| Share of results of joint ventures | | – | (13) |
| Impairment loss on property, plant and equipment | 17 | (2,365) | – |
| Impairment loss on right-of-use assets | 18a | (5,211) | (2,081) |
| Reversal of impairment loss on trade receivables | 21 | 170 | – |
| Impairment loss on trade receivables | 21 | – | (19) |
| Finance costs | 9 | <u>(16,435)</u> | <u>(15,611)</u> |
| Loss before taxation | | (56,383) | (60,282) |
| Taxation | 10 | <u>–</u> | <u>–</u> |
| Loss for the year attributable to owners of the Company | 11 | <u>(56,383)</u> | <u>(60,282)</u> |
| Loss per share | 14 | | |
| Basic and diluted (HK cents) | | <u>(6.71)</u> | <u>(7.17)</u> |

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Loss for the year | <u>(56,383)</u> | <u>(60,282)</u> |
| Other comprehensive income (expenses) for the year | | |
| Item that may be reclassified subsequently to profit or loss: | | |
| Exchange differences arising on translation of foreign operations | <u>1,106</u> | <u>(415)</u> |
| Total comprehensive expenses for the year attributable to owners of the Company | <u>(55,277)</u> | <u>(60,697)</u> |

Consolidated Statement of Financial Position

As at 31 December 2020

| | Notes | 2020 HK\$'000 | 2019 HK\$'000 |
|---|-------|------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment | 17 | 9,551 | 21,758 |
| Right-of-use assets | 18(a) | – | – |
| Interests in joint ventures | 19 | – | 1,212 |
| Rental deposits | 22 | 323 | 872 |
| Deposit for acquisition of property, plant and equipment | | – | 446 |
| | | <u>9,874</u> | <u>24,288</u> |
| Current assets | | | |
| Inventories | 20 | 49,905 | 57,941 |
| Trade receivables | 21 | 135,666 | 134,585 |
| Prepayments, deposits and other receivables | 22 | 17,303 | 12,987 |
| Deposits in other financial institutions | 23 | 7 | 7 |
| Bank balances and cash | 24 | 7,806 | 11,201 |
| | | <u>210,687</u> | <u>216,721</u> |
| Current liabilities | | | |
| Trade payables | 25 | 99,816 | 92,784 |
| Lease liabilities | 18(b) | 3,111 | 2,019 |
| Other payables and accruals | | 17,556 | 11,015 |
| Loans from a substantial shareholder | 26 | 8,917 | 827 |
| Amount due to a joint venture | 37(a) | – | 2,433 |
| | | <u>129,400</u> | <u>109,078</u> |
| Net current assets | | <u>81,287</u> | <u>107,643</u> |
| Total assets less current liabilities | | <u>91,161</u> | <u>131,931</u> |

Consolidated Statement of Financial Position

As at 31 December 2020

| | Notes | 2020 HK\$'000 | 2019 HK\$'000 |
|--------------------------------------|-------|------------------|------------------|
| Non-current liabilities | | | |
| Employee benefits | 27 | 75 | 34 |
| Lease liabilities | 18(b) | 1,014 | 286 |
| Loans from a substantial shareholder | 26 | – | 2,123 |
| Convertible notes | 28 | 138,928 | 123,067 |
| | | <u>140,017</u> | <u>125,510</u> |
| Net (liabilities) assets | | <u>(48,856)</u> | <u>6,421</u> |
| Capital and reserves | | | |
| Share capital | 30 | 168,035 | 168,035 |
| Reserves | | (216,891) | (161,614) |
| Total (deficit) equity | | <u>(48,856)</u> | <u>6,421</u> |

The consolidated financial statements on pages 57 to 137 were approved and authorised for issue by the board of directors on 31 March 2021 and are signed on its behalf by:

Director
Li Yang

Director
Huang Hanshui

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

| | Attributable to owners of the Company | | | | | | | | Total HK\$'000 |
|---|---------------------------------------|---------------------------|---|---|---|---------------------------------------|---------------------------------------|--------------------------------|-------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | Contributed surplus (note a) HK\$'000 | Share-based compensation reserve HK\$'000 | Foreign exchange reserve HK\$'000 | Convertible notes reserve HK\$'000 | Other reserve (note b) HK\$'000 | Accumulated losses HK\$'000 | |
| At 1 January 2019 | 168,035 | 2,374,265 | 5,800 | 21,668 | 755 | 41,814 | 47,743 | (2,592,962) | 67,118 |
| Loss for the year | - | - | - | - | - | - | - | (60,282) | (60,282) |
| Other comprehensive expenses for the year | | | | | | | | | |
| Exchange differences arising on translation of foreign operations | - | - | - | - | (415) | - | - | - | (415) |
| Total comprehensive expenses for the year | - | - | - | - | (415) | - | - | (60,282) | (60,697) |
| At 31 December 2019 and 1 January 2020 | 168,035 | 2,374,265 | 5,800 | 21,668 | 340 | 41,814 | 47,743 | (2,653,244) | 6,421 |
| Loss for the year | - | - | - | - | - | - | - | (56,383) | (56,383) |
| Other comprehensive income for the year | | | | | | | | | |
| Exchange differences arising on translation of foreign operations | - | - | - | - | 1,106 | - | - | - | 1,106 |
| Total comprehensive income (expenses) for the year | - | - | - | - | 1,106 | - | - | (56,383) | (55,277) |
| Share options lapsed | - | - | - | (14,317) | - | - | - | 14,317 | - |
| At 31 December 2020 | 168,035 | 2,374,265 | 5,800 | 7,351 | 1,446 | 41,814 | 47,743 | (2,695,310) | (48,856) |

Notes:

- (a) The contributed surplus represents the difference between the nominal value of the shares of the former group's holding company acquired pursuant to a group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefore.
- (b) Other reserve represents the deemed contribution from the substantial shareholder of the Company in respect of the modification of terms of convertible notes in 2018.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| OPERATING ACTIVITIES | | |
| Loss before taxation | <u>(56,383)</u> | <u>(60,282)</u> |
| Adjustments for: | | |
| Bank interest income | (21) | (15) |
| Finance costs | 16,435 | 15,611 |
| Depreciation of property, plant and equipment | 10,472 | 11,567 |
| Impairment loss of right-of-use assets | 5,211 | 2,081 |
| Impairment loss of property, plant and equipment | 2,365 | – |
| Unrealised exchange loss | 1,567 | – |
| Gain on termination of lease | – | (779) |
| Gain on modification of lease | (172) | – |
| Depreciation of right-of-use assets | – | 7,554 |
| Share of results of joint ventures | – | 13 |
| Reversal of impairment loss on inventories | – | (118) |
| Impairment loss on inventories | – | 1,692 |
| Reversal of impairment loss on trade receivables | (170) | – |
| Impairment loss on trade receivables | – | 19 |
| Net loss (gain) on disposals of property, plant and equipment | 5 | (650) |
| Write-offs of property, plant and equipment | 75 | – |
| Gain arising from disposal of entire equity interests in joint ventures | (1,205) | – |
| Waiver of accruals | – | (597) |
| Operating cash flows before working capital changes | <u>(21,821)</u> | <u>(23,904)</u> |
| Decrease in inventories | 7,276 | 7,574 |
| Increase in trade receivables | (4,848) | (45,360) |
| Increase in rental deposits, and prepayments, deposits and other receivables | (4,637) | (9,696) |
| Increase in trade payables | 11,924 | 66,639 |
| Increase in other payables and accruals | 6,549 | 3,776 |
| Increase in non-current employee benefits | 41 | 19 |
| NET CASH USED IN OPERATING ACTIVITIES | <u>(5,516)</u> | <u>(952)</u> |

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (151) | (13,042) |
| Deposit paid for acquisition of property, plant and equipment | – | (454) |
| Decrease in deposits in other financial institutions | – | 439 |
| Proceeds from disposals of property, plant and equipment | 25 | 650 |
| Bank interest received | 21 | 15 |
| | <u>(105)</u> | <u>(12,392)</u> |
| NET CASH USED IN INVESTING ACTIVITIES | | |
| FINANCING ACTIVITIES | | |
| Capital element of repayment of lease liabilities | (3,214) | (7,297) |
| Interest element of repayment of lease liabilities | (574) | (1,597) |
| Repayment to a joint venture | (16) | (20) |
| Loans from a substantial shareholder | 5,967 | 2,950 |
| | <u>2,163</u> | <u>(5,964)</u> |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | | |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (3,458) | (19,308) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | 11,201 | 30,724 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | 63 | (215) |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash | <u>7,806</u> | <u>11,201</u> |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

1. GENERAL

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

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

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

The Company is an investment holding company and the principal activities of its subsidiaries (together with the Company hereinafter referred to as the “Group”) are set out in note 39.

