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BOARD OF DIRECTORS

Executive Directors

Mr. Yang Lin (*Chairman*)
Mr. Duan Hongtao ^{Note 1}
Ms. Li Weina ^{Note 2}
Mr. Xu Yinsheng
Mr. Zhang Fumin ^{Note 3}
Ms. Lau Mei Ying ^{Note 4}
Mr. Leung Pok Man ^{Note 5}
Mr. Liu Shixia ^{Note 6}
Mr. Xu Beinan (*Chief Executive Officer*) ^{Note 7}

Non-Executive Director

Mr. Zhou Danqing

Independent Non-Executive Directors

Ms. Ching Ching ^{Note 8}
Mr. Song Donglin ^{Note 9}
Mr. Zhang Shengdong
Mr. Lee Man To ^{Note 10}
Ms. Choi Yee Man ^{Note 11}
Ms. Weng Yuzhen ^{Note 12}

BOARD COMMITTEES

Audit Committee

Ms. Ching Ching (*Chairman*) ^{Note 8}
Mr. Song Donglin ^{Note 9}
Mr. Zhang Shengdong
Mr. Lee Man To ^{Note 10}
Ms. Choi Yee Man ^{Note 11}
Ms. Weng Yuzhen ^{Note 12}

Nomination Committee

Mr. Song Donglin (*Chairman*) ^{Note 9}
Ms. Ching Ching ^{Note 8}
Mr. Zhang Shengdong
Mr. Lee Man To ^{Note 10}
Ms. Choi Yee Man ^{Note 11}
Ms. Weng Yuzhen ^{Note 12}

Remuneration Committee

Mr. Song Donglin (*Chairman*) ^{Note 9}
Ms. Ching Ching ^{Note 8}
Mr. Zhang Shengdong
Mr. Lee Man To ^{Note 10}
Ms. Choi Yee Man ^{Note 11}
Ms. Weng Yuzhen ^{Note 12}

Notes:

1. Appointed on 16 April 2021
2. Appointed on 14 August 2020
3. Appointed on 16 April 2021
4. Resigned on 15 April 2021
5. Resigned on 15 April 2021
6. Resigned on 14 April 2020
7. Appointed on 14 April 2020 and resigned on 14 August 2020
8. Appointed on 23 June 2020
9. Appointed on 15 April 2021
10. Resigned on 8 June 2020
11. Resigned on 8 June 2020
12. Appointed on 17 July 2020 and resigned on 15 April 2021

COMPANY SECRETARY

Mr. Zhou Danqing

STOCK CODE

1010

WEBSITE

<http://pacray.com.hk>

AUDITOR

Zenith CPA Limited

Certified Public Accountants

LEGAL ADVISOR

Michael Li & Co.

PRINCIPAL BANKERS

Bank of Communications (Hong Kong) Limited

Dah Sing Bank, Limited

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

28/F., Agricultural Bank of China Tower

50 Connaught Road Central

Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

4th Floor North Cedar House

41 Cedar Avenue

Hamilton HM 12

Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited

Level 54, Hopewell Centre

183 Queen's Road East

Hong Kong

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

EXECUTIVE DIRECTORS

Mr. Yang Lin, aged 47, has been appointed as executive director and the chairman of the Board of the Company on 15 January 2019. He is a senior management of Shenzhen Magic Display Technology Co., Ltd* (深圳奇屏科技有限公司), a company was acquired 70% equity interest by an indirect wholly-owned subsidiary of the Company in January 2019. He was a chief executive officer (CEO) of Shenzhen Zhong Shi Tai He Digital Technology Limited* (深圳中視泰和數碼科技有限公司) from April 2013 to May 2015. He has extensive experience in the area of management.

Mr. Yang is currently chairman of the Board of the Company.

Mr. Duan Hongtao, aged 32, has been appointed as executive director of the Company on 16 April 2021. He obtained a master's degree of engineering in software engineering from Jilin University. He served as (i) president of Zhongying Holding Group Limited* (中盈控股集團有限公司) from February 2014 to December 2015; (ii) chairman of Zhongying Holding Group Limited from January 2016 to September 2020; (iii) chairman of Zhongying Int'l Holding Group Limited (“**Zhongying Int'l**”) from September 2020 to present; and (iv) a director of Bank of Huludao Co., Ltd (葫蘆島銀行股份有限公司) from May 2017 to present. He has long been engaged in various businesses including finance, investment and trading, and has extensive experience in investment management and corporate development.

Mr. Duan holds 99% equity interest of Zhongying Int'l, which directly and indirectly holds 277,683,012 shares of the Company, representing 75% of the issued share capital of the Company.

Ms. Li Weina, aged 36, has been appointed as executive director of the Company on 14 August 2020. She joined the Group from July 2019, and is taking the role of a vice president in human resource and administration. She obtained a bachelor degree in Marketing in Huaqiao University* (華僑大學) in 2007. She has been employed as an administration and human resource manager and secretary to chief officer in Zhongxin Fengyue (Dalian) Limited* (中信豐悅(大連)有限公司) from 2010 to 2014, and a manager of the board office and secretary to chief officer in Zhongying Holding Group Limited* (中盈控股集團有限公司) from 2014 to 2019. She has extensive experience in human resource and administration management.

Mr. Xu Yinsheng, aged 37, has been appointed as executive director of the Company on 25 April 2019. He is also vice president of the Company. He graduated from Shanghai University of Engineering Science (上海工程技術大學) with a bachelor's degree of Aircraft Mechanical and Electrical Equipment Maintenance in 2006. He is currently as assistant director of Zhongying Holdings Group Limited – Shanghai branch* (中盈控股集團有限公司－上海分公司) since December 2018. Also, he was a director of Xinjiang Hongkun Engineering Technology Co., Ltd.* (新疆泓坤工程技術股份有限公司) (NEEQ: 833867) from September 2018 to July 2019. He was a manager of maintenance control center (MCC Manager) of Shanghai Meridian Business Aviation Co., Ltd.* (上海子午線公務航空有限公司) from October 2017 to November 2018. He was a chairman of the board and a director of Shanghai Zhuoya Aviation Service Co., Ltd.* (上海卓雅航空服務有限公司) from May 2018 to October 2018. He has extensive experience in the area of business aviation industry.

Mr. Zhang Fumin, aged 49, has been appointed as executive director of the Company on 16 April 2021. He obtained a master's degree in business administration from Dalian Maritime University. He served as (i) director of the transaction centre at Dalian Branch of Bank of China from December 1994 to November 2002; (ii) president of Dalian Software Park sub-branch of Bank of China from November 2002 to June 2006; (iii) director of consumer loan department at Dalian High-tech Park sub-branch of Bank of China from June 2006 to July 2013; (iv) general manager of Dalian Zhongying Shipbuilding Co., Ltd. (大連中盈船業製造有限公司) from 2015 to March 2016; (v) general manager of Dalian Wanjin Investment Co., Ltd.* (大連萬錦投資有限公司) from March 2016 to November 2018; (vi) general manager of Liaoning Jinlong Super Yacht Manufacturing Co., Ltd.* (遼寧錦龍超級遊艇製造有限公司) from November 2018 to January 2020; (vii) general manager of Ruizi Financial Leasing (Dalian) Co., Ltd.* (瑞資融資租賃(大連)有限公司) from January 2020 to October 2020; and (viii) staff of Zhongying Int'l, a controlling shareholder of the Company, from November 2020 to present. He has extensive experience in financial management, risk control and internal control.

NON-EXECUTIVE DIRECTORS

Mr. Zhou Danqing, aged 34, have been re-designated as a non-executive director of the Company on 15 April 2018 and was appointed as independent non-executive director of the Company from 31 August 2017 to 15 April 2018. He was appointed as the company secretary of the Company on 13 September 2019. He obtained a bachelor's degree in business administration from the Chinese University of Hong Kong. He is a Chartered Financial Analyst, Financial Risk Manager charter-holder, and a member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries and Administrators. He has over 10 years of experience in finance.

Mr. Zhou was the executive director of DeTai New Energy Group Limited (stock code: 559) which is listed on the Main Board of the Stock Exchange from 21 August 2018 to 18 October 2018 and had been re-designated to non-executive director from 18 October 2018 to 26 October 2018.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Ching Ching, aged 41, has been appointed as independent non-executive director of the Company 23 June 2020. She obtained a Bachelor of Science in Business Administration (Finance and Management Information System) in University of Arizona (USA) in 2001 and an Executive Master of Business Administration Certificate in Fudan University in 2014. She is a Fellow of Institute of Public Accountants Australia, Certified Management Accountant Australia, Institute of Financial Accountants (UK), the Association of International Accountants and the Royal Statistical Society. She is also a Professional Member of CACFO (中國總會計師協會) and the British Computer Society. She is currently the Responsible Officer of Donvex Asia Capital Limited, a company licensed by the Securities and Futures Commission to conduct the type 9 regulated activity – asset management. She has around 20 years of experiences in corporate finance, merge and acquisition, and business valuation.

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

Dr. Song Donglin, aged 64, has been appointed as independent non-executive director of the Company on 15 April 2021. He (i) studied at Jilin University from 1978 to 1982 and obtained an undergraduate degree; (ii) studied at Jilin University from 1982 to 1985 and obtained a master's degree; (iii) served as a teacher of the Economics Department of Jilin University from 1985 to 1993, and was a visiting scholar at Rutgers University in the United States from 1988 to 1990; (iv) studied at Jilin University from 1991 to 1994 and obtained a doctoral degree; (v) served as the deputy dean of the Business School of Jilin University from 1993 to 2000; (vi) served as the deputy dean and dean of the School of Economics of Jilin University from 2000 to 2005; (vii) served as the vice president of Changchun Taxation College from 2005 to 2006; (viii) served as the president of Changchun Taxation College from 2006 to 2010; (ix) served as the president of Jilin University of Finance and Economics from 2010 to 2018; and (x) has been serving as an independent director of Jilin Bank since March 2020. Dr. Song has extensive experience in the fields of economics and business administration.

Mr. Zhang Shengdong, aged 56, has been appointed as independent non-executive director of the Company on 4 March 2019. He graduated in Peking University (北京大學) with doctoral degree in Sciences in 2002. He is currently a professor of School of Electronic and Computer Engineering of Peking University (北京大學—信息工程學院).

Mr. Zhang was a director of Shenzhen Topray Solar Co., Ltd (深圳拓日新能源科技股份有限公司) from February 2010 to May 2016, which is listed on the Shenzhen Stock Exchange in the People's Republic of China. He has been a director of Shenzhen Refond Optoelectronics Co., Ltd (深圳市瑞豐光電子股份有限公司) since December 2019, which is listed on the Shenzhen Stock Exchange in the People's Republic of China.

COMPANY SECRETARY

Mr. Zhou Danqing was appointed as company secretary of the Company on 13 September 2019. Mr. Zhou is also a non-executive director of the Company. Please refer to his biographies above for more information.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and total equity of the Group for the last five financial years, as extracted from the audited financial statements and this Annual Report of the Company for the year ended 31 December, is set out below:

RESULTS

| | 2020 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 | 2017 HK\$'000 | 2016 HK\$'000 |
|---|-----------------------|------------------------|------------------------|-----------------------|-----------------------|
| Revenue | <u>92,647</u> | <u>74,339</u> | <u>60,709</u> | <u>36,580</u> | <u>17,337</u> |
| Loss before tax | <u>(4,820)</u> | <u>(22,353)</u> | <u>(40,167)</u> | <u>(2,637)</u> | <u>(4,895)</u> |
| Income tax (expense)/credit | <u>(733)</u> | <u>(361)</u> | <u>(20)</u> | <u>(49)</u> | <u>(99)</u> |
| Loss for the year | <u>(5,553)</u> | <u>(22,714)</u> | <u>(40,187)</u> | <u>(2,686)</u> | <u>(4,994)</u> |
| Attributable to owners of the parent | <u>(5,495)</u> | <u>(21,065)</u> | <u>(40,187)</u> | <u>(2,686)</u> | <u>(4,994)</u> |

ASSETS AND LIABILITIES

| | 31 December 2020 HK\$'000 | 31 December 2019 HK\$'000 | 31 December 2018 HK\$'000 | 31 December 2017 HK\$'000 | 31 December 2016 HK\$'000 |
|---------------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Non-current assets | <u>79,293</u> | <u>49,724</u> | <u>34,298</u> | <u>44,300</u> | <u>49,932</u> |
| Net current assets | <u>28,060</u> | <u>51,824</u> | <u>84,050</u> | <u>116,803</u> | <u>103,297</u> |
| Total assets less current liabilities | <u>107,353</u> | <u>101,548</u> | <u>118,348</u> | <u>161,103</u> | <u>153,229</u> |
| Non-current liabilities | <u>(67)</u> | <u>(5,637)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net assets | <u>107,286</u> | <u>95,911</u> | <u>118,348</u> | <u>161,103</u> | <u>153,229</u> |
| Shareholders' equity | | | | | |
| Share capital | <u>37,025</u> | <u>33,659</u> | <u>33,659</u> | <u>33,659</u> | <u>33,659</u> |
| Reserves | <u>70,258</u> | <u>62,833</u> | <u>84,689</u> | <u>127,444</u> | <u>119,570</u> |
| | <u>107,286</u> | <u>96,492</u> | <u>118,348</u> | <u>161,103</u> | <u>153,229</u> |
| Non-controlling interest | <u>-</u> | <u>(581)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>107,286</u> | <u>95,911</u> | <u>118,348</u> | <u>161,103</u> | <u>153,229</u> |

LETTER FROM THE BOARD

On behalf of the board of directors (the “**Directors**”) (the “**Board**”) of PacRay International Holdings Limited (the “**Company**”), I hereby report on the results of the Company and its subsidiaries (the “**Group**”) for the year 2020.

BUSINESS AND FINANCIAL REVIEW

The business environment in the year 2020 was unprecedentedly challenging. The COVID-19 outbreak and the China/US trade war profoundly impacted all businesses in the world, with certain business segments of the Group incurred a delay in operational flow, suffered from a higher material costs, and witnessed a sharp decrease in business opportunities.

In order to respond, the Group kept a closed monitoring on its business portfolio, and has actively taken some decisive measures to reform. Objectives of our measures were: (i) to maintain the core business that can create a reliable return and has competitive advantages; (ii) to exit from the business that has not meet expectations or might require further input from the Group; and (iii) to continuously seek opportunities that enhance the Group’s revenue bases and profit-making abilities.

For the year 2020, our businesses of (i) the design and sales of integrated circuits and semi-conductor parts, and (ii) aviation and yacht business management have contributed a significant part of the Group’s revenue base. On the other hand, the Group made some decisive measures to downsize or dispose of the businesses of (i) trading of construction materials; (ii) research and development in real time 2D-3D conversion display products; (iii) financial leasing in the PRC; and (iv) the money lending in Hong Kong, unless there were some favorable opportunities. For the new businesses, the Group was now investigating into the tea business and the yacht business. Nevertheless, it should be emphasized that the process of reforming the Group’s business was a continuous and on-going one and new measures or strategies may be formulated or implemented from time to time.

For the year ended 31 December 2020, the Group recorded a consolidated revenue of approximately HK\$92.6 million (2019: approximately HK\$74.3 million). 33.6% of the consolidated revenue came from the business of the design and sales of integrated circuits and semi-conductor parts (2019: 41.1%), while 65.5% of the consolidated revenue came from the business of aviation and yacht management (2019: 57.8%). The other businesses of the Group played a lesser role for the total revenue base.

For the year ended 31 December 2020, loss for the year attributable to owners of the parent was approximately HK\$5.5 million (2019: approximately HK\$21.1 million). The decrease in loss was mainly attributable to decrease in material costs, staff salaries and administrative costs. Basic loss per share attributable to ordinary equity holders of the parent was approximately HK\$1.58 cents (2019: approximately HK\$6.26 cents).

In general, the Group recorded an improved financial performance for the year ended 31 December 2020.

BUSINESS OUTLOOK

Despite that the Group recorded a relatively stable performance in the unprecedentedly challenging environment of the year 2020, the management remained cautious about future performances, especially under the consideration that the full impact of the COVID-19 outbreak and the China/US trade was has not fully revealed.

On the other hand, the management was focusing on maintaining, enhancing and creating competitive advantages of the Group's businesses. Such measures include but not limited to cost control on the business of integrated circuits and semi-conductor parts, platform building on the business of aviation business management, and opportunity seeking in the possible tea business and the yacht business. The management was confident that the responsive measures of the Group was able to deploy its resources into the business with a promising future, and therefore enhance its revenue base and create a long-term profitability.

CHANGE IN SHAREHOLDING

On 22 December 2020, Zhongying Int'l Holding Group Limited ("**Zhongying Int'l**") and the Company jointly announced that Zhongying would purchase approximately 34.57% of the total issued share capital of the Company from Glory Genius International Holdings Limited, a previous controlling shareholder of the Company. Following the completion of this share purchase, Zhongying Int'l conducted a cash offer from December 2020 to February 2021, for all the issued shares of the Company not already owned by Zhongying Int'l and parties acting in concert with it pursuant to the Hong Kong Code on Takeovers and Mergers. The offer was closed in February 2021, with Zhongying Int'l ended up having approximately 88.81% of the entire issued share capital of the Company. Then from February 2021 to March 2021, Zhongying Int'l proceed a placing to lower its shareholding in the Company. To date, Zhongying Int'l and parties acting in concert with it held 75.00% of the entire issued share capital of the Company.

The Company is of the view that such a change in the controlling shareholder represents a new page for the development and growth of the Group. A stable shareholder relationship, together with the management's diligence and our employees' valuable contribution, the Group is having a brighter future in the challenging environment.

FINAL DIVIDEND

No dividend for the year ended 31 December 2020 (2019: Nil) is recommended by the Board.

APPRECIATION

I would like to take this opportunity to thank our employees for their efforts taken in the past year and our shareholders for the continued support to our Group.

For and on behalf of the Board of

PacRay International Holdings Limited

Yang Lin

Chairman

Hong Kong, 30 April 2021

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

Set out below is a management discussion and analysis of PacRay International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 31 December 2020.

BUSINESS REVIEW

For the year ended 31 December 2020, the Group has encountered an intensively challenging and continuously changing environment. The overall businesses were impacted by the COVID-19 pandemic and the China/US trade wars. Certain businesses were further impacted by the unfavorable local economies or policies. In order to respond, the Group kept a closed monitoring on its business portfolio, and has actively taken some decisive measures to reform. Objectives of such measures were (i) to maintain the core business that can create a reliable return and has competitive advantages; (ii) to exit from the business that has not meet expectations or might require further input from the Group; and (iii) to continuously seek opportunities that enhance the Group’s revenue bases and profit-making abilities.