Basis of preparation

During the year ended 31 December 2020, the Group incurred a net loss of approximately HK\$56,383,000 and had net cash outflows from operating activities of approximately HK\$5,516,000.

As at 31 December 2020, the Group had net liabilities of approximately HK\$48,856,000 and bank balances and cash of approximately HK\$7,806,000, while its trade payables, lease liabilities and other payables and accruals were approximately HK\$99,816,000, HK\$3,111,000 and HK\$17,556,000, respectively, which will be due in the coming twelve months from the end of the reporting period, and the Group’s ability to meet these liquidity requirements depends on its ability to generate sufficient net cash inflows from future operations and/or other sources. These facts and circumstances indicate the existence of material uncertainties which may cast significant doubt on the Group’s ability to continue as a going concern.

In view of these circumstances and after reviewing the Group’s cash flow projection for the year ending 31 December 2021, the directors of the Company (the “Director(s)”) have given consideration to the future liquidity and performance of the Group in assessing whether the Group will have sufficient financial resources to continue as a going concern, including:

- (i) funds to be financed from a substantial shareholder to meet its financial obligations and maintain sufficient operating cash flows as and when they fall due for the foreseeable future; and
- (ii) the Group is expected to generate cash flows from its operations.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

1. GENERAL *(Continued)*

Basis of preparation *(Continued)*

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

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

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

In the current year, the Group has applied, for the first time the Amendments to References to the Conceptual Framework in HKFRSs, the following amendments to HKFRSs and Hong Kong Accounting Standards ("HKAS(s)"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Group's financial year beginning 1 January 2020:

| | |
|---|--------------------------------|
| Amendments to HKFRS 3 | Definition of a Business |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform |

The application of the Amendments to References to the Conceptual Framework in HKFRSs, the amendments to HKFRSs and HKASs 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

New and amendments to HKFRSs issued but not yet effective

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

| | |
|---|---|
| HKFRS 17 | Insurance Contracts and related Amendments ⁵ |
| Amendments to HKFRS 3 | Reference to Conceptual Framework ³ |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ² |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5 (2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ⁵ |
| Amendments to HKAS 16 | Property, plant and Equipment: Proceeds before Intended Use ³ |
| Amendments to HKAS 37 | Onerous Contracts – Cost of Fulfilling a Contract ³ |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform – Phase 2 ¹ |
| Amendment to HKFRS 16 | COVID-19-Related Rent Concessions ⁴ |
| Amendment to HKFRSs | Annual Improvements to HKFRSs 2018 – 2020 cycle ³ |
| Accounting Guideline 5 (Revised) | Merger Accounting for Common Control Combinations ⁶ |

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

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

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

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

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

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

The Directors anticipate that the application of the new and amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

The principal accounting policies are set out below.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in joint ventures

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in joint ventures *(Continued)*

When the investment ceases to be a joint venture upon the Group losing joint control over the joint venture, the Group discontinues to apply equity method and any retained interest is measured at its fair value at that date which is regarded as its fair value on initial recognition as a financial asset in accordance with the applicable standard. Any difference between the fair value of the retained interest and any proceeds from disposing of a part interest in the joint venture and the carrying amount of the investment at the date the equity method was discontinued is recognised in profit or loss. Any amount previously recognised in other comprehensive income in relation to that investment is reclassified to profit or loss or retained earnings on the same basis as it would have been required if the investee had directly disposed of the related assets or liabilities.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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

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

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

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

Contract liabilities

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

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

Definition of a lease

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

The Group as lessee

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

Lease liabilities

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

Lease payments included in the measurement of the Group's lease liability comprise fixed lease payments (including in-substance fixed payments), less any lease incentives receivable.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Lease liabilities (Continued)

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

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate; and
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Right-of-use assets

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

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. They are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within "investment property".

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Allocation of consideration to components of a contract

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

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

Lease modification

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

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

Short-term employee benefits

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

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

Retirement benefits costs

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Long service payment

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

Taxation

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

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

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

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

Current and deferred tax are recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

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

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

Financial instruments

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

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

Financial assets

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

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets at amortised cost *(debt instruments)*

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

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

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

Amortised cost and effective interest method

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

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

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

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets

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

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

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

Significant increase in credit risk

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

Significant increase in credit risk *(Continued)*

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular debtor, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

Significant increase in credit risk *(Continued)*

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

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

Definition of default

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

Credit-impaired financial assets

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

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

Write-off policy

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

Measurement and recognition of expected credit losses

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

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

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

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

Derecognition of financial assets

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities subsequently measured at amortised cost

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

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

Derecognition of financial liabilities

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Convertible notes

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

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

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

Equity-settled share-based payment transactions

Share options granted to employees

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

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

Share options granted to suppliers and other eligible persons

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on non-financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make 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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Estimated useful life of property, plant and equipment

The Group depreciates the property, plant and equipment on a straight-line basis between the rates of 10% to 30% per annum, commencing from the date the property, plant and equipment are available for use. The estimated useful lives that the Group places the property, plant and equipment into productive use reflects the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. Depreciation of approximately HK\$10,472,000 (2019: HK\$11,567,000) has been recognised for the year.

Impairment on trade receivables

Loss allowances for trade receivables are based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss. During the year ended 31 December 2020, a reversal of impairment loss on trade receivables of approximately HK\$170,000 (2019: impairment loss on trade receivables of approximately HK\$19,000) has been recognised. As at 31 December 2020, the aggregate carrying amount of trade receivables was approximately HK\$135,666,000 (2019: HK\$134,585,000), net of accumulated impairment loss of approximately HK\$1,544,000 (2019: HK\$1,630,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

Allowance of inventories

The management of the Group reviews an ageing analysis at the end of each reporting period, and makes provision for obsolete and slow-moving inventory items identified. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. As at 31 December 2020, the carrying amount of inventories was approximately HK\$49,905,000 (2019: HK\$57,941,000), net of accumulated impairment loss of approximately HK\$9,912,000 (2019: HK\$9,912,000). During the year ended 31 December 2020, no impairment loss on inventories (2019: approximately HK\$1,692,000) and no reversal of impairment loss on inventories (2019: approximately HK\$118,000) were recognised respectively.

Impairment on property, plant and equipment

Determining whether property, plant and equipment are impaired requires an estimation of the recoverable amount of the property, plant and equipment. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. During the year ended 31 December 2020, impairment loss of approximately HK\$2,365,000 (2019: nil) was recognised in respect of property, plant and equipment in the consolidated statement of profit or loss. As at 31 December 2020, the carrying amount of property, plant and equipment was approximately HK\$9,551,000 (2019: HK\$21,758,000), net of accumulated impairment loss of approximately HK\$2,767,000 (2019: HK\$402,000).

Impairment on right-of-use assets

Determining whether right-of-use assets are impaired requires an estimation of the recoverable amount of the right-of-use assets. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. During the year ended 31 December 2020, impairment loss of approximately HK\$5,211,000 (2019: HK\$2,081,000) has been recognised in respect of right-of-use assets in the consolidated statement of profit or loss. As at 31 December 2020, the carrying amount of right-of-use assets was nil (2019: nil), net of accumulated impairment loss of approximately HK\$5,211,000 (2019: HK\$2,081,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

Deferred taxes

As at 31 December 2020 and 2019, no deferred tax assets in relation to unused tax losses have been recognised in the Group's consolidated statement of financial position. As at 31 December 2020 and 2019, no deferred tax asset has been recognised on other tax losses and deductible temporary differences of approximately HK\$228,880,000 (2019: HK\$204,506,000) due to the unpredictability of future profit streams. The realisation of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more/less than expected, a material recognition/reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debts, which includes lease liabilities, loans from a substantial shareholder, amount due to a joint venture, convertible notes and equity attributable to owners of the Company, comprising share capital and reserves, and net of bank balances and cash. The Directors review the capital structure periodically. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through new share issues as well as share options. The Directors will also consider the raise of long-term borrowings as second resource of capital when investment opportunities arise and the return of such investments will justify the cost of debts from the borrowings.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Financial assets | | |
| Financial assets at amortised cost (including bank balances and cash) | <u>159,963</u> | <u>158,240</u> |
| Financial liabilities | | |
| Financial liabilities at amortised cost | <u>262,136</u> | <u>229,962</u> |

(b) Financial risk management objectives and policies

The Group's major financial instruments include rental deposits, trade receivables, deposits and other receivables, deposits in other financial institutions, bank balances and cash, trade payables, other payables and accruals, loans from a substantial shareholder, amount due to a joint venture and convertible notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and lease liabilities include credit risk, currency risk, interest rate risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

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

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk (Continued)

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

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

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

The Group's exposure to credit risk

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk (Continued)

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

| Internal credit rating | Description | Basis for recognising ECL |
|-------------------------------|---|------------------------------------|
| Low risk | The counterparty has a low risk of default and does not have any past-due amounts | 12-month ECL – not credit impaired |
| Medium risk | Debtor frequently repays after due dates but usually settle after due date | Lifetime ECL – not credit impaired |
| High risk | There have been significant increases in credit risk since initial recognition through information developed internally or external resources | Lifetime ECL – not credit impaired |
| Loss | There is evidence indicating the asset is credit-impaired | Lifetime ECL – credit impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written off |

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

6. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk (Continued)

For the year ended 31 December 2020

| | Internal credit rating | 12-month or lifetime ECL | Gross carrying amount HK\$'000 | Net carrying amount HK\$'000 |
|-----------------------------------|---------------------------|---------------------------------------|---|---------------------------------------|
| Trade receivables | Note | Lifetime ECL (simplified approach) | <u>137,210</u> | <u>135,666</u> |
| Deposits and other receivables | Low risk | 12-month ECL | <u>16,484</u> | <u>16,484</u> |

For the year ended 31 December 2019

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk (Continued)

The Group's concentration of credit risk by geographical locations is mainly in the People's Republic of China (the "PRC"), which accounted for 65% (2019: 68%) of the total trade receivables as at 31 December 2020.

The Group has concentration of credit risk as 34% (2019: 27%) and 66% (2019: 53%) of the trade receivables was due from the Group's largest trade debtor and the five largest trade debtors respectively.

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

Currency risk

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

Several subsidiaries of the Company have sales and purchases denominated in currencies other than the respective functional currency, which expose the Group to foreign currency risk. Approximately 49% (2019: 38%) of the Group's sales and 24% (2019: 36%) of the Group's purchases are denominated in currencies other than the functional currency of the group entity making the sales and purchases. The Group currently does not have a foreign currency hedging policy. The Group will monitor foreign exchange exposure and consider hedging significant foreign currency exposure should the need arise.

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

| | Assets | | Liabilities | |
|------|------------------|------------------|------------------|------------------|
| | 2020 HK\$'000 | 2019 HK\$'000 | 2020 HK\$'000 | 2019 HK\$'000 |
| HK\$ | 54,246 | 48,434 | 15,833 | 5,477 |
| US\$ | 112 | 141 | – | – |
| RMB | 1,558 | 20,100 | 193 | 5,358 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Currency risk (Continued)

Sensitivity analysis

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

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

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

| | HK\$ | | US\$ | | RMB | |
|----------------|----------|----------|----------|----------|----------|----------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Profit or loss | 1,604 | 1,793 | 5 | 6 | 57 | 615 |

Interest rate risk

As at 31 December 2020 and 2019, the Group is exposed to cash flow interest rate risk in relation to variable-rate deposits in other financial institutions (note 23) and bank balances (note 24).

Sensitivity analysis

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

6. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

| | Repayable on demand or within 1 year HK\$'000 | More than 1 year but less than 2 years HK\$'000 | Total undiscounted cash flows HK\$'000 | Carrying amount HK\$'000 |
|---|--|--|---|-----------------------------|
| At 31 December 2020 | | | | |
| Non-derivative financial liabilities | | | | |
| Trade payables | 99,816 | – | 99,816 | 99,816 |
| Other payables and accruals | 14,475 | – | 14,475 | 14,475 |
| Loans from a substantial shareholder | 8,917 | – | 8,917 | 8,917 |
| Convertible notes | – | 158,400 | 158,400 | 138,928 |
| | <u>123,208</u> | <u>158,400</u> | <u>281,608</u> | <u>262,136</u> |
| Leases liabilities | 3,518 | 1,074 | 4,592 | 4,125 |

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

Fair value measurements of financial instruments

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

7. REVENUE AND SEGMENT INFORMATION

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

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

(a) Geographical information

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

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

| | Revenue from external customers | | Non-current assets | |
|----------------------|---|---|--|--|
| | Year ended 31 December 2020 HK\$'000 | Year ended 31 December 2019 HK\$'000 | As at 31 December 2020 HK\$'000 | As at 31 December 2019 HK\$'000 |
| Hong Kong | 196,700 | 167,698 | 22 | 1,390 |
| Elsewhere in the PRC | 143,760 | 126,027 | 9,320 | 21,688 |
| Asia Pacific | 11,074 | 29,682 | 209 | 338 |
| Others | 6,988 | 9,336 | – | – |
| Total | 358,522 | 332,743 | 9,551 | 23,416 |

Note: Non-current assets excluded financial instruments.

(b) Information about major customers

During the year ended 31 December 2020, there was a Group's individual customer who contributed revenue of approximately HK\$107,886,000 (2019: HK\$86,814,000), which accounted for more than 10% to the total revenue of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

8. OTHER INCOME

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Bank interest income | 21 | 15 |
| Consultancy service income | – | 354 |
| Gain on termination of lease | – | 779 |
| Gain on modification of lease | 172 | – |
| Government grants (note) | 1,405 | – |
| Gain arising from disposal of entire equity interests in joint ventures | 1,205 | – |
| Net gain on disposal of property, plant and equipment | – | 650 |
| Net exchange gain | – | 1,051 |
| Waiver of accruals | – | 597 |
| Others | 10 | 10 |
| | <u>2,813</u> | <u>3,456</u> |

Note:

During the year 31 December 2020, the Group recognised government grants of approximately HK\$1,405,000 (2019: nil) in respect of COVID-19-related subsidies related to Employment Support Scheme provided by the Government of the Hong Kong Special Administrative Region under the Anti-epidemic Fund. There are no unfulfilled conditions and other contingencies attached to the receipts of those subsidies.

9. FINANCE COSTS

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Imputed interest expenses on convertible notes (note 28) | 15,861 | 14,014 |
| Interest expense on lease liabilities (note 18(c)) | 574 | 1,597 |
| | <u>16,435</u> | <u>15,611</u> |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

10. TAXATION

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2020 and 2019 as the Group has no assessable profits arising in Hong Kong for both reporting periods.

Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. For the years ended 31 December 2020 and 2019, Hong Kong Profits Tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other Group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the subsidiary registered in the PRC is 25% from 1 January 2008 onwards. No provision for the PRC Enterprise Income Tax has been made as the PRC subsidiary of the Company has sufficient tax losses brought forward to set off against current year's assessable profit during the years ended 31 December 2020 and 2019.

Under the Law of Vietnam on Corporate Income Tax, the tax rate of the subsidiary registered in Vietnam is 20% (2019: 20%). No provision for the Corporate Income Tax has been made for the years ended 31 December 2020 and 2019 as the subsidiary of the Company has no assessable profits for both reporting periods.