- Starting from 1 January 2020, the Group was principally engaged in (i) the design and sales of integrated circuits and semi-conductor parts; (ii) trading of construction materials; (iii) financial leasing in the PRC; (iv) money lending in Hong Kong; (v) research and development in real time 2D-3D conversion display products; (vi) aviation and yacht business management; and (vii) investment holding.
- In February 2020, the Company announced an acquisition of 20.2% equity interest in Red Power Developments Limited, a company which is mainly engaged in aviation services. In September 2020, the Company completed this acquisition and therefore enlarged its businesses of aviation business management.
- In March 2020, the Company announced an acquisition of the entire equity interest of Ideal Best Limited, a company which holds an interest in a Saipan property. In December 2020, the Group completed this acquisition, and therefore was engaged in the business of property investment.
- Since March 2020, the Group has decided to terminate the business in the trading of construction materials, by not seeking new business and by focusing on recover the outstanding trade receivables. Since then, this business segment recorded a nil performance and the Group ceased to be engaged in the business of trading of construction materials.
- In March 2020, the Company announced a disposal of the entire equity interest of Bright Team International Group Limited, a company which is principally engaged in research and development in real time 2D-3D conversion display products, while maintaining an option to re-enter this segment. In March 2020, the Group completed the disposal and has not exercised the option to re-enter, and therefore ceased to be engaged in the business of research and development in real time 2D-3D conversion display products.
- Since March 2020, the Group has decided to suspend expansion of the businesses in financial leasing in the PRC and the money lending in Hong Kong. Thereafter, the Group kept an on-going monitoring on this business, and would not rule out the possibility of termination, unless a valuable opportunity arises.

- In late 2020, the Group conducted a review on its business portfolio and initiated some feasibility study on opportunities which can reinforce the current business segments in the Group or provide sound diversification.

A possible new business segment which is still under study and preparation is the tea business, including, among others, production and sale of tea and tea-related products, and promotion and operation of tea-cultural tourism. As at the date of this report, all works conducted by the Group were related to feasibility study, opportunity seeking, general cooperation negotiation, etc. No formal business strategy has been formulated or implemented. Nevertheless, given that (i) tea products remain as a core in the traditional Chinese culture and the daily life of the Chinese people; (ii) there was a noticeable surge in the demand of high-quality tea products; and (iii) certain cities in China and their governments are highly supportive to the development of tea business, the management is confident on the potential of this business.

Another possible new business segment related to a sales agency framework cooperation agreement announced by the Company on 23 July 2019. According to this framework agreement with Liaoning Jinlong Super Yacht Manufacturing Co., Ltd.* (遼寧錦龍超級遊艇製造有限公司), the Company intended to become a non-exclusive agent of the yacht products to sell 46-meter super yachts and 110-inch catamaran yachts in Europe, South America, the US, Hong Kong and Shenzhen. Recently, the Company noticed a positive trend in the yacht market, especially under the consideration that (i) the yacht consuming or investing is getting more recognition in the wealthy people; (ii) construction of the relevant facilities, such as yacht harbor and yacht club, makes the yacht consuming more feasible and appealing; and (iii) customer tastes, such as the preference to well-branded yachts with world-wide presence, offer more opportunities to the Group. Thereafter, the Group has started to review this business segment, and proceeded a negotiation to re-initiate a cooperation.

Nevertheless, the management would like to emphasize that the abovementioned tea business and yacht business have not been fully launched for the year ended 31 December 2020. The Company will make appropriate announcements as soon as there is any update.

As at the date of this report, the Group was principally engaged in (i) the design and sales of integrated circuits and semi-conductor parts; (ii) aviation and yacht business management; (iii) property investment; (iv) investment holding; (v) financial lease services; and (vi) money lending.

Looking back to the year ended 31 December 2020, the management was of the view that the business environments were unprecedentedly challenging, and yet, the Group managed to record a stable performance. The re-organization of the Group's businesses was expected to concentrate the currently available resources into the most promising ones, and the business and financial results of such deployment have not been fully reflected in the financial statements of the Group for the year ended 31 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

On the other hand, the management was focusing on maintaining, enhancing and creating competitive advantages of the Group's businesses. Such measures include but not limited to cost control on the business of integrated circuits and semi-conductor parts, platform building on the business of aviation business management, and opportunity seeking in the possible tea business and the yacht business. The management was confident that the Group was able to tackle the harsh business environment, and achieve a long-term profitability.

The management would like to emphasize that the process of reforming the Group's business was a continuous and on-going one. New measures or strategies may be formulated or implemented from time to time. The Company will update its shareholders as soon as appropriate.

SEGMENT REVIEW

Design and sales of integrated circuit and semi-conductor parts

Design and distribution of integrated circuit and semi-conductor parts in Mainland China, Hong Kong and Taiwan remains as one of the core businesses of the Group. The Group acquired raw material integrated circuit ("IC") and semi-conductor related parts from external suppliers and relies on internet technology and related equipment for design of IC related products before sourcing out to external sub-contractors for production and does not involve in any internal manufacturing processes in the course of business.

The Group's IC products are used in industrial and house measuring tools and electronic bicycles battery charger market. In particular, the core research and development team in Shanghai operations provides the design of the products and the products are then sourced to certain external suppliers or sub-contractors for subsequent productions. After conducting successful testing of the sub-contracted products in Shanghai operations, the Group then sells the products to customers, which are usually end-product manufacturers/producers.

There are mainly two types of products in integrated circuit and semi-conductor parts: caliper and microcontroller unit ("MCU"), each of the products has approximately 10 different models. For the year ended 31 December 2020, the total product mix between caliper and MCU remained relatively stable, approximately 66% (2019: 58%) and 34% (2019: 42%) of the revenue was generated from the caliper and MCU respectively. The management continued its strategy on (i) improving the competitiveness of the products; and (ii) developing new product lines and sales and distribution channels.

For the year ended 31 December 2020, the operation of this segment recorded (i) a revenue of approximately HK\$31.1 million (2019: approximately HK\$30.5 million); and (ii) a gross profit of approximately HK\$16.2 million (2019: approximately HK\$14.2 million). Since late 2019, the management noticed that competition in the IC market was becoming more intensive, due to technology advances, cost increases and customers' changing demands. Especially, as the China/US trade war continued, and therefore the US dollars appreciated, the cost of raw material (e.g. silicon wafers which are of US dollar settlement) and staff continued increasing, which led to more pressures on profit margin.

Aviation business management

For the year ended 31 December 2020, the business in aviation business management recorded an improved performance, with a revenue of approximately HK\$60.7 million (2019: approximately HK\$42.9 million). Services provided by the business in aircraft business management mainly included jet business management, aircraft sales service and pilot training service. The main revenue comprised of business aircraft management service fee, aircraft operation agency fee, pilot rental fee, aircraft maintenance and management fee, etc.

In February 2020, the Company announced an acquisition of 20.2% equity interest in Red Power Developments Limited, a company which is mainly engaged in aviation services. Part of the reasons for the acquisition was that one subsidiary of the target company was a recognized operator qualified to apply for permission for scheduled flights (including the right to use the airport, clearance for taking off and landing and related airport ground services) on behalf of foreign operators. The management was of the view that this acquisition was able to expand the service categories of the Group's aviation management businesses, and to enhance cooperation with its business partners. In September 2020, the Company completed this acquisition and therefore enlarged its business of aviation business management. This investment in Red Power Developments Limited has been accounted as an investment in associate, and recorded a share of profit of approximately HK\$2.7 million for the year ended 31 December 2020 (2019: not applicable).

Property Investment

In March 2020, the Company announced an acquisition of the entire issued share capital of Ideal Best Limited, and relevant shareholder loan at the consideration of approximately HK\$30.3 million. Such an acquisition was part of the settlement package between the Company and a customer from the terminated business of construction materials trading. The acquisition was completed in late December 2020.

Ideal Best Limited indirectly holds the leasehold interest in a Saipan property. The Saipan property comprises a land parcel with a site area of approximately 4,536 square metres upon which there is a housing development namely Miller's Estates. The total gross floor area of the Saipan property is approximately 1,953 square metres within six apartment buildings containing a total of 31 apartment units. According to a valuation prepared by an independent professional valuer, the Saipan property has a value of US\$4.5 million (equivalent to approximately HK\$34.9 million) as at 31 December 2020.

The Saipan property constitutes the sole investment of the Group's property investment. As the property investment constitutes a new business to the Group, no material revenue was recorded in the year ended 31 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Investment holding

As at 31 December 2020, the Group had the following investments:

- 23,000,000 unlisted shares of Cornerstone Securities Limited (“**Cornerstone Securities**”), representing approximately 8.81% of the entire issued capital of Cornerstone Securities. Cornerstone Securities is a company incorporated in Hong Kong with limited liability. It holds licenses to conduct the type 1 regulated activity (dealing in securities) and the type 4 regulated activity (advising on securities) and is principally engaged in security dealing business in Hong Kong.

For the year ended 31 December 2020, (i) no acquisition or disposal of the investment in Cornerstone Securities was conducted; and (ii) no dividend in relation to the investment in Cornerstone Securities was received or claimed. As at 31 December 2020, the investment in Cornerstone Securities has a fair value of approximately HK\$12.3 million (2019: approximately HK\$23.1 million), representing approximately 8% of the total assets of the Company (2019: 14%). The Company intends to hold the investment in Cornerstone Securities as a passive and long-term investment, and does not plan for active trading.

- 15,000,000 listed shares of Imperial Pacific International Holdings Limited (“**Imperial Pacific**”), representing 0.01% of the issued shares of Imperial Pacific based on the public information. Imperial Pacific is listed on The Stock Exchange of Hong Kong Limited (stock code: 1076), and is principally engaged in the gaming and resort business including the development and operation of integrated resort on the Island of Saipan. Further information on Imperial Pacific can be found on the website of www.imperialpacific.com.

For the year ended 31 December 2020, (i) no acquisition or disposal of the investment in Imperial Pacific was conducted; and (ii) no dividend in relation to the investment in Imperial Pacific was received or claimed. As at 31 December 2020, the investment in Imperial Pacific has a fair value of approximately HK\$0.2 million (2019: approximately HK\$1.5 million). The Company intends to hold the investment in Imperial Pacific as a passive and long-term investment, and does not plan for active trading.

- 202 unlisted shares of Red Power Developments Limited (“**Red Power**”), representing 20.2% of the entire issued capital of Red Power. Red Power is a company incorporated in the British Virgin Islands with limited liability. Through its subsidiaries, it is principally engaged in aviation management business.

For the year ended 31 December 2020, (i) no acquisition or disposal of the investment in Red Power was conducted; and (ii) no dividend in relation to the investment in Red Power was received or claimed. As at 31 December 2020, the investment in Red Power has a carrying amount of approximately HK\$27.9 million (2019: not applicable), representing approximately 18% of the total assets of the Company (2019: not applicable). The Company intends to hold the investment in Red Power as a passive and long-term investment, and does not plan for active trading.

Other businesses

Looking back into the year ended 31 December 2020, the business environment was tough and challenging, with the long-lasting COVID-19 pandemic and the ever-changing China/US trade wars. The threats of lower economy growth momentum, higher cost pressure, stronger competitive forces and more uncertain prospects were noticeable in late 2019 but had become more obvious in 2020. Despite the management used their best endeavor to deal with such hardship, certain business segments of the Group shew no sigh of a turnaround in the performance. Accordingly, the Group had no other alternatives but to downscale, terminate, or dispose of such business segments, including (i) trading of construction materials; (ii) financial leasing in the PRC; (iii) money lending in Hong Kong; and (iv) research and development in real time 2D-3D conversion display products.

- **Trading of construction materials**

Since March 2020, the Group decided to terminate the business in the trading of construction materials, by not seeking new and by focusing on recovering the outstanding trade receivables. For the year ended 31 December 2020, the operation of this segment recorded nil revenue (2019: nil).

The negative performance of this segment was firstly noticed in 2019, mainly due to the slow economy wherein the customers of this business were located. Then in the early 2020, there was no sign of improvement in the business environment, with certain customers incurred a total stagnancy in operation. Accordingly, the management decided to exit from this business segment and to avoid unnecessary costs, such as marketing and promotion expenses.

On the other hand, the management has shifted their focuses on recovering outstanding receivables from this business segment. In March 2020, the management noticed that certain customer was experiencing a financial difficulty due to the COVID-19 outbreak and the local economic recessions, and therefore recoverability of receivables of approximately HK\$23 million from the customer significantly deteriorated. Later the management escalated the responsive measure by entering into a settlement arrangement with the customer, including that the Company would purchase a Saipan property from the customer with the consideration paid by setting off the outstanding receivables from the customer.

- **Financial leasing in the PRC**

Since March 2020, the Group decided to scale-down the business in financial leasing in the PRC, as a response to the increasing credit risks. For the year ended 31 December 2020, the operation of this segment recorded a revenue of approximately HK\$0.8 million (2019: approximately HK\$0.9 million).

After the unexpected shock from the COVID-19 outbreak and under the unpredictable China/US relationship, the financial leasing industry in the PRC for the year ended 31 December 2020 witnessed a general trend which was characteristic with delay in lease payment, decrease in collateral value and increase in default rate. After carefully reviewing the Group's strategic position in this segment, including the limited resources available to expand or maintain the Group's competitive advantages, the management decided to scale-down this segment, with no plan to actively solicitate business opportunities unless a favorable one arises. As at 31 December 2020, the total money value of leasing amounts was approximately HK\$3.4 million (2019: approximately HK\$5.7 million).

MANAGEMENT DISCUSSION AND ANALYSIS

- **Money lending in Hong Kong**

Since March 2020, the Group decided to scale-down the business in money lending in Hong Kong, with a focus on monitoring and managing existing loan portfolio without active expansion. For the year ended 31 December 2020, the operation of this segment recorded nil revenue (2019: nil).

Since the COVID-19 outbreak commenced in late 2019, the Hong Kong economy had been decreasing at the sharpest rate in over one decade. Under the doom of a political uncertainty and an economic recession, the management believed that the credit risks of most potential customers of this business segment had surpassed the acceptable levels to the Group. Accordingly, no new customers or loan transactions were proceeded for the year ended 31 December 2020.

- **Research and development in real time 2D-3D conversion display products**

In March 2020, the Group disposed of the business in the research and development in real time 2D-3D conversion display products.

This business was acquired by the Group in January 2019. As it had a nature of innovation and high-tech, the Group expected of a profit in the long term. However, the Group did not have sufficient resources to support the growth of this business, such as providing marketing and funding, and there was a mismatch between the Company and other investors regarding the development plan. Therefore, the Company was of the view that this business' full potential might take a longer time to realize than the Company's original expectation. Hence, the Company decided to exit from this business via a disposal, which was completed in June 2020. Given the relatively small size of this business, the disposal had no material impact on the operations and financials of the Group as a whole.

Nevertheless, the Company wished to keep an option to re-enter into this business sector by successfully negotiating with the purchaser so that the Company could exercise a buy-back right to repurchase this business within one year and at an acceptable repurchase price. As at this stage, the Company had no intention to exercise the buy-back option. Hence, the Group has ceased to be engaged in this business.

BUSINESS OUTLOOK

For the year ended 31 December 2020, the Group recorded a relatively stable performance under the unprecedentedly challenging environment. With a reform of the business portfolio which was still on-going, the management believed that the Group was able to deploy its resources into the business with a promising future, and therefore enhance its revenue base and create a long-term profitability.

Design and sales of integrated circuit and semi-conductor parts

The management shall carry on effort to improve the existing products over competitors in terms of performance as well as price. Meanwhile, the management is diversifying different product lines and exploring new sales and distribution channels in order to broaden the revenue source. More cost control measures will be adopted by the management depending on the future business trends.

Aviation business management

The management will continue to explore business opportunities relating to aviation business management. The Group adopts a market-expansion strategy by actively identifying potential clients.

Property investment

The management is still construing a suitable business strategy for the Saipan property. The Group will closely monitor the local property market with a mind on re-sale. Nevertheless, it will not rule out the possibility of leasing the property to create short-term income. In either way, the management is of the view that the Saipan property remains as a stable and reliable investment with considerable potential.

Investment holding

With uncertainty over international trade and longer-term global economic and financial trends, the management will maintain a cautious and prudence approach for exploring any new investment opportunities to enhance shareholder's value.

Other businesses

For the year ended 31 December 2020, the Group has terminated its business in trading of construction material and the business of research and development in real time 2D-3D conversion display products. Given the current circumstances, the Group will not re-enter such businesses in a short term.

For the financial leasing in the PRC and money lending in Hong Kong, no material expansion of these businesses is likely in the near future. The strategic focus will be placed to monitor the recoverability of the financial leases and loans granted before.

Possible tea businesses

As at this stage, the Group is conducting a feasibility study on the tea business. Based on the currently available information to the management, the tea business is of valuable potential and may create a long-term profit to the Group. Nevertheless, the management is still construing a proper strategy to tap into this business.

Possible yacht business

As at this stage, the Group was re-considering and re-negotiating on the yacht business which was planned in late 2019. Based on the currently available information to the management, the yacht business has a broad market with rich opportunities. Nevertheless, the management is still reviewing all possible strategies, including but not limited to acting as sale agent for a producer, forming joint venture with an existing market participant, direct investing in the production companies, direct investing in the final products, etc.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's operations, financials and prospects are affected by risks and uncertainties. Based on a review on the operation and environment of the Group's businesses, the risk factors listed below may directly or indirectly lead to significant differences in the Group's operating performances, financial positions and development prospects from its expected or past performances. These factors are not comprehensive, and there may be other risks and uncertainties that are not known by the Group or may not be noticeable at present, but may become significant in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Risk

Performance of all business segments of the Group may be affected by fluctuations in market prices and market demands of the Group's final products and services. Some products, for example, integrated circuits and semi-conductor parts manufactured by the Group, have a relatively standardized design and/or predetermined production cycle, and therefore may not be able to meet changeable requirements of the customers. On the other hand, the aviation management services are subject to the price competitions from other service providers. If the Group fails to adapt and respond successfully, it may adversely affect the business performance and development prospects.

Raw materials or outsourced services which are provided by the Group's suppliers are subject to price fluctuations. The Group does not enter into any material contracts to hedge against such price fluctuations. Therefore, any increases in these raw materials or outsourced services will exert pressures on the Group's costs, gross profits and final prices that the Group in turn charges the customers. Should there be any significant increases in the prices of raw materials or outsourced services which are out of expectation over a period, it will significantly damage the Group's performances.

Industry Risk

All business segments of the Group are operated in industries which are highly competitive. Competition may intensify as the Group's competitors expand their product or service, lower their prices, or increase their qualities. There may be new competitors entering the Group's existing markets as well. If the Group does not compete successfully against existing and new competitors, the Group may not be able to maintain its existing business scale and operation performance.