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

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Loss before taxation | <u>(56,383)</u> | <u>(60,282)</u> |
| Tax calculated at the domestic income tax rate of 16.5% (2019: 16.5%) | (9,303) | (9,947) |
| Tax effect of different tax rates | 473 | 730 |
| Tax effect of expenses not deductible for tax purpose | 5,722 | 6,153 |
| Tax effect of income not taxable for tax purpose | (517) | (426) |
| Utilisation of deductible temporary differences not recognised in previous year | (3) | (4) |
| Tax effect of share of loss of joint ventures | – | 2 |
| Tax effect of tax losses not recognised | 5,104 | 5,961 |
| Utilisation of tax losses not recognised in previous year | <u>(1,476)</u> | <u>(2,469)</u> |
| Taxation | <u>–</u> | <u>–</u> |

Details of deferred tax are set out in note 29.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

11. LOSS FOR THE YEAR

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

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Cost of inventories recognised as expenses | 336,634 | 306,341 |
| Reversal of impairment loss on inventories (included in cost of sales) | – | (118) |
| Impairment loss on inventories (included in cost of sales) | – | 1,692 |
| Staff costs (note 12) | 28,391 | 30,418 |
| Depreciation of property, plant and equipment | 10,472 | 11,567 |
| Depreciation of right-of-use assets (included in administrative expenses) | – | 1,568 |
| Depreciation of right-of-use assets (included in cost of sales) | – | 5,986 |
| Auditor's remuneration | 882 | 868 |
| Net exchange loss | 1,561 | – |
| Net loss on disposals of property, plant and equipment | 5 | – |
| Write-offs of property, plant and equipment | 75 | – |

12. STAFF COSTS

Staff costs (including Directors' emoluments) comprise:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Salaries, allowances and benefits | 26,728 | 29,270 |
| Retirement benefits scheme contributions | 831 | 747 |
| Provision for other employee benefits and long service payments | 832 | 401 |
| | 28,391 | 30,418 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

13. DIVIDENDS

No dividend was paid or proposed for the year ended 31 December 2020, nor has any dividend been proposed since the end of the year ended 31 December 2020 (2019: nil).

14. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to owners of the Company of approximately HK\$56,383,000 (2019: HK\$60,282,000) and the weighted average number of approximately 840,174,000 (2019: 840,174,000) ordinary shares in issue during the year ended 31 December 2020.

For the years ended 31 December 2020 and 2019, the diluted loss per share is the same as the basic loss per share.

The computation of diluted loss per share for the years ended 31 December 2020 and 2019 did not assume the exercise of the Company's share options as the exercise prices of the share options were higher than the average market price for shares. The computation of diluted loss per share for the years ended 31 December 2020 and 2019 did not assume the conversion of the Company's outstanding convertible notes as the conversion of convertible notes would result in a decrease in loss per share.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

15. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the six (2019: seven) Directors and the chief executive were as follows:

For the year ended 31 December 2020

| | Executive Directors | | | | Independent non-executive Directors | | Total HK\$'000 |
|---|---------------------------------|--|------------------------------|--|-------------------------------------|-----------------------|-------------------|
| | Li Yang (note a) HK\$'000 | Lam Yat Keung (note b) HK\$'000 | Huang Hanshui HK\$'000 | Yang Junjie (note c) HK\$'000 | Ho Chi Fai HK\$'000 | Zhang Jue HK\$'000 | |
| Emoluments paid or receivable in respect of a person's service as a director, whether of the Company or its subsidiary undertakings | | | | | | | |
| Fees | 148 | 182 | 600 | 182 | 90 | 90 | 1,292 |
| Contributions to retirement benefits | - | 6 | - | 6 | - | - | 12 |
| | <u>148</u> | <u>188</u> | <u>600</u> | <u>188</u> | <u>90</u> | <u>90</u> | <u>1,304</u> |
| Emoluments paid or receivable in respect of a director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings | | | | | | | |
| Other emoluments: | | | | | | | |
| Salaries and other benefits | 1,698 | 4,957 | 1,807 | - | - | - | 8,462 |
| Contributions to retirement benefits | 170 | 18 | 180 | - | - | - | 368 |
| | <u>1,868</u> | <u>4,975</u> | <u>1,987</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>8,830</u> |
| Total emoluments | <u>2,016</u> | <u>5,163</u> | <u>2,587</u> | <u>188</u> | <u>90</u> | <u>90</u> | <u>10,134</u> |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

For the year ended 31 December 2019

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

Notes:

- (a) Ms. Li Yang was appointed on 22 January 2020.
- (b) Mr. Lam Yat Keung resigned with effect from 22 January 2021.
- (c) Mr. Yang Junjie was appointed on 24 June 2019.
- (d) Mr. Wang Zhaofeng resigned with effect from 24 June 2019.
- (e) Ms. Liu Yanfang resigned with effect from 1 January 2020.

No Director and chief executive waived or agreed to waive any emoluments for the years ended 31 December 2020 and 2019.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

16. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2019: two) were Directors whose emoluments are disclosed in note 15. The emoluments of the remaining two (2019: three) individuals were as follows:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Salaries, allowances and benefits | 3,326 | 4,718 |
| Retirement benefits scheme contributions | 36 | 54 |
| | <u>3,362</u> | <u>4,772</u> |

Their emoluments were within the following bands:

| | Number of employees | |
|--------------------------------|---------------------|----------|
| | 2020 | 2019 |
| Less than HK\$1,000,000 | – | 1 |
| HK\$1,000,001 to HK\$1,500,000 | – | – |
| HK\$1,500,001 to HK\$2,000,000 | 2 | 1 |
| HK\$2,000,001 to HK\$2,500,000 | – | 1 |
| | <u>2</u> | <u>3</u> |

During the years ended 31 December 2020 and 2019, no emoluments were paid by the Group to the five highest paid individuals (including Directors and employees) or other Directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

17. PROPERTY, PLANT AND EQUIPMENT

| | Plant and machinery HK\$'000 | Leasehold improvements, furniture and fixtures and others HK\$'000 | Total HK\$'000 |
|--|------------------------------------|---|-------------------|
| COST | | | |
| At 1 January 2019 | 148,508 | 77,160 | 225,668 |
| Exchange realignment | (41) | (3) | (44) |
| Additions | 10,683 | 2,359 | 13,042 |
| Write-offs | – | (68) | (68) |
| Disposals | (42,967) | – | (42,967) |
| | <u>116,183</u> | <u>79,448</u> | <u>195,631</u> |
| At 31 December 2019 and 1 January 2020 | 116,183 | 79,448 | 195,631 |
| Exchange realignment | 179 | (2) | 177 |
| Additions | 568 | 25 | 593 |
| Write-offs | (2,488) | (68,738) | (71,226) |
| Disposals | (2,548) | – | (2,548) |
| | <u>111,894</u> | <u>10,733</u> | <u>122,627</u> |
| At 31 December 2020 | 111,894 | 10,733 | 122,627 |
| DEPRECIATION AND IMPAIRMENT | | | |
| At 1 January 2019 | 130,476 | 74,871 | 205,347 |
| Exchange realignment | (3) | (3) | (6) |
| Depreciation provided for the year | 10,592 | 975 | 11,567 |
| Eliminated on write-offs | – | (68) | (68) |
| Eliminated on disposals | (42,967) | – | (42,967) |
| | <u>98,098</u> | <u>75,775</u> | <u>173,873</u> |
| At 31 December 2019 and 1 January 2020 | 98,098 | 75,775 | 173,873 |
| Exchange realignment | 24 | 11 | 35 |
| Depreciation provided for the year | 9,457 | 1,015 | 10,472 |
| Impairment provided for the year | – | 2,365 | 2,365 |
| Eliminated on write-offs | (2,488) | (68,663) | (71,151) |
| Eliminated on disposals | (2,518) | – | (2,518) |
| | <u>102,573</u> | <u>10,503</u> | <u>113,076</u> |
| At 31 December 2020 | 102,573 | 10,503 | 113,076 |
| CARRYING VALUES | | | |
| At 31 December 2020 | 9,321 | 230 | 9,551 |
| At 31 December 2019 | 18,085 | 3,673 | 21,758 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

During the years ended 31 December 2020 and 2019, the Directors conducted a review of the Group's property, plant and equipment. The impairment loss of approximately HK\$2,365,000 (2019: nil) has been recognised in respect of the property, plant and machinery as the management expected to suffer further losses, therefore the recoverable amount estimated using value-in-use was lower than the carrying amount.