Policy Risk

Some business segments of the Group must abide by various policies and regulations. For example, the financial leasing in the PRC, the money lending in Hong Kong and the aviation business management are all subject to intensive compliance requirements. Central and local regulators may require the Group to apply for new licenses, and impose new rules, regulations or requirements. Changes in policies and regulations will affect the development of the Group's business, such as increasing compliance costs and reducing business opportunities.

Credit Risk

All business segments of the Group allow a credit for their customers' payment. All trade and other receivables are accounted by their carrying amounts less expected credit loss. However, such amounts do not represent the Group's maximum exposure to credit risk. On the other hand, the Group also have some long-term equity investments in listed and unlisted companies in Hong Kong. All the Group's financial assets, including trade and other receivables and equity investments, are subject to credit risk. Save for their own performances of each individual customer and each invested company, there are a lot of factors which can affect their credit risks, such as the general economy, government policies and investor confidences.

Other Risks

Some risks are not noticeable from the daily operations of the Group, but they can have a material adverse impact on the Group. For the year 2020, the COVID-19 outbreak and the China/US trade war both caused significant impacts on the businesses of the Group. For example, under the safety concerns that the COVID-19 pandemic imposed on the workers, the management had to amend their usual business strategies, such as re-scheduling the production process or investing more in hygiene facilities. However, there was no guarantee that such measures were effective in the long term. On the other hand, such significant events may deteriorate other risks and uncertainty that the Group are facing, such as an increased credit risk. Given the complexity, materiality and unpredictability of these events, the Group is of the view that their impacts may take a longer time to fully emerge. Therefore, the financial results of the Group in the past may not have fully reflected all impacts caused by the COVID-19 pandemic and the China/US trade war.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2020, the Group achieved a revenue of approximately HK\$92.6 million (2019: approximately HK\$74.3 million). The revenue was principally contributed by the Group's core business, i.e. design and sales of integrated circuit and semiconductor parts business operations, and the business segment, i.e. the aviation business management. On the other hand, certain business segments, including the trading in construction materials, the financial leasing in the PRC and the money lending in Hong Kong, had experienced a hard business environment and a sharp operation downsize, and therefore recorded a minimal revenue for the year ended 31 December 2020.

For the year ended 31 December 2020, 33.6% of the consolidated revenue came from the business of the design and sales of integrated circuits and semi-conductor parts (2019: 41.1%), while 65.5% of the consolidated revenue came from the business of aviation and yacht management (2019: 57.8%).

Operating expenses

Operating expenses amounted to approximately HK\$39.6 million for the year ended 31 December 2020 (2019: approximately HK\$52.8 million). Such decrease was mainly due to decrease in staff salaries and administrative costs.

Loss for the year

For the year ended 31 December 2020, loss for the year attributable to owners of the parent was approximately HK\$5.5 million (2019: approximately HK\$21.1 million). The decrease in loss was mainly attributable to decrease in material costs, staff salaries and administrative costs. Basic loss per share attributable to ordinary equity holders of the parent was approximately HK\$1.58 cents (2019: approximately HK\$6.26 cents).

Liquidity and financial resources

For the year ended 31 December 2020, the Group had no fund-raising activities.

As at 31 December 2020, the cash and cash equivalents of the Group amounted to approximately HK\$28.0 million (2019: approximately HK\$8.5 million). The Group had no outstanding bank loan as at 31 December 2020 (2019: nil), and no financing cost was incurred for the year ended 31 December 2020 (2019: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Gearing ratio

The gearing ratio of the Group, defined as total liabilities expressed as a percentage of the total of equity and liabilities, was approximately 31.9% as at 31 December 2020 (2019: approximately 41.8%). The Group did not have any debt financing during the period, and no finance cost was incurred.

Foreign currency exposure

The Group's results were exposed to exchange fluctuations of Renminbi as the Group mainly had operations in the PRC. Certain material used in the IC and semi-conductor parts are settled in US dollars, which exposed the Group to exchange fluctuations of US\$-RMB. Nevertheless, the Board considers that the Group in general was not exposed to significant foreign exchange risk, and had not employed any financial instrument for hedging. The Board will review the Group's foreign exchange risk and exposure from time to time and will apply hedging where necessary.

Capital structure

For the year ended 31 December 2020, there was no change to the authorized share capital of the Group.

As at 1 January 2020, the Company has issued a total of 336,587,142 shares in the par value of HK\$0.1 each. On 1 September 2020, the Company issued 33,658,000 new shares by utilizing the general mandate granted to the Directors at the 2020 annual general meeting. The 33,658,000 new shares were issued as consideration paid for an acquisition of 20.2% equity interest in Red Power Developments Limited, a company which is mainly engaged in aviation services. As at 31 December 2020, the Company has issued a total of 370,245,142 shares in the par value of HK\$0.1 each. All shares are fully paid and rank pari passu with each other in all respects.

As at 31 December 2020, the shareholders' fund amounted to approximately HK\$107.3 million (2019: approximately HK\$96.5 million).

Pledge of assets

As at 31 December 2020, the Group did not have any pledge of assets (2019: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

For the year ended 31 December 2020, the Company has completed:

(i) An acquisition of 20.2% equity interest in Red Power Developments Limited

On 14 February 2020, the Company announced to acquire 202 ordinary shares of Red Power Developments Limited ("**Red Power**"), representing 20.2% of its whole equity interest (the "**Investment in Red Power**").

Group of Red Power is principally engaged in (i) development, sales, lease and maintenance of equipment involving the application of aviation technology; (ii) development, sales and lease of helicopter; (iii) development of aviation technology and provision of technical consultancy services; (iv) provision of air transportation services; and (v) sales and leasing of aviation equipment. Part of the reasons for the acquisition was to solidate the business platform of the Group's aviation management business.

The consideration for the Investment in Red Power was settled by the allotment and issuance, credited as fully paid, of 33,658,000 consideration Shares by the Company. Upon completion of the acquisition, the Investment in Red Power was accounted as an investment in associate.

Acquisition of the Investment in Red Power was completed on 1 September 2020.

(ii) An acquisition of the entire equity interest of Ideal Best Limited

On 27 March 2020, the Company announced to purchase the sale share, representing the entire issued share capital of Ideal Best Limited (“**Ideal Best**”) at the consideration of approximately HK\$30.3 million (the “**Investment in Ideal Best**”).

Ideal Best is a company incorporated in the British Virgin Islands with limited liability. The principal business of Ideal Best is investment holding. Ideal Best is the sole registered and beneficial owner of Ideal Best (CNMI), LLC, a company incorporated in the Commonwealth of the Northern Mariana Islands with limited liability and is the holder of the leasehold interest in a Saipan property.

The acquisition for the Investment in Ideal Best is part of the settlement package between the Company and Imperial Pacific regarding the total amounts owed by Imperial Pacific to the Group. Upon completion, (i) Imperial Pacific will no longer owe any material debt to the Group; (ii) Ideal Best will become a direct wholly owned subsidiary of the Company; and (iii) the financial statements of the group of Ideal Best will be consolidated into the financial statements of the Group.

Acquisition of the Investment in Ideal Best was completed on 1 December 2020.

(iii) A disposal of the entire equity interest of Bright Team International Group Limited

On 28 March 2020, the Company announced that it planned to dispose of the entire equity interests of the sale share, representing the entire issued share capital of Bright Team International Group Limited (“**Bright Team**”) (the “**Investment in Bright Team**”) at the consideration of HK\$2.5 million. Nevertheless, the purchaser agreed to grant to the Company a buy-back right to repurchase the interests in Bright Team at HK\$2.6 million within 12 months.

Group of Bright Team is principally engaged in hardware and software integration services for real time 2D-3D conversion display products. As it has a nature of innovation and high-tech, the Group expected of a profit in the long term. However, the Group did not have sufficient resources to support the growth of the subject business, such as providing marketing and funding, and there was a mismatch between the Company and other investors regarding the development plan of the subject business. Therefore, the Company was of the view that the subject business’ full potential might take a longer time to realize than the Company’s original expectation.

Disposal of the Investment in Bright Team was completed on 26 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL COMMITMENT

On 21 June 2019, the Company as the tenant entered into a lease agreement with Agricultural Bank of China Limited in respect of the lease of the whole of the 28th floor of Agricultural Bank of China Tower, 50 Connaught Road Central, Hong Kong for a term of 2 years commencing from 3 June 2019 to 2 June 2021 (both days inclusive) for use as office premises of the Group. The aggregate value of consideration payable under the lease agreement by the Company is approximately HK\$21.4 million which is to be satisfied by internal resources of the Group.

As at 31 December 2020, the gross value of outstanding consideration payable under the lease agreement by the Company amounted to approximately HK\$4.5 million.

TRANSACTIONS AFTER THE REPORTING PERIOD

Save as disclosed, there was no other significant event after the reporting period and up to the date of this report.

CONTINGENT LIABILITIES

No material contingent liabilities of the Group were noted as at 31 December 2020 (2019: nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group had approximately 62 employees (2019: 74 employees). For the year ended 31 December 2020, total employee benefits expenses, including Directors' emoluments, amounted to approximately HK\$21.1 million (2019: HK\$24.1 million). The remuneration packages of employees are reviewed annually with reference to market level and individual staff performance. The Group's remuneration packages include basic salaries, bonus, contributions to provident fund and medical benefits.

FINAL DIVIDEND

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

INTRODUCTION

The Group is engaged in (i) design and sales of integrated circuits and semi-conductor parts used in industrial and household measuring tools and display products; (ii) provision of finance lease services; (iii) aviation and yacht business management services; (iv) property investment; and (v) the headquarter segment which comprises principally the Group's corporate administrative and investment functions performed by headquarter.

While striving for performance, the Group pursues business sustainability by being a responsible corporate citizen and is committed to maintaining high standards of business practices in relation to environmental protection, social responsibility and corporate governance.

REPORTING

This report is the "Environmental, Social and Governance Report" (collectively "**the ESG Report**") published by the Group, which discloses the Group's measures and performance on sustainable development topics in a transparent and open manner, in order to increase stakeholders' confidence and understanding on the Group.

The core businesses of the Group are principally engaged in design and distribution of integrated circuits and semi-conductor parts in the People's Republic of China (the "**PRC**").

The Group believes that environmental protection, low carbon footprint, resource conservation and sustainable development are the key trends in society. In order to follow the key trends and pursue a successful and sustainable business model, the Group recognises the importance of integrating ESG aspects into its risk management system and has taken corresponding measures in its daily operation and governance perspective.

Unless stated otherwise, this Annual Report mainly covers the Group's major operating revenue activities under direct management control, including its design and distribution of integrated circuits and semi-conductor parts in the PRC.

The Group will continue to assess the major environmental, social and governance aspects of different businesses to determine whether it needs to be included in the environmental, social and governance reporting.

REPORTING FRAMEWORK

This ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in the Appendix 27 of the Main Board Listing Rules (the "**ESG Reporting Guide**"). The ESG Report provides a simplified overview on the environmental, social and governance ("**ESG**") performance of the Group. The information in the ESG Report is derived from the Group's official documents and statistics, as well as the integration and summary of monitoring, management and operational information provided by subsidiaries of the Group.

Information relating to the corporate governance practices of the Group has been set out in the Corporate Governance Report on pages 49 to 66 of 2020 Annual Report.

STAKEHOLDER ENGAGEMENT

The Group values its stakeholders and their views relating to its businesses and environmental, social and governance issues. In order to understand and address stakeholders' concerns, the Group communicates with its key stakeholders, including but not limited to employees, investors, customers, suppliers, government bodies and communities through different channels such as conferences, electronic platforms and public events. In formulating operational strategies and environmental, social and governance measures, the Group takes into account the stakeholders' expectations and strives to improve its performance through mutual cooperation with the stakeholders, resulting in creating greater value for the community. The following table shows the management response to the stakeholders' expectations and concerns:

| Stakeholders | Expectations and concerns | Management response |
|-------------------------------------|---|---|
| Government/regulatory organizations | <ul style="list-style-type: none"> • Compliance in laws and regulations • Fulfill tax obligation | <ul style="list-style-type: none"> • Uphold integrity and compliance in operations • Pay tax on time, and in return contributing to the society • Establish comprehensive and effective internal control system |
| Shareholders/investors | <ul style="list-style-type: none"> • Return on investment • Information transparency • Corporate governance system | <ul style="list-style-type: none"> • Management possesses relevant experience and professional knowledge in business sustainability • Ensure transparency and efficient communications published in websites of HKEX and the Company • Continuous improvement to internal control and focus on risk management |
| Employees | <ul style="list-style-type: none"> • Labor rights • Career development • Compensation and welfare • Health and safety | <ul style="list-style-type: none"> • Set up contractual obligations to protect labor rights • Encourage employees to participate in continuous education and professional trainings • Establish a fair, reasonable and competitive remuneration scheme • Improve occupational health and safety |

| Stakeholders | Expectations and concerns | Management response |
|--------------|---|--|
| Customers | <ul style="list-style-type: none"> • High quality products and services • Timely delivery • Reasonable price | <ul style="list-style-type: none"> • Improve the quality of products and services continuously in order to maintain customer's satisfaction • Establish an effective, efficient and green supply chain system • Formulate comprehensive quality assurance process and recall procedures • Ensure proper contractual obligations are in place |
| Suppliers | <ul style="list-style-type: none"> • Stable demand • Good relationship with the Company • Corporate reputation | <ul style="list-style-type: none"> • Ensure proper contractual obligations are in place • Establish policy and procedures in supply chain management • Establish and maintain strong and long-term relationship with suppliers • Select suppliers with due care |
| Community | <ul style="list-style-type: none"> • Environmental protection • Community contribution • Economic development | <ul style="list-style-type: none"> • Pay attention to the problem of climate change • Encourage employees to actively participate in charitable activities and voluntary services • Maintain good and stable financial performance and business growth |

Materiality Assessment

The management and employees who are responsible for the key functions of the Group have participated in preparing this Annual Report, assisted the Group in reviewing its operation, identifying key environmental, social and governance issues and assessing the importance of these issues to our businesses and stakeholders. We compiled a questionnaire in reference to the identified material environmental, social and governance issues to collect the information from relevant departments and business units of the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The following table summarises the Group's significant environmental, social and governance issues as set out in this Annual Report:

| The ESG Reporting Guide | Material ESG aspects of the Group | Page |
|---|--|------|
| A. Environmental | | |
| A1. Emissions | Waste Management | P.27 |
| | Greenhouse Gas (“GHG”) Emission | P.28 |
| A2. Use of Resources | Energy Consumption | P.30 |
| | Water Consumption and Use of Packaging Materials | P.30 |
| A3. The Environment and Natural Resources | Environmental Impact Management | P.31 |
| | Noise Pollution | P.31 |
| | Landscape and Natural Habitat | P.32 |
| B. Social | | |
| B1. Employment | Employee Benefits and Equal Opportunities Policies | P.32 |
| B2. Health and Safety | Occupational Health and Safety | P.33 |
| B3. Development and Training | Staff Development and Training | P.33 |
| B4. Labor Standards | Prevention of Child Labor or Forced Labor | P.34 |
| B5. Supply Chain Management | Environmental and Social Risk Management of Supply Chain | P.34 |
| B6. Product Responsibility | Quality and Safety of Products and Services | P.35 |
| | Intellectual Property Management | P.35 |
| B7. Anti-Corruption | Prevention of Corruption and Fraud | P.36 |
| B8. Community Investment | Contributions to Society | P.37 |

During the year ended 31 December 2020, the Group confirmed that appropriate and effective management policies and internal control systems for environmental, social and governance issues are in place and confirmed the information disclosed in the ESG Report meets the ESG Reporting Guide.

Contact us

Comments and suggestions are welcome from our stakeholders. You may provide comments on ESG Report or towards our performance in respect of sustainable development.

A. ENVIRONMENTAL

A1. Emissions

General Disclosure and Key Performance Indicators (“KPI”)

The core businesses of the Group, which mainly involves design and distribution of integrated circuits and semi-conductor parts in the PRC, mainly rely on internet technology and related equipment and do not involve any manufacturing processes in the course of business. Therefore, during the year ended 31 December 2020, the Group and its office did not generate significant emissions, water pollutants and hazardous wastes during the operation, except for GHG emissions and non-hazardous waste.

Global warming and climate change have become major environmental issues to the world. The Group aims to minimize energy consumption and carbon emissions and has been exploring ways of adopting operational model which incurs less adverse impact on the environment. From the reporting of environmental perspective, we mainly focused on the environmental impact of the Group’s offices in China and relevant measures to be taken during the daily operation and have formulated policies and procedures relating to the environmental management to govern limited greenhouse gas emissions and non-hazardous waste generated from our operation.

Waste Management

The Group adheres to waste management principle and strives to properly manage and dispose wastes produced by our business activities. Our waste management practice has been complied with relevant laws and regulations relating to environmental protection. The non-hazardous wastes generated by the Group’s operations mainly consist of paper and toner cartridges. The consumption volume generated by the Group is shown as below:

| Non-hazardous waste category | 2020 Quantity | 2019 Quantity | Unit |
|------------------------------|------------------|------------------|--------|
| Paper | 0.2 | 0.2 | Tonnes |
| Toner cartridge | 9.0 | 8.0 | Pieces |

We regularly monitor the consumption volume of paper, toner cartridges and ink cartridges and have implemented a number of reduction measures. The Group’s office has also provided suitable facilities and encouraged our staff to sort and recycle the wastes to achieve the objectives in mitigating wastes, reusing and recycling in its operations. The Group maintains high standard in waste reduction, educates its employees the significance of sustainable development and provides relevant support in order to enhance their skills and knowledge in sustainable development.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Apart from recycling, the office has implemented various programs and activities to encourage employees to participate in waste reduction management, including:

- Promote green information and electronic communication, such as e-mail and electronic workflows, to implement “paperless system” concept;
- Place “Green Message” reminders on office equipment;
- Utilise used envelopes and double-side printing. Paper for single-side printing would be only adopted when handling official documents and confidential documents when necessary; and
- Recommend the use of recycled paper.

The Group does not produce any hazardous wastes in its business activities.

GHG Emission

The consumption of electricity at the offices and petrol are the largest sources of greenhouse gas emissions of the Group. During the year ended 31 December 2020, the Group’s total GHG emissions amounted to approximately 15.6 tonnes (2019: 15.2 tonnes.). The detailed summary of the GHG emission is shown as below:

GHG Performance Summary

| GHG Scope 1 | 2020 Tonnes | 2019 Tonnes |
|---|------------------------|------------------------|
| Direct GHG emission (Scope 1) – petrol consumption | 6.8 | 6.8 |
| Indirect GHG emission (Scope 2) – electricity consumption | 7.8 | 7.4 |
| Other indirect GHG emission (Scope 3) – paper and water consumption | 1.0 | 1.0 |
| Total GHG emission | 15.6 | 15.2 |

¹ GHG emissions data is presented in carbon dioxide equivalent and was in reference to, including but not limited to, the reporting requirements of the “GHG Protocol Corporate Accounting and Reporting Standard” issued by the World Resources Institute and the World Business Council for Sustainable Development, the “Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes)” and the latest published Baseline Emission Factors for Regional Power Grids in China.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has implemented a number of measures to mitigate energy consumption such as turning off the air conditioning system at night or when leaving office, keeping the office temperature at 25°C in summer and using LED lights or energy-saving light in the office, etc.