18. RIGHT OF USE ASSETS AND LEASE LIABILITIES

(a) Right-of-use assets

| | 2020 HK\$'000 | 2019 HK\$'000 |
|-----------|------------------|------------------|
| Warehouse | — | — |
| Offices | — | — |
| | <hr/> | <hr/> |
| | — | — |

The Group has lease arrangements for warehouse and offices. The lease terms generally ranged from one to two years (2019: ranged from two to three years). The Group also has lease arrangements with lease terms of 12 months or less for production plant, motor vehicles and offices. Rental are fixed over the terms of respective leases and there are no renewal or termination options granted.

Additions to the right-of-use assets for the year ended 31 December 2020 amounted to approximately HK\$5,211,000 (2019: HK\$1,448,000), due to renewal of leases of offices.

During the year ended 31 December 2019, the Group terminated the lease for warehouse and derecognised right-of-use assets and lease liabilities of approximately HK\$5,986,000 (2020: nil) and HK\$6,765,000 (2020: nil) respectively, resulting in a gain on termination of lease of approximately HK\$779,000 (2020: nil) being recognised in profit or loss for that year.

Notes to the Consolidated Financial Statements

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

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

During the year ended 31 December 2020, the Directors conducted a review of the Group's right-of-use assets, which have an impairment indicator. The carrying amount of the leased premises is written down to its recoverable amount as the asset's carrying amount is greater than its estimated recoverable amount. As a result, an impairment loss of right-of-use assets of approximately HK\$5,211,000 (2019: HK\$2,081,000) was recognised in administrative expenses during the year ended 31 December 2020. The estimates of the recoverable amounts were based on value-in-use calculations using discounted cash flow projections based on the financial forecasts approved by management covering the remaining tenure of the lease and a pre-tax discount rate of 15%.

(b) Leases liabilities

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---------------|------------------|------------------|
| Current | 3,111 | 2,019 |
| Non – current | 1,014 | 286 |
| | <u>4,125</u> | <u>2,305</u> |

At 31 December 2020 and 2019, the lease liabilities arose from lease arrangements for offices.

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Amounts payable under lease liabilities | | |
| Within one year | 3,111 | 2,019 |
| After one year but within two years | 1,014 | 286 |
| | <u>4,125</u> | <u>2,305</u> |
| Less: Amount due for settlement within 12 months | <u>(3,111)</u> | <u>(2,019)</u> |
| Amount due for settlement after 12 months | <u>1,014</u> | <u>286</u> |

Additions to the lease liabilities for the year ended 31 December 2020 amounted to approximately HK\$5,211,000 (2019: HK\$1,448,000), due to renewal of leases of offices.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

(c) Amounts recognised in profit or loss

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Depreciation of right-of-use assets | | |
| – warehouse | – | 5,986 |
| – offices | – | 1,568 |
| Interest expense on lease liabilities (note 9) | 574 | 1,597 |
| Expense relating to short-term leases | 3,923 | 7,378 |
| Expense relating to lease of low value assets | – | 8 |

(d) Others

During the year ended 31 December 2020, the total cash outflow for leases amount to approximately HK\$7,711,000 (2019: HK\$16,280,000).

During the year ended 31 December 2020, the Group entered into rental concession agreement and derecognised lease liabilities of approximately HK\$172,000 (2019: nil) and recognised the gain on modification of lease of approximately HK\$172,000 (2019: nil).

As at 31 December 2019, the Group is committed to approximately HK\$3,859,000 for lease agreements not yet commenced (2020: nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

19. INTERESTS IN JOINT VENTURES

During the year ended 31 December 2020, the Group disposed of the entire equity interests in Semtech International (B.V.I.) Limited (“Semtech BVI”) and its wholly-owned subsidiary, Semtech Electronics Limited (“Semtech Electronics”) (collectively referred to as “Semtech BVI Group”) at consideration of approximately HK\$1,212,000 settled through setting-off with part of the amount due to a joint venture together with the waiver granted by the joint venture for the remaining balance of the amount due to a joint venture of approximately HK\$1,205,000, recorded a gain arising from disposal of entire equity interests in joint ventures of approximately HK\$1,205,000 which is included in “other income”.

| | 2019 HK\$'000 |
|---|------------------|
| Cost of unlisted investment in joint ventures | 5,998 |
| Share of post-acquisition losses and other comprehensive expenses and impairment loss | <u>(4,786)</u> |
| | <u>1,212</u> |

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

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

Semtech BVI Group had been classified as joint ventures on the basis that certain significant decisions about the financial and operating activities of the Semtech BVI Group require the unanimous consent of both the Group and the other shareholder of Semtech BVI Group.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

19. INTERESTS IN JOINT VENTURES (Continued)

Semtech BVI Group

| | |
|---|------------------|
| | 2019 HK\$'000 |
| Current assets | 2,433 |
| Current liabilities | <u>(9)</u> |
| | 2019 HK\$'000 |
| Revenue | – |
| Loss and total comprehensive expenses for the year | <u>25</u> |
| | 2019 HK\$'000 |
| Net assets of Semtech BVI Group | 2,424 |
| Proportion of the Group's ownership interest in Semtech BVI Group | <u>50%</u> |
| Carrying amount of the Group's interest in Semtech BVI Group | <u>1,212</u> |

Semtech BVI Group's trademark of approximately HK\$2,700,000 was fully impaired in prior years. No reversal of impairment was recognised for the years ended 31 December 2020 and 2019.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

20. INVENTORIES

| | 2020 HK\$'000 | 2019 HK\$'000 |
|------------------|------------------|------------------|
| Raw materials | 30,628 | 37,817 |
| Work-in-progress | 359 | 501 |
| Finished goods | <u>18,918</u> | <u>19,623</u> |
| | <u>49,905</u> | <u>57,941</u> |

During the year ended 31 December 2020, no reversal of provision for write-down of finished goods (2019: HK\$118,000) were recognised and included in cost of sales.

21. TRADE RECEIVABLES

The Group allows an average credit period of 30 to 120 days (2019: 30 to 120 days) to its trade customers.

| | 2020 HK\$'000 | 2019 HK\$'000 |
|------------------------------|------------------|------------------|
| Trade receivables | 137,210 | 136,215 |
| Less: Accumulated impairment | <u>(1,544)</u> | <u>(1,630)</u> |
| | <u>135,666</u> | <u>134,585</u> |

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

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

| | 2020 HK\$'000 | 2019 HK\$'000 |
|-------------------|------------------|------------------|
| Current | 126,303 | 129,787 |
| Overdue: | | |
| – within 3 months | <u>9,363</u> | <u>4,798</u> |
| | <u>135,666</u> | <u>134,585</u> |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

21. TRADE RECEIVABLES (Continued)

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

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

| As at 31 December 2020 | Weighted average expected loss rate % | Gross carrying amount HK\$'000 | Loss allowance HK\$'000 |
|-------------------------------|--|---|--|
| Individually | | | |
| Over 12 months past due | 100 | 1,387 | 1,387 |
| Collectively | | | |
| Current (not past due) | 0.043 | 126,357 | 54 |
| Less than 3 month past due | 1.088 | 9,466 | 103 |
| | | <u>137,210</u> | <u>1,544</u> |
| As at 31 December 2019 | | | |
| Individually | | | |
| Over 12 months past due | 100 | 1,304 | 1,304 |
| Collectively | | | |
| Current (not past due) | 0.191 | 130,035 | 248 |
| Less than 3 month past due | 1.011 | 4,847 | 49 |
| More than 6 months past due | 100 | 29 | 29 |
| | | <u>136,215</u> | <u>1,630</u> |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