At the project level, the Group considers the principle of environmental protection when launching each of its projects. For example, in the course of selecting suppliers, we assess whether the materials used by the suppliers in the activities are hazardous to the environment and whether they can effectively conserve energy and minimize carbon emissions. In addition to the above-mentioned measures, the Group issues environmental-related memorandum to its staff to raise their awareness of environmental preservation. Notices and posters relating to the environmental information have been placed in the offices to promote the best practice of the environmental management.

The Group has complied with relevant environmental laws and regulations, including but not limited to Environmental Protection Law of the People’s Republic of China, Water Pollution Prevention and Control Law of the People’s Republic of China, Law of the People’s Republic of China on Prevention and Control of Air Pollution and Environmental Protection Law of Solid Waste Pollution of the People’s Republic of China. During the year ended 31 December 2020 and 2019, the Group was not aware of any material noncompliance with laws and regulations relating to the air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste that would have a significant impact on the Group.

On top of complying with the general disclosure requirement of Aspect A1, we have complied with the KPI requirement which is summarised below:

| “Comply or explain” Provisions | | |
|---------------------------------------|--|----------------|
| KPI A1.1 | The types of emissions and respective emissions data. | Disclosed |
| KPI A1.2 | Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity. | Disclosed |
| KPI A1.3 | Total hazardous waste produced (in tonnes) and, where appropriate, intensity. | Not applicable |
| KPI A1.4 | Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity. | Disclosed |
| KPI A1.5 | Description of measures to mitigate emissions and results achieved. | Disclosed |
| KPI A1.6 | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved. | Disclosed |

A2. Use of Resources

General Disclosure and KPI

Energy Consumption

Due to the business nature of the Group, the volume of energy consumption, electricity consumption and water consumption are considered as relatively low, in particular water consumption is very minimal. As mentioned in the Aspect A1 section, the Group has formulated policies and procedures relating to the environmental management, including energy management. Electricity consumption and petrol consumption account for a substantial part of the carbon emission for the Group's consumption in petrol and electricity were:

| Energy Type | 2020 Quantity | 2019 Quantity | Unit |
|-------------|------------------|------------------|-------|
| Petrol | 2,530 | 2,635 | litre |
| Electricity | 13,813 | 9,446 | kWh |

On top of the measures of mitigating the energy consumption mentioned in previous section, the Group strives to utilize telephone or video conference to minimize face-to-face meeting in order to reduce petrol consumption in traveling and unnecessary business trips. The Group encourages resources saving in daily office operation and proactively fosters a low-carbon corporate culture, which further increases our employees' awareness in energy conservation.

Water Consumption and Use of Packaging Materials

As the water consumed by the Group is managed by the property management office of the office building where the Group is located, there is no relevant date on water consumption. The water consumed by the Group in its business activities are of insignificant amount. Regardless of limited water consumption, we still promote behavioral changes at office and encourage water conservation. Pantry and toilets are posted with environmental messages to remind employees for water conservation, which results in further enhancing our employees' awareness in water conservation.

In addition, due to the nature of business, the Group did not have physical products for sale and therefore did not involve any use of packaging materials. Therefore, this disclosure is not applicable to the Group.

On top of complying with the general disclosure requirement of Aspect A2, we have complied with the KPI requirement which is summarised below:

| “Comply or explain” Provisions | | |
|---------------------------------------|---|---|
| KPI A2.1 | Direct and/or indirect energy consumption by type and intensity. | Disclosed |
| KPI A2.2 | Water consumption in total and intensity. | Disclosed |
| KPI A2.3 | Description of energy use efficiency initiatives and results achieved. | Disclosed |
| KPI A2.4 | Description on whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved. | Issue in sourcing water – not applicable due to its business nature; Remaining – disclosed |
| KPI A2.5 | Total packaging material used for finished products. | Not applicable |

A3. Environment and Natural Resources

General Disclosure and KPI

Environmental Impact Management

The Group pursues the best practices in the environment protection and focuses on the impact of the Group’s businesses to the environment and natural resources. In addition to complying with relevant environmental laws and regulations as well as properly preserve the natural environment, the Group has integrated the concept of environmental protection into its internal management and daily operations, with the aim of achieving environmental sustainability.

The Group strives to promote environmental protection and make effective use of resources. It carries out continuous monitoring if the business operations incur any potential impact to the environment, and minimises such impact to the environment through promoting green office and operating environment by adopting four basic principles which comprise of reduce, reuse, recycle and replacement. Where applicable, we adopt green purchasing strategies and the most practical technologies to protect our natural resources.

Noise Pollution

Noise pollution practices are implemented during our design and distribution of integrated circuits and semi-conductor parts, in order to minimise the noise pollution. Programs are produced in the studios with good soundproof facilities.

Landscape and Natural Habitat

The Group strives to minimise any unnecessary interference to the natural landscape and animal habitat in the process of design and distribution of integrated circuits and semi-conductor parts, in order to maintain the natural beauty of the environment.

The Group regularly reviews its environmental protection policies and has adopted the necessary precautionary measures and actions to reduce significant impact on the environment and natural resources, and ensure that the Group complies with relevant laws and regulations.

During the year ended 31 December 2020 and 2019, the Group has not found any non-compliance with laws and regulations in respect of the environment and natural resources.

On top of complying with the general disclosure requirement of Aspect A3, we have complied with the KPI requirement which is summarized below:

| “Comply or explain” Provisions | | |
|---------------------------------------|---|-----------|
| KPI A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | Disclosed |

B. SOCIAL

B1. Employment

General disclosure

Employee Benefits and Equal Opportunities Policies

Employees are regarded as the Group’s largest and most valuable assets and the core of competitive advantage. They provide the driving force for continuous innovation to the Group.

During the year ended 31 December 2020 and 2019, the Group has fully complied with relevant rules and regulations in the PRC, including the Company Law of the People’s Republic of China, the Contract Law of the People’s Republic of China, the Labor Contract Law of the People’s Republic of China and the Regulations on Labor Inspection and Security, as well as the statutory requirements in Hong Kong, including the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong), the Minimum Wages Ordinance, the Personal Data Privacy Ordinance and other relevant rules and regulations.

The Group is committed to maintaining a diverse workforce that includes age, gender, family status, sexual orientation, disability, ethnicity, religion and equal opportunities.

The Group’s staff handbook contains policies in regards to recruitment, promotion, discipline, working hours and leave. The human resources department has been responsible for ensuring all employees have fully understood the contents of the handbook.

The management regularly reviews the Group's remuneration and benefits policies in reference to the market standards and is committed to safeguarding the rights and interests of the staff. Remuneration and benefits have been adjusted on an annual basis in accordance with the employees' individual performance, contribution and market conditions.

During the year ended 31 December 2020 and 2019, the Group was not aware of any material non-compliance with laws and regulations relating to employment and labour practices.

B2. Health and Safety

General disclosure

Occupational Health and Safety

The Group has always placed emphasis on occupational safety and has set up an occupational health and safety management system to provide a safe working environment for office employees.

During the year ended 31 December 2020 and 2019, the Group has complied with relevant rules and regulations in the PRC, including the Law of the People's Republic of China on Work Safety and Occupational Disease Prevention and Control Law of the People's Republic of China, as well as the legislative requirements in Hong Kong, including the Occupational Safety and Health Ordinance.

During the year ended 31 December 2020 and 2019, the Group was not aware of any non-compliance with the health and safety laws and regulations.

B3. Development and Training

General disclosure

Staff Development and Training

Employees are regarded as the Group's largest and most valuable assets and an essential part of maintaining a competitive advantage. The Group provides its staff with training courses for upgrading skills and development as needed.

The Group encourages and supports employees to participate in personal and professional training to fulfill the needs of emerging technologies and new equipment. The Group also encourages the culture of sharing of knowledge and experience.

The Group has made good use of its internal resources to organise various forms of training for its office in China, including management, customer service and financial knowledge with the assistance of the Hong Kong Office of General Services.

B4. Labour Standards

General disclosure

Prevention of Child Labor or Forced Labor

The Group strictly prohibits employing any child labor or forced labor in its operations in Hong Kong and the PRC. The Group has established a well-defined recruitment process which examines the background of candidates and a formal reporting procedure for handling any exception. During the recruitment process, the age of the applicant is verified against the identity documents of the applicant. In addition, the Group conducts regular reviews and inspections to prevent any child labor or forced labor in operation.

In the meantime, the Group also avoids engaging vendors and contractors which are already known to be employing child labor or forced labor in their operations. The Group has complied with the Employment of Children Regulations (Chapter 57B of the Laws of Hong Kong) under the Employment Ordinance (Chapter 57 of the Laws of Hong Kong), the Convention on the Abolition of Forced Labor with respect to Employment of Workers, the Labor Law of the People's Republic of China on the Employment of Adolescents under the Age of 16 and their Legal Rights and Interests and Provisions on the Prohibition of Child Labor in the People's Republic of China.

During the year ended 31 December 2020 and 2019, the Group complied with all the laws and regulations relating to the prevention of child labor or forced labor. The Group was not aware of any material non-compliance with laws and regulations relating to employment and labour practices.

B5. Supply Chain Management

General disclosure

Environmental and Social Risk Management of Supply Chain

The Group has established and implemented the Supplier Management Policy. In order to strengthen the selection of suppliers, the Group welcomes qualified, competent and high-quality suppliers to join. The Group's procurement department has specially formulated this policy in order to standardise the supplier management and improve the operational standard.

The Group's procurement department is also responsible for organising the supplier evaluation work in two ways which include the ongoing project evaluation and the annual assessment. The evaluation results will serve as the basis of supplier management. Suppliers need to react quickly to the assessment result, taking effective measures to improve the services provided within prescribed period. The Group has the rights to terminate the cooperation with service providers who violate the rules or do not meet the targets.

In the selection of new suppliers, the Group has compared at least three different companies, taking account of their operational and compliance records as well as their commitment level on top of cost consideration. Prior to conducting business with suppliers, we carry out annual reviews and evaluations in various aspects including occupational health and safety, employee rights protection, environmental protection and corporate social responsibility. This ensures that our operations comply with national standards or relevant regulations and that we have no child or forced labor issues. The assessment results will be used as a benchmark for the continuation or termination of cooperation in the future.

The Group maintains close liaison with its suppliers to monitor its performance to ensure that it is consistent with its service commitment.

B6. Product Responsibility

General disclosure

Quality and Safety of Products and Services

The Group pays high attention to the quality and safety of its services. The Group has established relevant quality and safety inspection policies for different projects, communicates with our customers and confirms their project expectation and direction prior launching any project, and actively coordinates projects with customers in the process of providing services.

Intellectual Property Management

The Group's day-to-day operations involve the use of the intellectual property owned by customers, suppliers or the Group itself. Therefore, the protection of intellectual property rights is an extremely important task for the Group. When the Group engages with its customers or suppliers, it will include the protection of intellectual property in the contractual terms. The Group's legal department will also review all the contracts in operation and ensure that the contractual terms protect both parties' intellectual property rights. The Group also requires technical professionals to sign strict confidentiality agreements. Confidential information of our customers is only accessible to employees who are responsible for the corresponding project.

During the year ended 31 December 2020 and 2019, the Group complies with relevant laws governing the confidentiality of data and intellectual property, including but not limited to Hong Kong Intellectual Property Law, Patent Law of the People's Republic of China, Trademark Law of the People's Republic of China and Copyright Law of the People's Republic of China.

During the year ended 31 December 2020 and 2019, the Group was not aware of any non-compliance with relevant laws and regulations related to product responsibility.

B7. Anti-Corruption

General disclosure

Prevention of Corruption and Fraud

Preventive Measures, Enforcement and Monitoring

The Group has implemented the Prevention of Commercial Bribery Management Policy, strengthening its internal control mechanism, anti-corruption and anti-bribery work so as to achieve the business philosophy of “abiding by the law, integrity and quality service”. For projects with higher monetary value, the Group makes an open bidding invitation to at least three suppliers. Different level of approval and authorisation is required according to the size of the tender agreement.

Reporting Mechanism

The mechanism includes the establishment of an inspection team and the establishment of a channel for evaluation and reporting. It is strictly forbidden to use the business opportunities or powers to obtain personal interests or benefits. If there is a conflict of interest, it needs to be reported to the management of the Group on a timely basis. The Group also encourages employees and all persons with whom the Group does business, including customers and suppliers, to report the suspected wrongdoing within the Group voluntarily.

The Group has complied with major relevant laws and regulations including Hong Kong’s “Prevention of Bribery Ordinance” and the Mainland’s “Corruption Ordinance of the People’s Republic of China”.

The Group has also taken many measures to prevent any money laundering activities in the Group. At the time of account opening in its securities brokerage business, the Group will perform a name search in an anti-money laundering database system maintained and provided by a third-party vendor, in order to screen each new client against current terrorist and sanction designations, and check whether the client is a Politically Exposed Person (PEP). New account applications lodged by terrorists or sanctioned entities would be rejected. Regular name checks of existing clients against the latest terrorist and sanction list issued by US Treasury Department, as recommended by the regulators, are also conducted. The Group performs regular reviews on transactions by high-risk clients, in order to identify suspicious transactions. In the event any suspicious transactions are noted, we will report them to the Joint Financial Intelligence Unit in due course.

During the year ended 31 December 2020 and 2019, the Group was not aware of any non-compliance with relevant laws and regulations related to anti-corruption.

B8. Community Investment

General disclosure

Contributions to Society

As a responsible company, the Group actively strives to become a positive force in the community and maintains close communication and interaction with the community to contribute to community development.

The Group enhances the quality of life of community through arts, culture and entertainment using on demand systems and activities. Following the development of culture, the community can gain a deeper understanding of history and culture and cultivate higher appreciation of the present and future cultural activities and to a greater level of enjoyment.

The Group will also actively encourage employees to contribute their time and skills to community volunteer works to benefit local communities by giving them opportunities to learn more about social and environmental issues and enhance the corporate value of the Group.

As a moral and responsible enterprise, the Group will consider from time to time to make donations to charities when the Group records after-tax profits and has sufficient funds.

REPORT OF THE DIRECTORS

The Board of Directors of the Company submits their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investments holding. For the year ended 31 December 2020, the Group was principally engaged in (i) design and sales of integrated circuits and semi-conductor parts used in industrial and household measuring tools and display products; (ii) provision of finance lease services; (iii) aviation and yacht business management services; (iv) property investment; and (v) the headquarter segment which comprises principally the Group's corporate administrative and investment functions performed by headquarter.

COMPLIANCE WITH THE LAWS AND REGULATIONS

The Group recognizes the importance of compliance with regulatory requirements and the risks of non-compliance with the applicable laws and regulations. During the year ended 31 December 2020, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. There was no material breach or non-compliance with the applicable laws and regulations by the Group during the year ended 31 December 2020.

BUSINESS REVIEW

Discussion and analysis of business review as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis of this Annual Report and the notes to the Consolidated Financial Statements of this Annual Report.

Discussions on the Group's environmental policies, relationships with its key stakeholders, and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the Environmental, Social and Governance Report of this Annual Report.

The above discussion forms part of the Report of the Directors.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year ended 31 December 2020 attributable to the Group's major suppliers and customers are as follows:

| | Percentage of the total purchases/sales accounted for |
|-----------------------------------|--|
| Purchases | |
| – the largest supplier | 38% |
| – five largest suppliers combined | 65% |
| Sales | |
| – the largest customer | 63% |
| – five largest customers combined | 85% |

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

EMOLUMENT POLICY OF THE GROUP

The emolument policy of the employees of the Group is reviewed regularly by the Board. Remuneration packages are structured to take into account the merit, qualifications and competence of individual employees as well as the general market conditions.

FINANCIAL ASSISTANCE AND GUARANTEES TO AFFILIATED COMPANIES

There is no advance, which is of non-trading nature, to any of the affiliated companies as at 31 December 2020 as defined under Chapter 13 of the Listing Rules.

FINANCIAL RESULTS

Details of the Group's results for the year ended 31 December 2020 are set out in the Consolidated Statement of Profit or Loss and the Consolidated Statement of Comprehensive Income of this Annual Report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group for the year ended 31 December 2020 are set out in note 14 to the Consolidated Financial Statements of this Annual Report.

TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders by reason of their holding of the Company's listed securities.

RESERVES

Details of the movements in reserves of the Group and the Company during the year ended 31 December 2020 are set out in the Consolidated Statement of Changes in Equity, together with relevant notes to the Consolidated Financial Statements of this Annual Report.

DISTRIBUTABLE RESERVES

As at 31 December 2020, no reserves are available for distribution to shareholders by the Company as calculated in accordance with the Companies Act 1981 of Bermuda.

SHARE CAPITAL

As at 31 December 2020, the Company had an authorized share capital of HK\$100,000,000, divided into 1,000,000,000 shares of HK\$0.1 each, and an issued share capital of 370,245,142 shares of HK\$0.1 each.

As at 31 December 2020, the Company did not have any preference shares, options, convertible bonds or equity-related instruments.

REPORT OF THE DIRECTORS

ISSUE OF NEW SHARES OR DEBENTURES

On 1 September 2020, the Company issued 33,658,000 shares of HK\$0.1 each as consideration shares under a sale and purchase agreement dated 14 February 2020 (as supplemented from time to time), which related to the acquisition of 20.2% equity interest of Red Power Developments Limited by the Company. Save as disclosed and for the year ended 31 December 2020, there was no new share or debenture of the Company issued.

EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2020, the Group has not entered into any equity-linked agreement.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2020.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws ("**Bye-laws**") or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 7 of this Annual Report.

DIVIDEND

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

DIRECTORS

The Directors who held office from 1 January 2020 and up to the date of this Annual Report are as follows:

Executive Directors

Mr. Yang Lin (*Chairman*)

Mr. Duan Hongtao *Note 1*

Ms. Li Weina *Note 2*

Mr. Xu Yinsheng

Mr. Zhang Fumin *Note 3*

Ms. Lau Mei Ying *Note 4*

Mr. Leung Pok Man *Note 5*

Mr. Liu Shixia *Note 6*

Mr. Xu Beinan (*Chief Executive Officer*) *Note 7*

Non-Executive Director

Mr. Zhou Danqing

Independent Non-Executive Directors

Ms. Ching Ching ^{Note 8}
 Mr. Song Donglin ^{Note 9}
 Mr. Zhang Shengdong
 Mr. Lee Man To ^{Note 10}
 Ms. Choi Yee Man ^{Note 11}
 Ms. Weng Yuzhen ^{Note 12}

BOARD COMMITTEES

Audit Committee

Ms. Ching Ching (*Chairman*) ^{Note 8}
 Mr. Song Donglin ^{Note 9}
 Mr. Zhang Shengdong
 Mr. Lee Man To ^{Note 10}
 Ms. Choi Yee Man ^{Note 11}
 Ms. Weng Yuzhen ^{Note 12}

Nomination Committee

Mr. Song Donglin (*Chairman*) ^{Note 9}
 Ms. Ching Ching ^{Note 8}
 Mr. Zhang Shengdong
 Mr. Lee Man To ^{Note 10}
 Ms. Choi Yee Man ^{Note 11}
 Ms. Weng Yuzhen ^{Note 12}

Remuneration Committee

Mr. Song Donglin (*Chairman*) ^{Note 9}
 Ms. Ching Ching ^{Note 8}
 Mr. Zhang Shengdong
 Mr. Lee Man To ^{Note 10}
 Ms. Choi Yee Man ^{Note 11}
 Ms. Weng Yuzhen ^{Note 12}

Notes:

1. Appointed on 16 April 2021
2. Appointed on 14 August 2020
3. Appointed on 16 April 2021
4. Resigned on 15 April 2021
5. Resigned on 15 April 2021
6. Resigned on 14 April 2020
7. Appointed on 14 April 2020 and resigned on 14 August 2020
8. Appointed on 23 June 2020
9. Appointed on 15 April 2021
10. Resigned on 8 June 2020
11. Resigned on 8 June 2020
12. Appointed on 17 July 2020 and resigned on 15 April 2021

REPORT OF THE DIRECTORS

Mr. Duan Hongtao, Ms. Li Weina, Mr. Zhang Fumin, Ms. Ching Ching and Dr. Song Donglin shall retire from office at the forthcoming annual general meeting in accordance with his/her letter of appointment and the By-laws. They will be eligible to offer themselves for re-election.

CHANGE OF DIRECTORS

A summary of change of Directors of the Company from 1 January 2020 to the date of this Annual Report is set out below:

- (i) Mr. Liu Shixia has resigned as an executive Director on 14 April 2020;
- (ii) Mr. Xu Beinan has been appointed as an executive Director and the chief executive officer of the Company on 14 April 2020;
- (iii) Mr. Lee Man To has resigned as an independent non-executive Director, the chairman of the Audit Committee and a member of the Nomination Committee and the Remuneration Committee on 8 June 2020;
- (iv) Ms. Choi Yee Man has resigned as an independent non-executive Director, the chairman of the Nomination Committee and the Remuneration Committee and a member of the Audit Committee on 8 June 2020;
- (v) Ms. Ching Ching has been appointed as an independent non-executive Director, the chairman of the Audit Committee, the Nomination Committee and the Remuneration Committee on 23 June 2020;
- (vi) Ms. Weng Yuzhen has been appointed as an independent non-executive Director, a member of the Audit Committee, the Nomination Committee and the Remuneration Committee on 17 July 2020;
- (vii) Mr. Xu Beinan has resigned as an executive Director and the chief executive officer of the Company on 14 August 2020;
- (viii) Ms. Li Weina has been appointed as an executive Director on 14 August 2020;
- (ix) Mr. Leung Pok Man has resigned as an executive Director on 15 April 2021;
- (x) Ms. Lau Mei Ying has resigned as an executive Director on 15 April 2021;
- (xi) Ms. Weng Yuzhen has resigned as an independent non-executive Director, a member of the Audit Committee, the Nomination Committee and the Remuneration Committee on 15 April 2021;
- (xii) Ms. Ching Ching has resigned as the chairmen of the Nomination Committee and the Remuneration Committee, but remains as members of the Nomination Committee and the Remuneration Committee on 15 April 2021;
- (xiii) Dr. Song Donglin has been appointed as an independent non-executive Director, the chairman of the Nomination Committee, the chairman of the Remuneration Committee and a member of the Audit Committee on 15 April 2021;

(xiv) Mr. Duan Hongtao has been appointed as executive Director on 16 April 2021; and

(xv) Mr. Zhang Fumin has been appointed as executive Director on 16 April 2021.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors of the Company is currently in force and was in force throughout the financial year. The Company has taken out and maintained Directors and officers liability insurance which provides appropriate cover for, among others, the Directors of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2020 was the Company or any of its associated corporations a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors or their spouses or children under 18 years of age was granted any right to subscribe for any shares in, or debentures of, the Company or any of its associated corporations.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

None of the Director or an entity connected with any of them is or was materially interested, either directly or indirectly, in any transactions, arrangements and contract of significance subsisting during or at the year ended 31 December 2020.

COMPETING BUSINESS

For the year ended 31 December 2020, none of the Directors is interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

REASONS RELATED TO THE COMPANY'S AFFAIRS GIVEN BY A DIRECTOR FOR RESIGNATION OR NOT SEEKING RE-APPOINTMENT

For the year ended 31 December 2020, all directors who resigned or did not seek re-appointment confirmed that there was no reason related to the Company's affairs.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

Latest biographical details of the Directors and senior management of the Company are set out in Director and Senior Management Biographies of this Annual Report.

DISCLOSURE OF CHANGE IN INFORMATION OF DIRECTORS AND CHIEF EXECUTIVES

Save as disclosed in the section headed "Directors and Senior Management Biographies", there was no change in information of the Directors and chief executives of the Company up to the date of this Annual Report which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

MANAGEMENT CONTRACTS

No contracts, other than a contract of service with any Director or any person engaged in the full-time employment of the Company, concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or existed during the year ended 31 December 2020.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

For the year ended 31 December 2020, none of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The emoluments of Directors and senior management are recommended by the remuneration committee and determined by taking into consideration of their duties and responsibilities with the Company, the market rate and their time, effort and expertise to be input into the Group's affairs and the Company's performance.

Details of the emoluments of the Directors and senior management of the Company are set out in note 9 to the Consolidated Financial Statements of this Annual Report.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at the date of this report, the interests or short positions of the Directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

| Name of Director | Capacity/nature | Number of Shares/ underlying Shares held/interested in | Long/short position | Percentage of shareholding (Note 1) |
|------------------------------|--|--|------------------------|---|
| Mr. Duan Hongtao (Note 2) | Interest in controlled corporation(s) (Note 3) | 277,683,012 (Note 4) | Long | 75% |

Notes:

1. Based on 370,245,142 ordinary shares of the Company in issue as at the date of this report and as at 31 December 2020.
2. Mr. Duan Hongtao was appointed as an executive Director on 16 April 2021.
3. As at the date of this report, Mr. Duan Hongtao owned as to 99% of the issued shares of Zhongying Int'l Holding Group Limited ("Zhongying Int'l"), which beneficially owned 244,025,012 shares of the Company and the entire issued share capital of Ever Digital Limited which in turn beneficially owned 33,658,000 shares of the Company. Accordingly, Mr. Duan Hongtao was deemed to be interested in a total of 277,683,012 shares of the Company.
4. As at 31 December 2020, Mr. Duan Hongtao owned as to 99% of the issued shares of Zhongying Int'l, which beneficially owned 127,992,770 shares of the Company and the entire issued share capital of Ever Digital Limited which in turn beneficially owned 33,658,000 shares of the Company. Accordingly, Mr. Duan Hongtao was deemed to be interest in a total of 161,650,770 shares of the Company as at 31 December 2020.

Save as disclosed above, as at 31 December 2020, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Board has adopted the Model Code as set out in Appendix 10 to the Listing Rules to regulate the Directors' securities transactions. The Company had made specific enquiry of all Directors regarding any non-compliance with the Model Code for the period under review, and they all have confirmed their respective full compliance with the required standard set out in the Model Code during the year ended 31 December 2020.

ANNUAL CONFIRMATION OF INDEPENDENCE

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. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2020, the interest and short positions in the shares and underlying shares of the Company (within the meaning of Part XV of the SFO) of the substantial shareholders (other than the Directors and chief executives of the Company) as recorded in the register required to be kept under Section 336 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange, were as set out below:

| Name of shareholders | Capacity/nature | Number of Shares/ underlying Shares held/interested in | Long/short position | Percentage of shareholding (Note 1) |
|---|---------------------------------------|--|------------------------|---|
| Vision2000 Venture Ltd. (Note 2) | Beneficial owner | 106,043,142 | Long | 28.64% |
| Mosel Vitelic Inc. (Note 2) | Interest in controlled corporation(s) | 106,043,142 | Long | 28.64% |
| Ever Digital Limited (Note 3) | Beneficial owner | 33,658,000 | Long | 9.09% |
| Zhongying Int'l Holding Group Limited (Note 3) | Beneficial owner | 127,992,770 | Long | 34.57% |
| Mr. Duan Hongtao (Note 3) | Interest in controlled corporation(s) | 161,650,770 (Note 4) | Long | 43.66% |

REPORT OF THE DIRECTORS

Notes:

1. Based on 370,245,142 ordinary shares of the Company in issue as at the date of this report and as at 31 December 2020.
2. The 106,043,142 shares relate to the same batch of shares of the Company. According to the form of disclosure of interests submitted by Mosel Vitelic Inc. on 27 June 1997, Vision2000 Venture Ltd. is the controlled corporation of Mosel Vitelic Inc. and accordingly, Mosel Vitelic Inc. is deemed to be interested in the 106,043,142 shares of the Company held by Vision2000 Venture Ltd. As at the date of this report, Vision2000 Venture Ltd did not own any shares of the Company.
3. As at 31 December 2020, Mr. Duan Hongtao indirectly owned as to 99% of the issued shares of Zhongying Int'l Holding Group Limited ("**Zhongying Int'l**"), which beneficially owned 127,992,770 shares of the Company and the entire issued share capital of Ever Digital Limited which in turn beneficially owned 33,658,000 shares of the Company. Accordingly, Mr. Duan Hongtao was deemed to be interested in a total of 161,650,770 shares of the Company as at 31 December 2020.
4. From January 2021 to the date of this report, Zhongying Int'l conducted series of transactions on the shares of the Company, including a general offer to acquire all the issued shares of the Company other than those already owned by Zhongying Int'l and its concert parties and a subsequent placing. As at the date of this report, Zhongying Int'l beneficially owned 244,025,012 shares of the Company and the entire issued share capital of Ever Digital Limited which in turn beneficially owned 33,658,000 shares of the Company. Accordingly, Mr. Duan Hongtao was deemed to be interested in a total of 277,683,012 shares of the Company as at the date of this report.

GENERAL OFFER AND SUBSEQUENT PLACING OF A CONTROLLING SHAREHOLDER

On 22 December 2020, Zhongying Int'l Holding Group Limited ("**Zhongying Int'l**") and the Company jointly announced that Zhongying Int'l would purchase 127,992,770 shares of the Company, representing approximately 34.57% of the total issued share capital of the Company, from Glory Genius International Holdings Limited, a previous controlling shareholder of the Company.

The purchase of 127,992,770 shares of the Company completed on 23 December 2020. Following the completion, Zhongying Int'l and parties acting in concert with it became interested in an aggregate of 161,650,770 shares of the Company, representing approximately 43.66% of the existing issued share capital of the Company. As a result of the completion, Zhongying Int'l was required to make a conditional mandatory cash offer for all the issued shares of the Company not already owned by Zhongying Int'l and parties acting in concert with it pursuant to the Hong Kong Code on Takeovers and Mergers. SPDB International Capital Limited, on behalf of Zhongying Int'l, made the offer (the "**Offer**") to acquire all the offer shares on the basis of HK\$1.345 in cash for each offer share.

The Offer was closed on 2 February 2021. Zhongying Int'l received valid acceptances in respect of a total of 167,156,242 offer shares, representing approximately 45.15% of the entire issued share capital of the Company. Accordingly, Zhongying Int'l and parties acting in concert with it held a total of 328,807,012 shares of the Company, representing approximately 88.81% of the entire issued share capital of the Company, immediately after completion of the Offer.

In order to restore the public float of the Company, Zhongying Int'l proceeded a placing of 51,124,000 shares of the Company from 25 February 2021 to 3 March 2021. Upon completion of the placing, 51,124,000 shares of the Company, representing approximately 13.81% of the issued share capital of the Company, had been placed to not less than six placees who are third parties independent of the Company and its connected persons and parties not acting in concert with Zhongying Int'l, at the placing price of HK\$1.345 per placing share. Accordingly, Zhongying Int'l and parties acting in concert with it held a total of 277,683,012 shares, representing approximately 75.00% of the entire issued share capital of the Company, immediately after completion of the placing.

SUFFICIENCY OF PUBLIC FLOAT

Upon completion of a general offer of Zhongying Int'l in January and February 2021, 41,438,130 shares of the Company, representing approximately 11.19% of the entire issued share capital of the Company, were held by the public (as defined under the Listing Rules). Accordingly, the Company did not satisfy the minimum public float requirement as set out under Rule 8.08(1)(a) of the Listing Rules.

An application was made by the Company to the Stock Exchange for a temporary waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules. On 3 March 2021, the Stock Exchange granted a temporary waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules to the Company for a period from 2 February 2021 to 26 March 2021, subject to certain conditions.

On 3 March 2021, Zhongying Int'l completed a placing of 51,124,000 shares of the Company. Thereafter, a total of 92,562,130 shares of the Company, representing approximately 25.00% of the issued share capital of the Company, were held by the public. As such, the public float of the Company was restored to not less than 25% of the issued share capital of the Company.

Trading in the shares of the Company on the Stock Exchange was suspended from 9:00 a.m. on 3 February 2021 due to the insufficiency in public float, and was resumed from 9:00 a.m. on 5 March 2021 due to the restoration in public float.

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

CORPORATE GOVERNANCE PRACTICES

The Board confirms that the Company has adopted and complied with all code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules during the year ended 31 December 2020 except for certain deviations. Details of such deviations are disclosed in the Corporate Governance Report of this Annual Report.

REPORT OF THE DIRECTORS

CONTRACTS OF SIGNIFICANCE AND RELATED PARTY TRANSACTIONS

No contract of significance had been entered between the Company or any of its subsidiaries, and the controlling shareholders of the Company (as defined in the Listing Rules) or any of its subsidiaries. No contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholders of the Company (as defined in the Listing Rules) or any of its subsidiaries.

Details of the related party transactions undertaken in the usual course of business are set out in note 37 to the Consolidated Financial Statements of this Annual Report. None of these related party transactions constitutes “connected transactions” or “continuing connected transactions” as defined under Chapter 14A of the Listing Rules and therefore there is no disclosure requirements in accordance with Chapter 14A of the Listing Rules.

AUDIT COMMITTEE

The audit committee of the Company comprises solely independent non-executive Directors, namely Ms. Ching Ching (chairman), Ms. Weng Yuzhen (resign as a member on 15 April 2021), Dr. Song Donglin (appointed as a member on 15 April 2021) and Dr. Zhang Shengdong. The Group’s annual results for the year ended 31 December 2020 have been reviewed by the audit committee of the Company.

AUDITOR

Zenith CPA Limited was appointed as the auditors of the Company for the year ended 31 December 2020.

The audited financial statement of the Group for the year ended 31 December 2020 have been audited by Zenith CPA Limited, who retires and a resolution for its reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

PacRay International Holdings Limited

Yang Lin

Executive Director

Hong Kong, 30 April 2021

PacRay International Holdings Limited (the “**Company**”) and its subsidiaries (the “**Group**”) recognizes the value and importance to achieving high corporate governance standards to enhance corporate performance and accountability.

The Board of Directors of the Company is committed to maintain sound corporate governance standard and procedures to ensure integrity, transparency and quality of disclosure in order to enhance the shareholders’ value.

CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2020, the Company has complied with the principles as set out in the Corporate Governance Code (“**CG Code**”) contained in Appendix 14 to the Listing Rules and complied with the code provisions contained therein except for the following deviation:

- (i) Code provision A.2.1 of the CG Code requires that the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual. Before that Mr. Xu Beinan was appointed as the executive Director and the chief executive officer of the Company on 14 April 2020 and after that Mr. Xu Beinan resigned as the executive Director and the chief executive officer of the Company on 14 August 2020, the Company has not appointed a chief executive officer. For these concerned periods, the roles and functions of the chief executive officer have been performed by all the executive Directors collectively.
- (ii) Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election. The non-executive Director and the independent non-executive Directors were not appointed for specific terms. They are subject to retirement by rotation at least once every three years and re-election at the Company’s annual general meeting in accordance with the Bye-laws. At every annual general meeting of the Company, one-third of the Directors for the time being or, if their number is not three or a multiple of three, then the nearest but no less than one-third shall retire from office by rotation. Every Director should be subject to retirement by rotation at least once every three years.
- (iii) Code provision A.6.7 stipulates that independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders. Four executive Directors and one independent non-executive Director were unable to attend the annual general meeting of the Company held on 22 June 2020 after considering the quarantine measures adopted by the governments for the COVID-19 outbreak. Nevertheless, other members of the Board attended this meeting to ensure effective communication with the shareholders of the Company.
- (iv) Code provision E.1.2 stipulates that the chairman of the Board should attend the annual general meeting of the Company. After considering the quarantine measures adopted by the governments for the COVID-19 outbreak, Mr. Yang Lin, chairman of the Board, did not attend the annual general meeting of the Company held on 22 June 2020. However, other members of the Board (including executive Directors and non-executive Director) attended the meeting to ensure effective communication with the shareholders of the Company.

The Company regularly reviews its corporate governance practices to ensure they comply with the CG Code and align with the latest developments.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting the required standard set out in the model code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules (the “**Model Code**”). The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code for the year ended 31 December 2020, all Directors confirmed their respective full compliance with the required standard as set out in the Model Code during the year ended 31 December 2020.

THE BOARD COMPOSITION

As at the date of this Annual Report, the Board comprises 9 Directors, of which 5 executive Directors, 1 non-executive Director and 3 independent non-executive Directors. The number of independent non-executive Directors has met the minimum requirement of the Listing Rules and represented more than one-third of the total Board members. Further, one of the independent non-executive Directors possesses appropriate professional accounting qualifications and/or financial management expertise.

As of the date of this Annual Report, the members of the Board are as follows:

Executive Directors

Mr. Yang Lin (*Chairman*)

Mr. Duan Hongtao

Ms. Li Weina

Mr. Xu Yinsheng

Mr. Zhang Fumin

Non-Executive Director

Mr. Zhou Danqing

Independent Non-Executive Directors

Ms. Ching Ching

Mr. Song Donglin

Mr. Zhang Shengdong

The biographical details of the Directors are contained in the section headed Directors and Senior Management Biographies of this Annual Report.

There is no fixed term or proposed length of service for each of the Directors (including the non-executive Director and independent non-executive Directors) except that the appointment is subject to the requirements under the Listing Rules, the Bye-laws and any other applicable laws and regulations, and the appointment can be terminated by either party by giving the other party one months' written notice in advance.