21. TRADE RECEIVABLES (Continued)

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

| | 2020 HK\$'000 | 2019 HK\$'000 |
|----------------------------------|------------------|------------------|
| Balance at beginning of the year | 1,630 | 1,635 |
| Impairment loss recognised | – | 19 |
| Reversal of impairment loss | (170) | – |
| Exchange realignment | 84 | (24) |
| | <hr/> | <hr/> |
| Balance at end of the year | 1,544 | 1,630 |

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

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Other receivables | 15,322 | 30,509 |
| Less: Accumulated impairment | – | (19,585) |
| | <hr/> | <hr/> |
| | 15,322 | 10,924 |
| Prepayments | 1,142 | 1,412 |
| Deposits | 1,162 | 1,523 |
| | <hr/> | <hr/> |
| | 17,626 | 13,859 |
| | <hr/> | <hr/> |
| Analysed for financial reporting purpose: | | |
| Current | 17,303 | 12,987 |
| Non-current | 323 | 872 |
| | <hr/> | <hr/> |
| | 17,626 | 13,859 |
| | <hr/> | <hr/> |

The impairment on deposits and other receivables is assessed individually. The Group recognised 12-month and lifetime ECL for deposits and other receivables with gross carrying amount of approximately HK\$16,484,000 (2019: HK\$12,447,000) and nil (2019: HK\$19,585,000) respectively as they are low risk and credit impaired respectively. Lifetime ECL (credit impaired) of nil (2019: approximately HK\$19,585,000) was made due to the management considered the prolonged outstanding balance was uncollectible. No impairment loss is made on 12-month ECL as it has low risk of default or has not been a significant increase in credit risk since initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

(Continued)

During the year, gross amount of other receivables amounting to approximately HK\$19,585,000 (2019: nil) was written off since the management considered the prolonged outstanding balance was uncollectible.

The Group does not hold any collateral over these balances.

23. DEPOSITS IN OTHER FINANCIAL INSTITUTIONS

The amounts at 31 December 2020 and 2019 represented deposits placed with securities brokers for trading securities and carried interest at prevailing market rates.

24. BANK BALANCES AND CASH

At 31 December 2020 and 2019, cash at bank carried interest at floating rates based on daily bank deposits rates.

25. TRADE PAYABLES

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

| | 2020 HK\$'000 | 2019 HK\$'000 |
|-------------------|------------------|------------------|
| Current | 87,024 | 92,766 |
| Overdue: | | |
| – within 3 months | 12,792 | 18 |
| | <u>99,816</u> | <u>92,784</u> |

The average credit period on purchases is 30 to 120 days (2019: 30 to 120 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

26. LOANS FROM A SUBSTANTIAL SHAREHOLDER

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Loans repayable on maturity, unsecured and non-interest bearing | <u>8,917</u> | <u>2,950</u> |
| Categorised as: | | |
| Due within one year | 8,917 | 827 |
| Due within two to five years | <u>–</u> | <u>2,123</u> |
| | <u>8,917</u> | <u>2,950</u> |

27. EMPLOYEE BENEFITS

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Liabilities for employee benefit comprise: | | |
| Annual leave payments accrual | 2,987 | 2,196 |
| Long service payments obligation (note 36(a)) | <u>75</u> | <u>34</u> |
| | <u>3,062</u> | <u>2,230</u> |
| Categorised as: | | |
| Due within one year (included in other payables and accruals) | 2,987 | 2,196 |
| Due after one year (shown under non-current liabilities) | <u>75</u> | <u>34</u> |
| | <u>3,062</u> | <u>2,230</u> |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

28. CONVERTIBLE NOTES

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

Details of the Group's convertible notes outstanding as at 31 December 2020 and 2019 are set out below:

| | 2020 | 2019 |
|----------------------------|--|--|
| Date of issue | 19 November 2009 | 19 November 2009 |
| Original principal amount | HK\$950,400,000 | HK\$950,400,000 |
| Date of modification | 31 December 2018 | 31 December 2018 |
| Remaining principal amount | HK\$158,400,000 | HK\$158,400,000 |
| Coupon rate | Nil | Nil |
| Conversion price | HK\$0.22 per share | HK\$0.22 per share |
| Conversion period | The period commencing from the date of modification of the convertible notes and ending on the maturity date | The period commencing from the date of modification of the convertible notes and ending on the maturity date |
| Collaterals | Nil | Nil |
| Maturity date | 31 January 2022 | 31 January 2022 |

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

28. CONVERTIBLE NOTES *(Continued)*

The convertible notes contain two components, liability and equity components. The equity component is presented in equity under the heading of convertible notes reserve. The effective interest rate of the liability component of the convertible notes is 12.85% (2019: 12.85%) per annum. The liability and equity components of the convertible notes were measured at fair values at the date of modification and the valuation was determined by an independent valuer.

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

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

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

Notes to the Consolidated Financial Statements

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28. CONVERTIBLE NOTES *(Continued)*

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

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

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

As a result of the Share Consolidation (as defined in note 30) and under the terms and conditions of the convertible notes, the conversion price of the outstanding convertible notes was adjusted from HK\$0.011 per share to HK\$0.22 per share with effect from the close of business in Hong Kong on 22 May 2019. Based on the adjusted conversion price of HK\$0.22 per share, the outstanding convertible notes with an aggregate principal amount of HK\$158,400,000 will be convertible into 720,000,000 ordinary shares of HK\$0.20 each.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

28. CONVERTIBLE NOTES *(Continued)*

Movements of the liability and equity components of the convertible notes for the years ended 31 December 2020 and 2019 are set out below:

| | Liability component | Equity component | Total |
|---|--------------------------------|-----------------------------|-----------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2019 | 109,053 | 41,814 | 150,867 |
| Imputed interest charged to the consolidated statement of profit or loss (note 9) | <u>14,014</u> | <u>–</u> | <u>14,014</u> |
| At 31 December 2019 and 1 January 2020 | 123,067 | 41,814 | 164,881 |
| Imputed interest charged to the consolidated statement of profit or loss (note 9) | <u>15,861</u> | <u>–</u> | <u>15,861</u> |
| At 31 December 2020 | <u>138,928</u> | <u>41,814</u> | <u>180,742</u> |

As at 31 December 2020, the principal amount of convertible notes remained outstanding is HK\$158,400,000 (2019: HK\$158,400,000).

29. DEFERRED TAX

As at 31 December 2020, the Group has unused estimated tax losses of approximately HK\$227,364,000 (2019: HK\$202,972,000). No deferred tax asset has been recognised in respect of the remaining tax losses due to the unpredictability of future profits streams.

As at 31 December 2019, included in unrecognised tax losses are losses of approximately HK\$4,668,000 (2020: nil) that will expire after five years from the year of assessment to which they relate to. Other losses may be carried forward indefinitely.

As at 31 December 2020, the Group has deductible temporary differences of approximately HK\$1,516,000 (2019: HK\$1,534,000). No deferred tax asset is recognised in respect of these deductible temporary differences as at 31 December 2020 and 2019 due to the unpredictability of future profits streams.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

30. SHARE CAPITAL

| | Number of shares '000 | HK\$'000 |
|---|-----------------------------|-----------------------|
| Authorised ordinary shares of HK\$0.20 (2019: HK\$0.20) each: | | |
| At 1 January 2019 | 60,000,000 | 600,000 |
| Share consolidation (note) | <u>(57,000,000)</u> | <u>–</u> |
| At 31 December 2019, 1 January 2020 and 31 December 2020 | <u>3,000,000</u> | <u>600,000</u> |
| Issued and fully paid ordinary shares of HK\$0.20 (2019: HK\$0.20) each: | | |
| At 1 January 2019 | 16,803,485 | 168,035 |
| Share consolidation (note) | <u>(15,963,311)</u> | <u>–</u> |
| At 31 December 2019, 1 January 2020 and 31 December 2020 | <u>840,174</u> | <u>168,035</u> |

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

31. SHARE OPTION SCHEME

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

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

Terms of 2012 Share Option Scheme

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

- (a) any eligible employee;
- (b) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- (c) any supplier of goods or services to any member of the Group or any Invested Entity;
- (d) any customer of the Group or any Invested Entity;
- (e) any person or entity that provides research, development or technological support or services to the Group or any Invested Entity;
- (f) any shareholder or any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and
- (g) any ex-employee who has contributed to the development and growth of the Group and any Invested Entity.