When the Board considers any material proposal or transaction in which a Director has a conflict of interest, the Director who has interests declares his/her interest and is required to abstain from voting and is not counted in the quorum.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors are independent.

NON-COMPLIANCE WITH THE RULES 3.10(1), 3.10(2), 3.10A AND 3.21 OF THE LISTING RULES

On 8 June 2020, Mr. Lee Man To and Ms. Choi Yee Man resigned as independent non-executive Directors. Following their resignation, the Company failed to meet the requirement under (i) the Rule 3.10(1) of the Listing Rules, which requires the Board to have at least three independent non-executive Directors; (ii) the Rule 3.10(2) of the Listing Rules, which requires at least one of the independent non-executive Directors to have appropriate professional qualifications or accounting or related financial management expertise; (iii) the Rule 3.10A of the Listing Rules, which requires the independent non-executive Directors to constitute at least one-third of the Board; and (iv) the Rule 3.21 of the Listing Rules, which requires the Audit Committee to have at least three members and a chairman.

On 23 June 2020, Ms. Ching Ching was appointed as an independent non-executive Director, the chairman of the Audit Committee, the Nomination Committee and the Remuneration Committee. On 17 July 2020, Ms. Weng Yuzhen was appointed as an independent non-executive Director, and a member of the Audit Committee, the Nomination Committee and the Remuneration Committee. Thereafter, the Company has complied with the Rules 3.10(1), 3.10(2), 3.10A and 3.21 of the Listing Rules.

THE BOARD FUNCTIONS

Other than the regulatory and statutory responsibilities of the Board, the key functions of the Board are to formulate strategy and to monitor and control operating and financial performance in pursuit of the Group's strategic objective. The Board, led by the Chairman, retains full responsibility for setting objective and business development plans. All Directors (including executive and non-executive) have been consulted on major and material matters of the Company and have made active contribution to the affairs of the Board. The Board is committed to make decisions in the best interest of the Group. The main responsibilities of the management of the Company is to manage, operate and co-ordinate the business of the Company, execute the strategies formulated by the Board and make decisions in respect of daily matters.

There is no relationship (including financial, business, family or other material/relevant relationship(s)) between Board members and in particular, between the Chairman and the Chief Executive Officer.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2020, 4 regular Board meetings and a total of 19 Board meetings were convened by the Company. The attendance of the Directors at the Board meetings and general meetings of the Company for the year ended 31 December 2020 is summarized below.

| | Number of Board meetings attended/held | Number of general meetings attended/held |
|--|--|--|
| Executive Directors | | |
| Mr. Yang Lin | 13/19 | 0/1 |
| Mr. Duan Hongtao <i>Note 1</i> | 0/0 | 0/0 |
| Ms. Li Weina <i>Note 2</i> | 5/5 | 0/0 |
| Mr. Xu Yinsheng | 18/19 | 0/1 |
| Mr. Zhang Fumin <i>Note 3</i> | 0/0 | 0/0 |
| Ms. Lau Mei Ying <i>Note 4</i> | 10/19 | 0/1 |
| Mr. Leung Pok Man <i>Note 5</i> | 15/19 | 1/1 |
| Mr. Liu Shixia <i>Note 6</i> | 3/6 | 0/0 |
| Mr. Xu Beinan <i>Note 7</i> | 4/8 | 0/1 |
| Non-Executive Director | | |
| Mr. Zhou Danqing | 19/19 | 1/1 |
| Independent Non-Executive Directors | | |
| Ms. Ching Ching <i>Note 8</i> | 8/8 | 0/0 |
| Mr. Song Donglin <i>Note 9</i> | 0/0 | 0/0 |
| Mr. Zhang Shengdong | 16/19 | 0/1 |
| Mr. Lee Man To <i>Note 10</i> | 9/10 | 0/0 |
| Ms. Choi Yee Man <i>Note 11</i> | 9/10 | 0/0 |
| Ms. Weng Yuzhen <i>Note 12</i> | 6/7 | 0/0 |

Notes:

1. Appointed on 16 April 2021
2. Appointed on 14 August 2020
3. Appointed on 16 April 2021
4. Resigned on 15 April 2021
5. Resigned on 15 April 2021
6. Resigned on 14 April 2020
7. Appointed on 14 April 2020 and resigned on 14 August 2020
8. Appointed on 23 June 2020
9. Appointed on 15 April 2021
10. Resigned on 8 June 2020
11. Resigned on 8 June 2020
12. Appointed on 17 July 2020 and resigned on 15 April 2021

Apart from regular Board meetings, the Chairman also held meetings with the independent non-executive Directors without presence of executive Directors during the year ended 31 December 2020.

Notice of at least 14 days of a regular Board meeting is to given all Directors who are given an opportunity to attend. For all other Board meetings, reasonable notice has been given.

Save for urgent matters which require the Board's immediate attention and therefore led to a short notice of a meeting, the agenda accompanying Board papers are sent to all Directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the Directors to review the documents. All businesses transacted at the Board meetings were well-documented. Draft and final versions of Board minutes are circulated to all Directors for their comments and records respectively.

Between Board meetings, the management provides to Directors from time to time updates and other information on the Group's business, operations and financial matters.

Directors are entitled to have access to Board papers and related materials and access to the advice and services of company secretary of the Company. Directors have the liberty to seek independent professional advice, if so required, at the Company's expenses as arranged by company secretary of the Company and they are at liberty to propose appropriate matters for inclusion in Board agendas.

For ensuring that Board procedures are followed and activities of the Board are efficient and effective, company secretary of the Company assists the Chairman to prepare agendas for regular board meetings and ensure the Board papers are disseminated to the Directors and Board Committees in a timely and comprehensive manner.

For the Group's compliance with the continuing obligations of the Listing Rules, The Codes on Takeovers and Mergers and Share Buy-backs, the SFO and the Companies Ordinance etc., including publication and dissemination of reports and financial statements and interim reports within the periods laid down in the Listing Rules, timely dissemination of announcements and information relating to the Group to the market and ensuring that proper notification is made of Director's dealings in securities of the Group, the Board engages the professional parties' input from time to time.

Directors are aware of their obligations for disclosure of interests in securities, connected transactions and inside information and ensure that the standards and disclosures required by the Listing Rules and the SFO are observed.

The Company has maintained liability insurance for Directors and senior management officers with appropriate coverage for certain legal liabilities which may arise in the course of performing their duties.

DIRECTORS' TRAINING

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company would provide each newly appointed director a comprehensive induction package covering the summary of the responsibilities and liabilities of a director of a Hong Kong listed company, the Group's business and the Company's constitutional documents and guides on directors' duties to ensure that he/she is sufficiently aware of his/her responsibilities and obligations under the Listing Rules and other applicable regulatory requirements.

From time to time, relevant reading materials are provided to Directors with regard to regulatory and governance developments as well as organizes in-house training programme to refresh their knowledge and skills on the roles, functions and duties of a director of a listed company. The Company has devised a training record to assist the Directors to record the training they have undertaken.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2020, the Directors participated in the following trainings to develop and refresh their knowledge and skills:

| | Types of training |
|--|--------------------------|
| Executive Directors | |
| Mr. Yang Lin | B |
| Mr. Duan Hongtao <i>Note 1</i> | N/A |
| Ms. Li Weina <i>Note 2</i> | A, B |
| Mr. Xu Yinsheng | A, B |
| Mr. Zhang Fumin <i>Note 3</i> | N/A |
| Ms. Lau Mei Ying <i>Note 4</i> | B |
| Mr. Leung Pok Man <i>Note 5</i> | B |
| Mr. Liu Shixia <i>Note 6</i> | B |
| Mr. Xu Beinan <i>Note 7</i> | B |
| Non-Executive Director | |
| Mr. Zhou Danqing | A, B |
| Independent Non-Executive Directors | |
| Ms. Ching Ching <i>Note 8</i> | A, B |
| Mr. Song Donglin <i>Note 9</i> | N/A |
| Mr. Zhang Shengdong | B |
| Mr. Lee Man To <i>Note 10</i> | A, B |
| Ms. Choi Yee Man <i>Note 11</i> | A, B |
| Ms. Weng Yuzhen <i>Note 12</i> | B |

A: attending seminars and/or programmes and/or conference

B: reading materials relating to the economy, general business or regulatory updates, etc

Notes:

1. Appointed on 16 April 2021
2. Appointed on 14 August 2020
3. Appointed on 16 April 2021
4. Resigned on 15 April 2021
5. Resigned on 15 April 2021
6. Resigned on 14 April 2020
7. Appointed on 14 April 2020 and resigned on 14 August 2020
8. Appointed on 23 June 2020
9. Appointed on 15 April 2021
10. Resigned on 8 June 2020
11. Resigned on 8 June 2020
12. Appointed on 17 July 2020 and resigned on 15 April 2021

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge that they are primarily responsible for the preparation of the financial statements for the year ended 31 December 2020 which give a true and fair view and that appropriate accounting policies are selected and applied consistently.

To the best knowledge of the Directors, there is no uncertainty relating to events or conditions that may cast significant count upon the Company's ability to continue as a going concern.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year ended 31 December 2020, the Chairman was Mr. Yang Lin, and the Chief Executive Officer was Mr. Xu Beinan (appointed on 14 April 2020 and resigned on 14 August 2020). The Chairman bears primary responsibility for the work of the Board, by ensuring its effective function, while the Chief Executive Officer bears executive responsibilities for the Company's businesses and the management of the day-to-day operations of the Company. For certain periods in the year ended 31 December 2020 when the position of the Chief Executive Officer was vacant, its roles and functions were performed by all the executive Directors collectively.

BOARD COMMITTEES

The Board has established three Board Committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, to assist the Board in discharging its duties and to oversee particular aspects of the Group's affairs. All the Board Committees have clear written terms of reference and have to report on their decisions and recommendation to the Board. These written terms of reference are available for access at the principal place of business of the Company in Hong Kong and each of the committee members was furnished with a copy of the respective terms of reference.

The written terms of reference of the Board Committees are also available on the websites of the Company (<http://pacray.com.hk>) and the Stock Exchange.

All business dealt with by the Board Committees were well-documented. Draft and final versions of the Board Committees minutes are sent to all the respective Board Committees members for comments and records within reasonable time.

1. Audit Committee

The Audit Committee comprises solely independent non-executive Directors. As at 31 December 2020, the Audit Committee consists of three independent non-executive Directors, namely, Ms. Ching Ching (chairman), Ms. Weng Yuzhen and Dr. Zhang Shengdong. As at the date of this report, the Audit Committee consists of three independent non-executive Directors, namely, Ms. Ching Ching (chairman), Dr. Song Donglin and Dr. Zhang Shengdong.

The Audit Committee is responsible for the following:

- reviewing and supervising the Company's financial reporting process, risk management and internal control systems;
- reviewing the accounting principles and practices adopted by the Group and other financial reporting matters and ensure the completeness, accuracy and fairness of the financial statements;

CORPORATE GOVERNANCE REPORT

- making recommendations as to the effectiveness of internal control and risk management;
- monitoring the compliance with statutory and listing requirements and to oversee the relationship with the external auditor; and
- reviewing arrangements to enable employees of the Company to raise concerns about improprieties in financial reporting, internal control or other matters of the Company. The Audit Committee meets the external auditor and the senior management twice a year to discuss any areas of concern during the audits.

During the year ended 31 December 2020, the Audit Committee has reviewed (i) the annual report of the Group for the year ended 31 December 2019, (ii) the interim report of the Group for the 6 months ended 30 June 2020, (iii) the external auditor's engagement letter with recommendation to the Board for approval, (iv) the determination and reporting of key audit matters, and (v) the effectiveness of the risk management and internal control systems and internal audit function.

During the year ended 31 December 2020, 4 meetings were held with the management and/or the external auditor. Members of the Audit Committee and their respective attendance at committee meetings were held during their term of office are listed below:

| | Number of Audit Committee Meeting attended/held |
|------------------------------------|--|
| Committee members | |
| Ms. Ching Ching ^{Note 1} | 1/1 |
| Mr. Song Donglin ^{Note 2} | 0/0 |
| Mr. Zhang Shengdong | 3/4 |
| Mr. Lee Man To ^{Note 3} | 3/3 |
| Ms. Choi Yee Man ^{Note 4} | 3/3 |
| Ms. Weng Yuzhen ^{Note 5} | 1/1 |

Notes:

1. Appointed on 23 June 2020
2. Appointed on 15 April 2021
3. Resigned on 8 June 2020
4. Resigned on 8 June 2020
5. Appointed on 17 July 2020 and resigned on 15 April 2021

2. Remuneration Committee

The Remuneration Committee comprises solely independent non-executive Directors. As at 31 December 2020, the Remuneration Committee consists of three independent non-executive Directors, namely, Ms. Ching Ching (chairman), Ms. Weng Yuzhen and Dr. Zhang Shengdong. As at the date of this report, the Remuneration Committee consists of three independent non-executive Directors, namely, Dr. Song Donglin (chairman), Ms. Ching Ching and Dr. Zhang Shengdong.

Its primary responsibilities include recommending, reviewing and determining the remuneration policy and packages of directors and senior management. Directors do not participate in the determination of their own remuneration.

During the year ended 31 December 2020, the Remuneration Committee has reviewed and recommended to the Board the Directors' remuneration. In making recommendations to the Board on the Directors' remuneration, the Remuneration Committee considered a number of factors including time commitment, responsibilities, qualification and the prevailing market rate. The remuneration of the Directors will be determined by the Board after obtaining authorization at its general meetings.

During the year ended 31 December 2020, the Remuneration Committee held 4 meetings. Members of the Remuneration Committee and their respective attendance at the committee meeting during their term of office are listed below:

| | Number of Remuneration Committee Meeting attended/held |
|------------------------------------|---|
| Committee members | |
| Ms. Ching Ching ^{Note 1} | 2/2 |
| Mr. Song Donglin ^{Note 2} | 0/0 |
| Mr. Zhang Shengdong | 4/4 |
| Mr. Lee Man To ^{Note 3} | 2/2 |
| Ms. Choi Yee Man ^{Note 4} | 2/2 |
| Ms. Weng Yuzhen ^{Note 5} | 1/1 |

Notes:

1. Appointed on 23 June 2020
2. Appointed on 15 April 2021
3. Resigned on 8 June 2020
4. Resigned on 8 June 2020
5. Appointed on 17 July 2020 and resigned on 15 April 2021

3. Nomination Committee

The Nomination Committee comprises solely independent non-executive Directors. As at 31 December 2020, the Nomination Committee consists of three independent non-executive Directors, namely, Ms. Ching Ching (chairman), Ms. Weng Yuzhen and Dr. Zhang Shengdong. As at the date of this report, the Nomination Committee consists of three independent non-executive Directors, namely, Dr. Song Donglin (chairman), Ms. Ching Ching and Dr. Zhang Shengdong.

Its primary responsibilities are to assist the Board to review the structure of the Board and make recommendations to the Board on the appointment or re-appointment of directors to the Board. It also reviews the Company's adopted board diversity policy, as appropriate, to ensure its continued effectiveness and make recommendations to the Board for consideration and approval.

Board Diversity Policy

Pursuant to the CG Code, the Board adopted a board diversity policy (the "**Board Diversity Policy**") in November 2013. Such policy aims to set out the approach to achieve diversity for the Board.

The Company recognizes the benefits of a Board that possesses a balance of skills, experience, expertise and diversity of perspectives appropriate to the requirements of the businesses of the Company.

All Board appointments shall be based on merits and candidates shall be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates for Board members shall be based on a range of diversity perspectives including, but not limited to, gender, age, race, experience, cultural and educational background, skills and other qualities considered relevant and applicable. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board.

The Nomination Committee monitors the implementation of the Board Diversity Policy and reviews, as appropriate, from time to time. The Nomination Committee also ensure the continued effectiveness of the policy. The Nomination Committee shall discuss any revisions that may be required and recommend any such revisions to the Board for consideration and approval.

As at 31 December 2020,

- four Directors were within the age range of 30-39, three Directors were within the age range of 40-49, and two Directors were within the age range of 50-59;
- five Directors were male and four Directors were female.
- three Directors served the Board for less than one year, three Directors served the Board for over one years but less than three years, and three Director served the Board for over three years.

As at the date of this report,

- four Directors were within the age range of 30-39, three Directors were within the age range of 40-49, one Director was within the age range of 50-59, and one Director was within the age range of 60-69;
- seven Directors were male and two Directors were female;
- five Directors served the Board for less than one year, three Directors served the Board for over two years but less than three years, and one Director served the Board for over three years.

As at the 31 December 2020 and the date of this report,

- one Director possessed appropriate professional qualifications in finance and accounting and meets the requirements of the Listing Rules;
- three Directors, being one third of the Board, were independent in accordance with the Listing Rules;
- all Directors contributed to the business of the Company with their own knowledge and experience.

Nomination Policy

The Company adopted a nomination policy (the “**Nomination Policy**”) in compliance with CG Code. The Nomination Committee and/or the Board shall consider the following criteria in evaluating and selecting candidates for directorships:

- Character and integrity
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company’s business and corporate strategy
- Willingness to devote adequate time to discharge duties as a Board member and other directorships and significant commitments
- Requirement for the Board to have independent directors in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) (the “**Listing Rules**”) and whether the candidates would be considered independent with reference to the independence guidelines set out in the Listing Rules
- Such other perspectives appropriate to the Company’s business

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

During the year ended 31 December 2020, the Nomination Committee has reviewed the structure, size and composition of the Board and the independence of the independent non-executive Directors.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2020, the Nomination Committee held 4 meetings with the management. Members of the Nomination Committee and their respective attendance at the committee meeting during their term of office are listed below:

| | Number of Nomination Committee Meeting attended/held |
|------------------------------------|---|
| Committee members | |
| Ms. Ching Ching ^{Note 1} | 2/2 |
| Mr. Song Donglin ^{Note 2} | 0/0 |
| Mr. Zhang Shengdong | 4/4 |
| Mr. Lee Man To ^{Note 3} | 2/2 |
| Ms. Choi Yee Man ^{Note 4} | 2/2 |
| Ms. Weng Yuzhen ^{Note 5} | 1/1 |

Notes:

1. Appointed on 23 June 2020
2. Appointed on 15 April 2021
3. Resigned on 8 June 2020
4. Resigned on 8 June 2020
5. Appointed on 17 July 2020 and resigned on 15 April 2021

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company. During the year ended 31 December 2020, the Board has discharged the following corporate governance duties:

- To develop and review the Company's policies and practices on corporate governance and make recommendations on changes and updating;
- To review and monitor the training and continuous professional development of directors and senior management;
- To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors;
- To review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and
- To implement such other corporate governance duties and functions set out in the CG Code (as amended from time to time) for which the Board are responsible.

AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their reporting responsibility on the Company's consolidated financial statements for the year ended 31 December 2020 is set out in the section headed Independent Auditor's Report of this Annual Report.

For the year ended 31 December 2020, auditor's remuneration for audit services and non-audit services were approximately HK\$1,060,000 and nil respectively.

COMPANY SECRETARY

Mr. Zhou Danqing has been engaged and appointed by the Company as its company secretary for the year ended 31 December 2020. Mr. Zhou has complied with Rule 3.29 of the Listing Rules of taking no less than 15 hours of relevant professional training.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems and internal controls are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has established risk management manual to formulate the risk management process. The staff in all levels within the Group are also required to take the relevant responsibility on the risk management process. With reference to enterprise risk management – integrated framework issued by the Committee of Sponsoring Organisations of the Treadway Commission and the Company's enterprise risk management processes is summarised as follows:

1. Project initiation
2. Risk identification
3. Risk analysis
4. Risk treatment
5. Risk monitoring
6. Risk reporting

CORPORATE GOVERNANCE REPORT

The risk management and internal control systems are reviewed at least annually to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security to ensure appropriateness and effectiveness.

The management, in coordination with division/department heads, assessed the likelihood of risk occurrence, provided treatment plans, and monitored the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2020.

The heads of each core business segment monitor compliance with policies and procedures and the effectiveness of internal control systems in respect of their responsible business segments. The Company also engaged an independent external consulting firm to review and assess the effectiveness of the risk management and internal control systems of the Group during the year ended 31 December 2020. The assessment covers all material controls including financial, operational and compliance controls, as well as risk management functions during the year ended 31 December 2020.

The Audit Committee has reviewed the assessment report with the management, and noted that no significant areas of improvement are brought to its attention. The Company also conducted a review on the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function for the year ended 31 December 2020. Accordingly, the Board was satisfied that the prevailing risk management and internal control systems of the Group are effective and adequate.

The Board, as supported by the Audit Committee as well as the management report, reviewed the effectiveness of risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2020, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and staff qualifications, experiences and relevant resources. Based on the above, the Board is of the view that the Company has established proper risk management and internal control systems which are effective and adequate.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

COMMUNICATION WITH SHAREHOLDERS

The Board considers that effective communication with shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Board also recognizes the importance of timely disclosure of information, which will enable shareholders and investors to make the informed investment decisions.

The various channels via which the Company communicates with its shareholders include interim and annual reports, information on the websites of the Stock Exchange and the Company, annual general meeting and other general meeting that may be convened.

RIGHTS OF SHAREHOLDERS

(i) The right to attend the annual general meeting and to receive information

The annual general meeting of the Company provides opportunity for shareholders to communicate directly with the Directors. The Chairman and the chairman of the Board committees will attend the annual general meeting to answer shareholders' questions. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval. The external auditor of the Company will also attend the annual general meeting to answer questions about the conduct of the audit, the preparation and contents of the auditor's report, the accounting policies and auditor independence.

Copies of the reporting documents, including financial statements, the Directors' report and the auditor's report must be sent to members at least 21 working days before the annual general meeting of the Company.

(ii) The right to convene an extraordinary general meeting

Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition.

If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to the requisitionists by the Company.

(iii) The voting powers at the shareholders' meetings

Every shareholder has the right to vote at the shareholders meetings subject to provisions of the Bye-laws.

(iv) The power to elect and re-elect Directors and auditors

The shareholders could hold individual Directors (or the Board as a whole) to account for their actions by voting against their re-election. The Bye-laws provides at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of 3, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

For the Directors to retire by rotation, and if they wish, they may submit themselves for re-election at the annual general meeting. The retiring Directors are eligible for reappointment to the office. Without the prescribed approval of its shareholders, the Company shall not agree to any provision under which a director's term of employment exceeds or may exceed three years.

The shareholders also have the right to approve (or reject) the appointment of the auditors each year. The Company may by an ordinary resolution passed at a general meeting remove a person from the office of auditor despite any agreement between the person and the Company or anything in the Memorandum of Association.

(v) The right to receive information of the Company

The Company shall keep shareholders informed of certain developments and to obtain shareholder approval for certain transactions in accordance with the Listing Rules. In these cases, the Company must communicate with its shareholders and seek their support.

(vi) The right to communicate with the Company

The Chairman or the executive Director should ensure that the views of the shareholders are communicated to the Board as a whole and the Chairman or the executive Director should discuss strategy and governance with the major shareholders.

Non-executive Directors should be given the opportunity to attend general meetings with major shareholders, and should be expected to attend general meetings if requested by major shareholders.

CONSTRUCTIVE USE OF GENERAL MEETINGS

(i) Effectiveness of general meetings

Shareholders should be given the opportunity to send in written questions before the meeting. There should be a circulation of a brief summary of points raised at the annual general meeting to all shareholders after the event. The Board should dispatch a circular accompanying the annual general meeting notice, which contains comprehensive information on the business to be transacted at the meeting, together with summary procedure governing voting at the annual general meeting and frequently asked questions regarding voting procedures.

The Company should arrange for the notice of the annual general meeting and the related papers to be sent to the shareholders at least 21 working days before the meeting. For other general meetings this should be at least 14 working days in advance.

(ii) Giving shareholders an opportunity to ask questions

The Chairman should attend the annual general meeting. He/she should also invite the chairmen of the audit, nomination and remuneration committees and any other committees (as appropriate) to be available to answer questions at the annual general meeting. In addition, independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders.

(iii) Voting procedure

At any general meeting, the Company proposes a separate resolution on each substantially separate issue and in particular proposes a resolution at the annual general meeting relating to the report and accounts. For each resolution, proxy appointment forms should provide shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote.

At any general meeting there should also be a separate resolution to each substantially separate issue. The Company should avoid “bundling” resolutions unless they are interdependent and linked forming one significant proposal. Where the resolutions are “bundled”, the Company should explain the reasons and material implications in the notice of meeting.

In the context of voting by proxy and poll results, the Company should ensure that all valid proxy appointments received are properly recorded and counted. For each resolution, after a vote has been taken, except where taken on a poll, the Company should ensure that the following information is given at the meeting and made available as soon as reasonably practicable on a website which is maintained by or on behalf of the company.

The Company should announce the poll results as soon as possible and at least 30 minutes before the commencement of the Exchange’s morning session or any pre-opening session on the business day following the general meeting. The poll results announcement must include: the number of shares entitling the holder to attend and vote at the general meeting; shares entitling the holder to attend and abstain from voting in favour; shares of holders that are required under the Listing Rules to abstain from voting; shares actually voted for a resolution and shares actually voted against a resolution.

SHAREHOLDERS’ ENQUIRIES

Shareholders should direct their questions about their shareholdings to the company’s registrar, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

Shareholders and the investment community may at any time make a request for the company’s publicly available information. The designated contacts and addresses to enable them to make query in respect of the company are:

Contact: the Board of Directors
Fax: 2851 3055
Address: 28th floor of Agricultural Bank of China Tower, 50 Connaught Road Central, Hong Kong

CORPORATE GOVERNANCE REPORT

CORPORATE WEBSITE

The Company's website is <https://pacray.etnet.com.hk>.

Information submitted by the Company to the Stock Exchange is also posted as soon as practicable on the Company's website. Such information includes financial statements, results announcements, circulars and notices of general meetings and associated explanatory documents, etc. All presentation materials provided in relation to the Company's annual general meeting and results announcement each year should be made available on the Company's website as soon as practicable after their release.

DIVIDEND POLICY

The Company adopted a policy on payment of dividends (the "**Dividend Policy**") in compliance with the CG Code, which establishes an appropriate procedure on declaring and recommending the dividend payment of the Company.

The Company may declare and pay dividends to the shareholders of the Company by way of cash or by other means that the Board of the Company considers appropriate. It is the policy of the Board, in recommending dividends, to allow the Shareholders to participate in the Company's profits, and at the same time, to ensure the Company to retain adequate reserves for future growth.

Factors to be considered

The Company's decision to declare or to pay any dividends in the future, and the amount of such dividends will depend upon, among other things, the current and future operations, financial condition, liquidity position and capital requirements of the Group, as well as dividends received from the Company's subsidiaries and associates, which in turn will depend on the ability of those subsidiaries and associates to pay a dividend. In addition, any final dividends for a financial year will be subject to the approval of the Shareholders.

General Principle

The declaration and payment of dividends by the Company is also subject to any restrictions under the laws of Bermuda, the laws of Hong Kong, the Company's articles of association, Bye-laws and any applicable laws, rules and regulations.

Review of the Dividend Policy

Whilst this Dividend Policy reflects the Board's current views on the financial and cash-flow position of the Group, the Board will continue to review this Dividend Policy from time to time and the Board may exercise its sole and absolute discretion to update, amend and/or modify this Dividend Policy at any time as it deems fit and necessary. There is no assurance that dividends will be declared or paid in any particular amount for any given period. The Dividend Policy shall in no way constitute a legally binding commitment by the Company that any dividend will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

CONSTITUTIONAL DOCUMENTS

There was no change in the Company's constitutional documents during the year ended 31 December 2020. An up-to-date version of the Company's Bye-laws are available on the websites of the Company and the Stock Exchange.



To the shareholders of PacRay International Holdings Limited

(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of PacRay International Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 74 to 160, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of PacRay International Holdings Limited

(Incorporated in Bermuda with limited liability)

Key Audit Matter

How our audit addressed the Key Audit Matter

Expected credit losses trade and bills receivables

The carrying value of the Group's trade and bills receivables as at 31 December 2020 amounted to HK\$23,359,000, representing 15% of the Group's total assets as at 31 December 2020. The loss allowance charged to the statement of profit or loss for the year was HK\$139,000, and the cumulative loss allowance for the trade and bills receivables carried as at 31 December 2020 was HK\$312,000. The loss allowance for the impairment of trade and bills receivables is maintained to reduce the Group's trade and bills receivables to their estimated recoverable amounts. Management evaluates the estimated loss allowance based on historical repayment behavior of debtors, ageing profile, specific information on individual customers as well as experience with collection trends, and current economic and business conditions. The management's continued refinement of the impairment of trade and bills receivables based on known customer information can provide a significant change in estimate between periods.

We focused the impairment assessment of the trade and bills receivables as a key audit matter because of the material amounts involved, the significant judgement and assumptions involved in the determination of loss allowance under the expected credit losses model.

The Group's accounting policies and disclosures on trade and bills receivables and loss allowance for expected credit losses are set out in notes 3, 4 and 23 to the financial statements.

Our procedures in relation to management's judgements used in the recoverability of trade and bills receivables included:

- Understanding and evaluating the operating effectiveness of key controls such as credit control, debt collection and estimate of expected credit loss;
- Testing on sample basis the ageing of trade and bills receivables as at year end;
- In respect of trade and bills receivables past due, addition procedures were performed to evaluate their historical progress payment records, settlement plan, assessing whether the customers are experiencing financial difficulties, default in payments with reference to available information provided;
- Assessing the competency, objectivity and independent of the external valuer used by management and discussed with the external valuer their work scope, and assessed the appropriateness of the valuation methodology; and
- Assessing whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk.

To the shareholders of PacRay International Holdings Limited

(Incorporated in Bermuda with limited liability)

Key Audit Matter

How our audit addressed the Key Audit Matter

Impairment assessment of loans receivables

As at 31 December 2020, the carrying value of the Group's loans receivables amounted to HK\$6,490,000, the loss allowance charged to the statement of profit or loss for the year was HK\$2,013,000, and the cumulative loss allowance of loans receivables carried as at 31 December 2020 was HK\$2,136,000. The loss allowance for impairment of loans receivables to their estimated recoverable amount. Significant management judgement and estimates are required in determining the impairment losses of loans receivables under the expected credit losses model in accordance with HKFRS 9. Management applied the general approach in calculating expected credited losses for the loans receivables and engaged an external valuer to assess the credit risk of each borrower and prepare the expected credit loss calculations. The external valuer applied various elements, which involved specific information on individual debtors, forward-looking information and historical payment records in assessing the expected credit losses.

Due to the significance of loans receivables and the corresponding uncertainty inherent in such an estimate, we considered this as a key audit matter.

The Group's relevant accounting policies and disclosures are set out in notes 3, 4 and 25 to the financial statements.

Our procedures to assess the impairment assessment of loans receivable included:

- Understanding and evaluating the operating effectiveness of key internal controls over the approval, recording, collection and monitoring of loans receivables;
- Assessing the appropriateness of evaluating the judgements and assumptions used for the impairment and testing the loans receivables ageing analysis.
- Evaluating the information used for management's assessment of the expected credit loss allowance by comparing to supportable evidence about the historical payment records and subsequent cash collection performance based on available information provided by the management;
- Assessing the competency, objectivity and independent of the external valuer used by management and discussed with the external valuer their work scope, and assessed the appropriateness of the valuation methodology; and
- Assessing whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of PacRay International Holdings Limited

(Incorporated in Bermuda with limited liability)

Key Audit Matter

How our audit addressed the Key Audit Matter

Impairment assessment of interests in associates

As at 31 December 2020, the Group held a 20.2% interests in associates with a carrying amount of HK\$27,944,000 and included within the carrying amount of the associates is goodwill of HK\$12,723,000 arising from the acquisition during the year.

Management performed an impairment test on the investment in associates with reference an external valuer was engaged by the Group to estimate its value-in-use, using a discounted cash flow model with a forecast complied by the management.

In carrying out the impairment assessment, significant judgement and assumptions are required to estimate the value in use based on the forecasted future cash flows of the business of an associate. Management has assessed and concluded that there was no impairment in respect of its interests in associates as at 31 December 2020.

We focused the impairment assessment of interests in associates as a key audit matter because of the material amounts involved, level of judgement and significant involved in the calculation of the value in use.

The Group's relevant accounting policies and disclosures are set out in notes 3, 4 and 18 to the financial statements.

Our procedures to assess the impairment assessment of interests in associates included:

- Assessing the competency, objectivity and independent of the external valuer used by management and discussed with the external valuer their work scope, and assessed the appropriateness of the valuation methodology, including the discount and growth rates with reference to market information;
- Verifying the accuracy and consistency of the data used in the value in use calculations against the strategic business plans approved by the management of the associates;
- Testing the arithmetical accuracy of the value in use calculation; and
- Evaluating the adequacy and appropriateness of the disclosures regarding these matters in the consolidation financial statements.

To the shareholders of PacRay International Holdings Limited

(Incorporated in Bermuda with limited liability)

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors 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.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of PacRay International Holdings Limited

(Incorporated in Bermuda with limited liability)

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

To the shareholders of PacRay International Holdings Limited

(Incorporated in Bermuda with limited liability)

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Cheng Po Yuen.

Zenith CPA Limited

Certified Public Accountants

Cheng Po Yuen

Practising Certificate Number: P04887

Hong Kong, 30 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2020

| | Notes | 2020 HK\$'000 | 2019 HK\$'000 |
|---|-------|-----------------------|------------------|
| REVENUE | 6 | 92,647 | 74,339 |
| Cost of sales | | (68,682) | (54,538) |
| Gross profit | | 23,965 | 19,801 |
| Other income and gains, net | 7 | 15,762 | 4,981 |
| Selling and distribution costs | | (1,070) | (1,277) |
| General and administrative expenses | | (39,593) | (52,824) |
| Interest on lease liabilities | | (518) | (657) |
| (Impairment)/reversal of impairment of financial assets | | (6,106) | 7,623 |
| Share of profits and losses of associates | | 2,740 | – |
| LOSS BEFORE TAX | 8 | (4,820) | (22,353) |
| Income tax expense | 11 | (733) | (361) |
| LOSS FOR THE YEAR | | (5,553) | (22,714) |
| Attributable to: | | | |
| Owners of the parent | | (5,495) | (21,063) |
| Non-controlling interests | | (58) | (1,651) |
| | | (5,553) | (22,714) |
| LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 13 | HK(1.58) cents | HK(6.26) cents |
| – Basic and diluted | | | |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| LOSS FOR THE YEAR | (5,553) | (22,714) |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | |
| Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operations | 2,653 | (853) |
| Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods: | | |
| Equity investments designed at fair value through other comprehensive income: | | |
| Changes in fair value | (10,779) | (96) |
| OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX | (8,126) | (949) |
| TOTAL COMPREHENSIVE LOSS FOR THE YEAR | (13,679) | (23,663) |
| Attributable to: | | |
| Owners of the parent | (13,621) | (22,012) |
| Non-controlling interests | (58) | (1,651) |
| | (13,679) | (23,663) |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

| | Notes | 2020 HK\$'000 | 2019 HK\$'000 |
|---|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 14 | 2,751 | 4,038 |
| Investment properties | 15 | 30,328 | – |
| Right-of-use assets | 16(a) | 5,092 | 16,557 |
| Intangible assets | 17 | – | 2,087 |
| Investments in associates | 18 | 27,944 | – |
| Equity investments designated at fair value through other comprehensive income | 19 | 12,321 | 23,100 |
| Deferred tax assets | 20 | 646 | 607 |
| Long-term deposits | 24 | 211 | 3,335 |
| Total non-current assets | | 79,293 | 49,724 |
| CURRENT ASSETS | | | |
| Inventories | 22 | 4,041 | 12,432 |
| Finance lease receivable | 21 | 3,428 | 5,668 |
| Trade and bills receivables | 23 | 23,359 | 54,299 |
| Prepayments, other receivables and other assets | 24 | 12,609 | 13,836 |
| Loans receivables | 25 | 6,490 | 18,667 |
| Financial assets at fair value through profit or loss | 26 | 150 | 1,545 |
| Tax recoverable | | 167 | 156 |
| Cash and cash equivalents | 27 | 28,031 | 8,516 |
| Total current assets | | 78,275 | 115,119 |
| CURRENT LIABILITIES | | | |
| Trade payables | 28 | 23,227 | 27,938 |
| Other payables and accruals | 29 | 19,414 | 22,230 |
| Lease liabilities | 16(b) | 5,620 | 12,466 |
| Tax payable | | 1,954 | 661 |
| Total current liabilities | | 50,215 | 63,295 |
| NET CURRENT ASSETS | | 28,060 | 51,824 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 107,353 | 101,548 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

| | Notes | 2020 HK\$'000 | 2019 HK\$'000 |
|--|-------|------------------|------------------|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 107,353 | 101,548 |
| NON-CURRENT LIABILITIES | | | |
| Lease liabilities | 16(b) | (67) | (5,637) |
| NET ASSETS | | 107,286 | 95,911 |
| EQUITY | | | |
| Equity attributable to owners of parent | | | |
| Share capital | 30 | 37,025 | 33,659 |
| Other reserves | | 111,597 | 98,674 |
| Accumulated losses | | (41,336) | (35,841) |
| | | 107,286 | 96,492 |
| Non-controlling interests | | — | (581) |
| Total equity | | 107,286 | 95,911 |