Notes to the Consolidated Financial Statements

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31. SHARE OPTION SCHEME *(Continued)*

Terms of 2012 Share Option Scheme *(Continued)*

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

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

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

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

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

Notes to the Consolidated Financial Statements

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31. SHARE OPTION SCHEME (Continued)

Terms of 2012 Share Option Scheme (Continued)

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

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

At 31 December 2020, the number of shares in respect of which options had been granted and remained outstanding and exercisable under the 2002 Share Option Scheme was 11,314,210 (2019: 19,996,998), representing 1% (2019: 2%) of the shares of the Company in issue at that date. No option is granted under the 2012 Share Option Scheme during the years ended 31 December 2020 and 2019.

The following table disclosed the movements of the Company's share options for the years ended 31 December 2020 and 2019:

| Participants | Date of grant | Exercise price per share | Number of share options outstanding at 1 January 2019 | Adjusted exercise price per share (note) | Number of share options | | |
|---|------------------|--------------------------|---|--|---|------------------------|---------------------------------|
| | | | | | Outstanding at 31 December 2019 and 1 January 2020 (note) | Lapsed during the year | Outstanding at 31 December 2020 |
| Director | | | | | | | |
| Mr. Huang Hanshui | 6 December 2010 | HK\$0.305 | 86,827,895 | HK\$6.10 | 4,341,394 | (4,341,394) | – |
| Customers, suppliers and other eligible persons (in aggregate) | | | | | | | |
| | 6 December 2010 | HK\$0.305 | 86,827,895 | HK\$6.10 | 4,341,394 | (4,341,394) | – |
| | 30 November 2011 | HK\$0.098 | 226,284,200 | HK\$1.96 | 11,314,210 | – | 11,314,210 |
| Exercisable at the end of the reporting period | | | 399,939,990 | | 19,996,998 | (8,682,788) | 11,314,210 |
| Weighted average exercise price | | | HK\$0.19 | | HK\$3.76 | HK\$6.10 | HK\$1.96 |

Note: With effect from 23 May 2019, as a result of the Share Consolidation, adjustments to the share options granted to certain eligible participants under the share option scheme of the Company adopted on 28 November 2002 (terminated on 8 June 2012) were required under the terms and conditions of the 2002 Share Option Scheme. For details, please refer to the announcements of the Company dated 23 April and 22 May 2019, as well as the circular of the Company dated 6 May 2019 and the Company's annual report for the year ended 31 December 2019.

The options outstanding at 31 December 2020 were fully vested at grant date and had an exercisable period of 10 years from the date of grant and a weighted average remaining contractual life of less than 1 year (2019: 1.5 years).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Non-current asset | | |
| Investments in subsidiaries | — | — |
| Current assets | | |
| Prepayments, deposits and other receivables | 432 | 609 |
| Amounts due from subsidiaries (note a) | 103,801 | 131,805 |
| Bank balances and cash | 3 | 18 |
| | <u>104,236</u> | <u>132,432</u> |
| Current liabilities | | |
| Amount due to a subsidiary | 1,565 | 58 |
| Other payables and accruals | 4,048 | 2,878 |
| | <u>5,613</u> | <u>2,936</u> |
| Net current assets | <u>98,623</u> | <u>129,496</u> |
| Total assets less current liabilities | <u>98,623</u> | <u>129,496</u> |
| Non-current liability | | |
| Convertible notes | 138,928 | 123,067 |
| Net (liabilities) assets | <u>(40,305)</u> | <u>6,429</u> |
| Capital and reserves | | |
| Share capital | 168,035 | 168,035 |
| Reserves (note b) | (208,340) | (161,606) |
| Total (deficit) equity | <u>(40,305)</u> | <u>6,429</u> |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

Notes:

- (a) The amounts are unsecured, interest-free and repayable on demand.
- (b) Movements in the reserves during the years are as follows:

| | Share premium HK\$'000 | Contributed surplus (note i) HK\$'000 | Share-based compensation reserve HK\$'000 | Convertible notes reserve HK\$'000 | Other reserve (note ii) HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|---|------------------------------|--|--|---|---|-----------------------------------|-------------------|
| At 1 January 2019 | 2,374,265 | 62,315 | 21,668 | 41,814 | 47,743 | (2,657,462) | (109,657) |
| Loss and total comprehensive expenses for the year | - | - | - | - | - | (51,949) | (51,949) |
| At 31 December 2019 and 1 January 2020 | 2,374,265 | 62,315 | 21,668 | 41,814 | 47,743 | (2,709,411) | (161,606) |
| Loss and total comprehensive expenses for the year | - | - | - | - | - | (46,734) | (46,734) |
| Share options lapsed | - | - | (14,317) | - | - | 14,317 | - |
| At 31 December 2020 | 2,374,265 | 62,315 | 7,351 | 41,814 | 47,743 | (2,741,828) | (208,340) |

Notes:

- (i) The contributed surplus represents the difference between the nominal value of the shares of the Company acquired pursuant to a group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefore.
- (ii) Other reserve represents the deemed contribution from the substantial shareholder of the Company in respect of the modification of terms of convertible notes in 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

33. CAPITAL COMMITMENTS

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | – | 191 |

34. MAJOR NON-CASH TRANSACTIONS

During the years ended 31 December 2020 and 2019, the Group has entered the followings non-cash transactions:

- (a) During the year ended 31 December 2020, the Group disposed its entire equity interests in joint ventures at consideration of approximately HK\$1,212,000 and settled through setting-off with part of the amount due to a joint venture. The remaining balance of amount due to a joint venture of approximately HK\$1,205,000 was waived by the joint venture.
- (b) During the year ended 31 December 2020, the Group entered into renewed existing arrangement in respect of office premises and non-cash addition of right-of-use assets and lease liabilities of approximately HK\$5,211,000 (2019: HK\$1,448,000) were recognised.
- (c) During the year ended 31 December 2019, the Group terminated the lease for warehouse and derecognised right-of-use assets and lease liabilities of approximately HK\$5,986,000 (2020: nil) and HK\$6,765,000 (2020: nil) respectively, resulting in a gain on termination of lease of approximately HK\$779,000 (2020: nil) being recognised in profit or loss for the year.
- (d) During the year ended 31 December 2020, the Group modified the lease for an office resulting in a gain on modification of lease of approximately HK\$172,000 (2019: nil) being recognised in profit or loss for the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

| | Lease liabilities HK\$'000 | Amount due to a joint venture HK\$'000 | Loans from a substantial shareholder HK\$'000 | Convertible notes HK\$'000 | Total HK\$'000 |
|---|----------------------------------|--|---|----------------------------------|-------------------|
| At 1 January 2019 | 14,919 | 2,453 | – | 109,053 | 126,425 |
| Financing cash flows: | | | | | |
| Repayment | (8,894) | (20) | – | – | (8,914) |
| Proceeds | – | – | 2,950 | – | 2,950 |
| Non-cash changes: | | | | | |
| New/renewed lease agreements | 1,448 | – | – | – | 1,448 |
| Interest expenses | 1,597 | – | – | – | 1,597 |
| Termination of lease | (6,765) | – | – | – | (6,765) |
| Imputed interest | – | – | – | 14,014 | 14,014 |
| At 31 December 2019 and 1 January 2020 | 2,305 | 2,433 | 2,950 | 123,067 | 130,755 |
| Financing cash flows: | | | | | |
| Repayment | (3,788) | (16) | – | – | (3,804) |
| Proceeds | – | – | 5,967 | – | 5,967 |
| Non-cash changes: | | | | | |
| Renewed lease agreements | 5,211 | – | – | – | 5,211 |
| Interest expenses | 574 | – | – | – | 574 |
| Gain on modification of lease | (172) | – | – | – | (172) |
| Exchange alignment | (5) | – | – | – | (5) |
| Set off against consideration for disposal of entire equity interests in joint ventures (note 19) | – | (1,212) | – | – | (1,212) |
| Gain arising from disposal of entire equity interests in joint ventures | – | (1,205) | – | – | (1,205) |
| Imputed interest | – | – | – | 15,861 | 15,861 |
| At 31 December 2020 | 4,125 | – | 8,917 | 138,928 | 151,970 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

36. RETIREMENT BENEFIT OBLIGATIONS

(a) Long service payments obligation

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Long service payments obligation (note 27) | 75 | 34 |

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employees' final salary and years of service and is reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group at a discount rate of 8% (2019: 8%) and an assumed retirement age of 65 years old. The Group does not set aside any assets to fund any remaining obligations.

Movement for the years:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|----------------------------------|------------------|------------------|
| Balance at beginning of the year | 34 | 15 |
| Increase in obligation | 41 | 19 |
| Balance at end of the year | 75 | 34 |

(b) Retirement benefit scheme contributions

Hong Kong

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

36. RETIREMENT BENEFIT OBLIGATIONS (Continued)

(b) Retirement benefit scheme contributions (Continued)

The PRC and Vietnam

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

37. RELATED PARTY TRANSACTIONS

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

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

| | Amounts due to related parties | |
|--|-----------------------------------|------------------|
| | 2020 HK\$'000 | 2019 HK\$'000 |
| A joint venture (Note i) | – | 2,433 |
| Directors' emoluments payables (included in other payables) (Note i) | 8,007 | 3,210 |
| Emoluments payables to close family members of a substantial shareholder of the Company (included in other payables) (Note ii) | 2,198 | 437 |
| Emoluments payables to close family members of a former Director (included in other payables) (Note ii) | 682 | 271 |
| Loans from a substantial shareholder (Note iii) | 8,917 | 2,950 |

Notes:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

37. RELATED PARTY TRANSACTIONS *(Continued)*

(a) Notes: *(Continued)*

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

(b) Semtech BVI Group is the registered owner of various trademarks. Those trademarks are provided for the Group's use at nil consideration for both years ended 31 December 2020 and 2019.

(c) During the year ended 31 December 2020, remuneration of approximately HK\$1,578,000 (2019: HK\$2,192,000) were paid or payable to a close family member of a former Director as the position of a director of certain subsidiaries of the Group. In addition, remuneration of approximately HK\$2,598,000 (2019: HK\$2,760,000) were paid or payable to other close family members of the above-mentioned former Director as staff costs of certain subsidiaries of the Group. Remuneration of approximately HK\$1,880,000 (2019: in the net amount of approximately HK\$342,000 after salary waiver granted), were payable to a close family member of a substantial shareholder of the Company as an executive Director and the chairman of the board of Directors (2019: the position of a director of a subsidiary of the Group). In addition, no remuneration (2019: approximately HK\$102,000) were payable to another close family member of the above-mentioned substantial shareholder of the Company as staff costs of the Vietnam subsidiary of the Group.

(d) The amount of approximately HK\$597,000 (2020: nil) payable to a close family member of a substantial shareholder of the Company was waived during the year ended 31 December 2019.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

37. RELATED PARTY TRANSACTIONS *(Continued)*

(e) Compensation of key management personnel

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

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--------------------------|------------------|------------------|
| Short-term benefits | 9,754 | 9,623 |
| Post-employment benefits | 380 | 238 |
| | <u>10,134</u> | <u>9,861</u> |

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

38. CONTINGENT LIABILITY

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

39. PRINCIPAL SUBSIDIARIES

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

| Name | Form of business structure | Place of incorporation/ registration and operations | Issued and paid-up ordinary share/ registered capital | Proportion of ownership interest and voting power held by the Company | | | | Principal activities |
|---|----------------------------|---|---|---|------------|----------|------------|--|
| | | | | 2020 | | 2019 | | |
| | | | | Direct % | Indirect % | Direct % | Indirect % | |
| Sino-Tech International (B.V.I.) Limited | Corporation | British Virgin Islands | US\$2 (2019:US\$2) | 100 | – | 100 | – | Investment holding |
| Ruixin Universal Limited | Corporation | Hong Kong | HK\$1 (2019:HK\$1) | – | 100 | – | 100 | Provision of management service |
| Fast Harvest Limited | Corporation | Hong Kong | HK\$2 (2019:HK\$2) | – | 100 | – | 100 | Provision of management service |
| LWM Management Limited | Corporation | Hong Kong | HK\$1 (2019:HK\$1) | – | 100 | – | 100 | Provision of management service |
| Semtech RFID Limited | Corporation | Hong Kong | HK\$100 (2019:HK\$100) | – | 100 | – | 100 | Trading of electronic and electrical parts and components |
| Super Victory Enterprises Limited | Corporation | Hong Kong | HK\$2 (2019:HK\$2) | – | 100 | – | 100 | Manufacture and trading of electronic and electrical parts and components |
| Super Victory Electronics Limited | Corporation | Hong Kong | HK\$1 (2019:HK\$1) | – | 100 | – | 100 | Manufacture and trading of electronic and electrical parts and components |
| 東莞泰豐射頻識別有限公司 (note a) | Corporation | PRC | US\$3,000,000 (2019:US\$3,000,000) | – | 100 | – | 100 | Trading of electronic and electrical parts and components |
| Ruixin International Engineering Vietnam Company Limited (formerly known as Phoenix Asia Pacific Investment Company Limited) (note b) | Corporation | Vietnam | US\$100,000 (2019:US\$100,000) | – | 100 | – | 100 | Provision of management consulting services; construction and related services and general trading |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

39. PRINCIPAL SUBSIDIARIES (Continued)

Notes:

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

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

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

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

| Principal activities | Principal place of business | Number of subsidiaries | |
|-------------------------------------|-----------------------------|------------------------|------|
| | | 2020 | 2019 |
| Investment holding | British Virgin Islands | 5 | 5 |
| Inactive | British Virgin Islands | 1 | 1 |
| Inactive/not commenced business yet | Hong Kong | 2 | 3 |

Summary of Financial Information

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

RESULTS

| | Year ended 31 December | | | | |
|--|------------------------|------------------|------------------|------------------|------------------|
| | 2020 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 | 2017 HK\$'000 | 2016 HK\$'000 |
| Revenue | <u>358,522</u> | <u>332,743</u> | <u>445,933</u> | <u>542,082</u> | <u>478,845</u> |
| Loss before taxation | <u>(56,383)</u> | <u>(60,282)</u> | <u>(85,881)</u> | <u>(42,749)</u> | <u>(50,011)</u> |
| Net loss attributable to owners of the Company | <u>(56,383)</u> | <u>(60,282)</u> | <u>(85,881)</u> | <u>(42,749)</u> | <u>(66,703)</u> |

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | As at 31 December | | | | |
|---------------------------|-------------------|------------------|------------------|------------------|------------------|
| | 2020 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 | 2017 HK\$'000 | 2016 HK\$'000 |
| Total assets | <u>220,561</u> | <u>241,009</u> | <u>214,524</u> | <u>340,670</u> | <u>334,748</u> |
| Total liabilities | <u>(269,417)</u> | <u>(234,588)</u> | <u>(146,660)</u> | <u>(336,342)</u> | <u>(320,130)</u> |
| Non-controlling interests | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| | <u>(48,856)</u> | <u>6,421</u> | <u>67,864</u> | <u>4,328</u> | <u>14,618</u> |

Note: The results of the Group for the years ended 31 December 2020, 31 December 2019, 31 December 2018, 31 December 2017 and 31 December 2016 have been extracted from the audited consolidated financial statements for the years ended 31 December 2020, 31 December 2019, 31 December 2018, 31 December 2017 and 31 December 2016.