Xu Yinsheng
Director

Li Weina
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

| | Attributable to owners of the parent | | | | Non-controlling interests | Total equity |
|---|--------------------------------------|-----------------------|--------------------|----------------|---------------------------|----------------|
| | Share capital | Other reserves | Accumulated losses | Total | | |
| | HK\$'000 (note 30) | HK\$'000 (note 31) | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2019 | 33,659 | 99,467 | (14,778) | 118,348 | - | 118,348 |
| Loss for the year | - | - | (21,063) | (21,063) | (1,651) | (22,714) |
| Other comprehensive loss for the year: | | | | | | |
| Changes in fair value of equity investments designed at fair value through other comprehensive income | - | (96) | - | (96) | - | (96) |
| Exchange differences on translation | - | (853) | - | (853) | - | (853) |
| Total comprehensive loss for the year | - | (949) | (21,063) | (22,012) | (1,651) | (23,663) |
| Acquisition of non-controlling interest | - | - | - | - | 1,002 | 1,002 |
| Capital contribution from non-controlling shareholders | - | 156 | - | 156 | 68 | 224 |
| At 31 December 2019 and 1 January 2020 | 33,659 | 98,674 | (35,841) | 96,492 | (581) | 95,911 |
| Loss for the year | - | - | (5,495) | (5,495) | (58) | (5,553) |
| Other comprehensive loss for the year: | | | | | | |
| Changes in fair value of equity investments designed at fair value through other comprehensive income | - | (10,779) | - | (10,779) | - | (10,779) |
| Exchange differences on translation | - | 2,653 | - | 2,653 | - | 2,653 |
| Total comprehensive loss for the year | - | (8,126) | (5,495) | (13,621) | (58) | (13,679) |
| Disposal of subsidiaries (note 34) | - | (156) | - | (156) | 639 | 483 |
| Issue of shares (note 30) | 3,366 | 21,205 | - | 24,571 | - | 24,571 |
| At 31 December 2020 | 37,025 | 111,597 | (41,336) | 107,286 | - | 107,286 |

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

| | Notes | 2020 HK\$'000 | 2019 HK\$'000 |
|--|-------|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Loss before tax | | (4,820) | (22,353) |
| Adjustments for: | | | |
| Interest income | 7 | (482) | (1,350) |
| Share of profits and losses of associates | | (2,740) | – |
| Depreciation of right-of-use assets | 8 | 10,031 | 7,887 |
| Depreciation of property, plant and equipment | 8 | 942 | 1,160 |
| Loss on disposal of property, plant and equipment | 7 | 291 | 225 |
| Fair value loss/(gain) on financial assets at fair value through profit or loss | 7 | 1,395 | (750) |
| Gain on disposal of subsidiaries | | (4,371) | – |
| Impairment/(reversal of impairment) of trade receivables | 8 | 139 | (2,292) |
| Impairment of finance lease receivable | 8 | 2,667 | – |
| Impairment/(reversal of impairment) of loans receivables | 8 | 2,013 | (3,462) |
| Impairment/(reversal of impairment) of other receivables | 8 | 1,287 | (1,869) |
| Provision/(reversal of provision) for inventories | 8 | 1,023 | (794) |
| Interest on lease liabilities | | 518 | 657 |
| | | 7,893 | (22,941) |
| Decrease/(increase) in inventories | | 979 | (3,231) |
| Increase in finance lease receivables | | (243) | – |
| Decrease in loans receivables | | 2,800 | 3,700 |
| Decrease in trade and bills receivables | | 9,166 | 114 |
| (Increase)/decrease in prepayments, other receivables and other assets | | (3,946) | 5,239 |
| Increase in trade payables | | 391 | – |
| Increase in other payables and accruals | | 5,835 | 9,443 |
| Cash used in operations | | 22,875 | (7,676) |
| Interest element on lease liabilities | | (518) | (657) |
| Oversea income tax refunded, net | | 527 | 293 |
| Net cash flows used in operating activities | | 22,884 | (8,040) |

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

| | Notes | 2020 HK\$'000 | 2019 HK\$'000 |
|--|-------|------------------|------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | | (14) | (843) |
| Proceeds from disposal of items of property, plant and equipment | | – | 63 |
| Proceeds from disposal of subsidiaries | 34 | 1,726 | – |
| Proceeds from disposals of financial assets at fair value through profit or loss | | – | 1,359 |
| Refundable deposit paid | | – | (3,058) |
| Interest received | | 58 | 1,350 |
| Acquisition of subsidiaries | 33 | – | (1,662) |
| Net cash flows from/(used in) investing activities | | 1,770 | (2,791) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Principal portion of lease payments | | (10,956) | (6,341) |
| Increase in other borrowings | | 5,938 | – |
| Capital contribution from non-controlling shareholders | | – | 224 |
| Net Cash flows used in financing activities | | (5,018) | (6,117) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents at beginning of year | | 8,516 | 25,601 |
| Effect of foreign exchange rate changes, net | | (121) | (137) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | 28,031 | 8,516 |

1 CORPORATE AND GROUP INFORMATION

PacRay International Holdings Limited (the “Company”) was incorporated in Bermuda as an investment holding company with limited liability under the Companies Act 1981 of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is 28/F, Agricultural Bank of China Tower, 50 Connaught Road Central, Hong Kong. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

During the year, the Company and its subsidiaries (collectively referred hereinafter as the “Group”) are involved in the following principal activities: the design and sales of integrated circuits and semi-conductor parts, finance lease services, money lending, aviation and yacht business management and property investment.

In the opinion of the directors, the holding company and ultimate holding company of the Company is Zhongying International Holding Group Limited, which is incorporated in the Hong Kong.

Information about subsidiaries

Particulars of the Company’s subsidiaries are as follows:

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|--|----------|---|
| | | | Direct | Indirect | |
| Able Summit Investment Limited | British Virgin Islands | US\$1 | 100% | – | Investment holding |
| Brilliant Express Global Investment Limited | British Virgin Islands | US\$1 | – | 100% | Investment holding |
| Fasty Technology Limited | Hong Kong | HK\$1 | – | 100% | Inactive |
| PacRay Tourism Development (Hong Kong) Limited | Hong Kong | HK\$10,000 | 100% | – | Yacht management |
| International Business Aviation (Hong Kong) Limited | Hong Kong | HK\$2 | 50% | 50% | Aircraft management |
| Shanghai SyncMOS Semiconductor Company Limited# | PRC | US\$7,000,000 | – | 100% | Design, distribution and trading of integrated circuit products and provision of related agency services in the PRC |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|--|--|----------|------------------------|
| | | | Direct | Indirect | |
| Sunny Fast International Investment Limited | British Virgin Islands | US\$1 | 100% | – | Investment holding |
| SyncMOS Technologies, Inc. (BVI) | British Virgin Islands | US\$1 | 100% | – | Investment holding |
| Magic Display Technology Holdings Limited | Hong Kong | HK\$1 | 100% | – | Inactive |
| Total Way Technology Limited | Hong Kong | HK\$1 | – | 100% | Trading |
| Wellba Investment Limited | Hong Kong | HK\$2 ordinary shares and HK\$2,000,001 non-voting deferred shares | 50% | 50% | Inactive |
| Win Win Property Investments Limited | British Virgin Islands | US\$1 | 100% | – | Investment holding |
| Wit Sky Limited | British Virgin Islands | US\$100 | – | 100% | Investment holding |
| Ideal Best Limited (“Ideal Best”) | British Virgin Islands | US\$1 | 100% | – | Investment holding |
| Ideal Best LLC | Northern Mariana Island | US\$100 | – | 100% | Investment property |
| AST 3G Limited | Hong Kong | HK\$10,000 | – | 100% | Investment holding |
| Solomon International Leasing (Tianjin) Co., Ltd [#] | PRC | US\$18,000,000 | – | 100% | Finance lease services |
| PacRay Flight Service (Hong Kong) Limited | Hong Kong | HK\$1 | 100% | – | Inactive |
| PacRay Aviation Material Leasing (Hong Kong) Limited | Hong Kong | HK\$1 | 100% | – | Inactive |

1 CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|--|---|--|--|----------|----------------------|
| | | | Direct | Indirect | |
| Liaoning Pacray Tourism Development Limited* (遼寧太睿旅遊發展有限公司) [#] | PRC | USD5,000,000 | 100% | - | Inactive |
| Liaoning Pacray Aviation Material Leasing Limited (遼寧太睿航材設備租賃管理有限公司) | PRC | RMB5,000,000 | 100% | - | Inactive |
| China Tibetan Tea Village Co., Limited | Hong Kong | HK\$1 | 100% | - | Investment holding |
| Yaan Tibetan Tea Village Co., Limited (雅安藏茶村發展有限公司) [#] | PRC | RMB50,000,000 | - | 100% | Investment holding |
| Yaan Tibetan Tea Village Beverage Co., Limited* (雅安藏茶村飲品有限公司) | PRC | RMB10,000,000 | - | 100% | Inactive |
| Yaan Tibetan Tea Village Tea Co., Limited* (雅安藏茶村茶葉有限公司) | PRC | RMB20,000,000 | - | 100% | Inactive |
| Yaan Tibetan Tea Village Travel Culture Limited* (雅安藏茶村文旅有限公司) | PRC | RMB10,000,000 | - | 100% | Inactive |

* For identification purposes only

[#] The entity is registered as wholly-foreign-owned enterprise under PRC law.

As at 31 December 2020, the Group is committed to make capital contribution as registered share capital to certain of its subsidiaries in the PRC of RMB50,000,000, RMB20,000,000, RMB10,000,000 and RMB10,000,000 by 15 September 2040, 16 September 2040, 23 October 2040, and 23 October 2040, respectively.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments which have been measured at fair value. These financial statements presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand (“HK\$’000”) except which otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or/accumulated losses, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the Conceptual Framework for Financial Reporting 2018 and the following revised HKFRSs for the first time for the current year's financial statements.

| | |
|---|--|
| Amendments to HKFRS 3 | <i>Definition of a Business</i> |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | <i>Interest Rate Benchmark Reform</i> |
| Amendment to HKFRS 16 | <i>Covid-19-Related Rent Concessions (early adopted)</i> |
| Amendments to HKAS 1 and HKAS 8 | <i>Definition of Material</i> |

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

- (a)** *Conceptual Framework for Financial Reporting 2018* (the “Conceptual Framework”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b)** Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

- (c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“RFR”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any significant impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.
- (d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group’s offices have been reduced or waived by the lessors as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of HK\$664,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to corresponding right-of-use assets for the year ended 31 December 2020.

- (e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|--|
| Amendments to HKFRS 3 | <i>Reference to the Conceptual Framework²</i> |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | <i>Interest Rate Benchmark Reform – Phase 2¹</i> |
| Amendments to HKFRS 10 and HKAS 28 (2011) | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i> |
| HKFRS 17 | <i>Insurance Contracts³</i> |
| Amendments to HKFRS 17 | <i>Insurance Contracts^{3, 6}</i> |
| Amendments to HKAS 1 | <i>Classification of Liabilities as Current or Non-current^{3, 5}</i> |
| Amendments to HKAS 16 | <i>Property, Plant and Equipment: Proceeds before Intended Use²</i> |
| Amendments to HKAS 37 | <i>Onerous Contracts – Cost of Fulfilling a Contract²</i> |
| <i>Annual Improvements to HKFRSs 2018-2020</i> | Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 ² |

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

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ No mandatory effective date yet determined but available for adoption

⁵ As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

⁶ As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the Conceptual Framework for Financial Reporting issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information. As the Group does not have any financial assets or financial liabilities based on any benchmark rates subject to interest rate benchmark reform, the amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to HKFRSs 2018-2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- *HKFRS 9 Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- *HKFRS 16 Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture, the retained interest is not remeasured. Instead, the investment continues to be accounted for under equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement

The Group measures its investment properties and equity investments at fair value at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

- (b) the party is an entity where any of the following conditions applies: *(Continued)*
- (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment is stated at historical cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

| | |
|-----------------------------------|--|
| Leasehold improvements | 4 – 5 years or shorter of the lease term |
| Furniture, fixtures and equipment | 4 – 5 years |
| Motor vehicles | 5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

Investment properties are interest in land and buildings held to earn rental income and/or for capital appreciation, rather than for use the production or supply of goods or services or for administrative purposes's or for sale in the ordinary course of business, such properties are measured initially at cost, including transaction cost. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the disposal of an investment property are recognised in the statement of profit or loss in the year of the disposal.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of two to five years. Cost associated with maintaining computer software programmes are recognised as expenses as incurred.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

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

The Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms of 2 to 3 years.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for leases of low-value assets to leases that are considered to be of low value. (Alternatively) When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

The Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

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. With the exception of trade and bills receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade and bills receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

The Group recognises an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

General approach *(Continued)*

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below:

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component, the Group chooses as its accounting policy to adopt the general approach in calculating ECLs with policies as described above.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include lease liabilities and trade and other payables.

Subsequent measurement

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, financial liabilities are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other indirect costs and related production overheads based on normal operating capacity. Net realisable value is based on estimated selling price in the ordinary course of business less applicable variable selling and distribution costs.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Governments grants are recognised at their fair value where there is reasonable assumed that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense items, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensates, are expensed.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

- (a) Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of goods.
- (b) Aviation and yacht businesses management service fees are recognised when such service are rendered.

Revenue from other sources

- (a) *Finance lease income*

Finance lease income is recognised on an accrual basis using effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the next investment of the finance lease or a shorter period, when appropriate, to the net carrying amount of the next investment of the finance lease.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

(b) Interest income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

(c) Dividend income

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date. Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(b) Bonus plans

Provision for bonus plans is recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

(c) Retirement benefits schemes

The Group contributes to various employee retirement benefit plans organised by municipal and provincial governments in Mainland China for its PRC based employees. Under these plans, the municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees of the Group. Contributions to these plans are expensed as incurred. The Group has no further payment obligations once the contributions have been paid.

The Group's contributions to the Mandatory Provident Fund Scheme established under the Hong Kong Mandatory Provident Fund Schemes Ordinance are expensed as incurred. Both the Group and its employees in Hong Kong are required to contribute 5% of each individual's relevant income with a maximum amount of HK\$1,500 per month as a mandatory contribution. Employees may also elect to contribute more than the minimum as a voluntary contribution. The assets of the scheme are held separately from those of the Group and managed by independent professional fund managers. The Group has no further payment obligations once the contributions have been paid.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of the Group's overseas subsidiaries, are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimates and judgements used are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(Continued)

Inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value when there is an objective evidence that the cost of inventories may not be recoverable. The cost of inventories may not be recoverable if those inventories are aged and damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs to be incurred to make the sales have increased.

The amount written off to the statement of profit or loss is the difference between the carrying value and net realisable value of the inventories. In determining whether the inventories can be recoverable, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

Impairment of loans receivables

The Group establishes, through charges against the statement of profit or loss, impairment allowance in respect of estimated incurred loss in loans receivables.

Impairment of loans receivables is assessed on ECL basis under general approach. Assessment are done based on the Group's historical credit loss experience, general conditions, internal credit ratings and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions. The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's loans receivables are disclosed in note 25 to the financial statements.

Provision for ECL on trade receivables

The Group uses a provision matrix to calculate ECL's for trade receivables. The provision rates are based on day past due for grouping of various customers segments that have similar loss patterns.

The provision matrix is mainly based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rate are updated and changes in the forward-looking estimates are analysed.

The assessment of correlation among historical observed rates, forecast economic conditions and ECLs is a significant estimate. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 23 to the financial statements.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(Continued)

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

- (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;
- (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the dates of the transactions that occurred at those prices; and discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amount of investment properties at 31 December 2020 was HK\$30,328,000. Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 15 to the financial statements.

Impairment of investments in associates

As at 31 December 2020, the Group's carrying value of its investments in Red Power Group, an associate of the Group, amounted to HK\$27,944,000. For impairment testing, the Group has performed an impairment assessment and calculated the value in use of Red Power Group, using a discounted cash flow model with a forecast compiled by the management of Red Power Group. In carrying out the impairment assessments, significant judgements and assumptions are required to estimate the value in use which was estimated based on a management forecast. Further details are set out in note 18 to the financial statements.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(Continued)

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

5 OPERATING SEGMENT INFORMATION

For management purpose, the Group is organised into business units based on their products and services and has five reportable operating segments as follows:

- (i) design and sales of integrated circuits and semi-conductor parts used in industrial and household measuring tools and display products;
- (ii) provision of finance lease services;
- (iii) aviation and yacht business management services;
- (iv) property investment; and
- (v) the "Headquarter" segment comprises principally the Group's corporate administrative and investment functions performed by headquarter.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 OPERATING SEGMENT INFORMATION *(Continued)*

These main operations are the basis on which the management identifies the primary segment information.

The management regularly reviews the basis in order to make decisions about resources to be allocated to the segment and assess its performance.

| | Design and sales of integrated circuits HK\$'000 | Finance lease services HK\$'000 | Aviation and yacht business management HK\$'000 | Property investment HK\$'000 | Headquarter HK\$'000 | Total HK\$'000 |
|--|---|------------------------------------|--|---------------------------------|-------------------------|-------------------|
| Year ended 31 December 2020 | | | | | | |
| Revenue from external customers | 31,105 | 828 | 60,714 | - | - | 92,647 |
| Operating (loss)/profit | 3,896 | (5,977) | 4,188 | - | (7,409) | (5,302) |
| Interest income | 52 | 2 | 1 | - | 427 | 482 |
| (Loss)/profit before income tax | 3,948 | (5,975) | 4,189 | - | (6,982) | (4,820) |
| Other segment information: | | | | | | |
| Depreciation of property, plant and equipment | (728) | (15) | - | - | (199) | (942) |
| Depreciation of right-of-use assets | (655) | - | - | - | (9,376) | (10,031) |
| Gain on disposal of subsidiaries | - | - | - | - | 4,371 | 4,371 |
| Share of profits of an associate | - | - | - | - | 2,740 | 2,740 |
| Provision of inventories | (1,023) | - | - | - | - | (1,023) |
| Reversal of impairment/(impairment) of financial assets | 44 | (5,615) | (183) | - | (352) | (6,106) |
| Fair value losses on financial assets at fair value through profit or loss | - | - | - | - | (1,395) | (1,395) |
| Capital expenditures* | 5 | - | - | - | 9 | 14 |
| Segment assets | 29,049 | 10,268 | 25,429 | 30,328 | 62,494 | 157,568 |
| Segment liabilities | 5,279 | 526 | 24,990 | - | 19,487 | 50,282 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 OPERATING SEGMENT INFORMATION *(Continued)*

| | Design and sales of integrated circuits HK\$'000 | Finance lease services HK\$'000 | Aviation business management HK\$'000 | Trading of construction materials HK\$'000 | Headquarter HK\$'000 | Total HK\$'000 |
|--|--|--|--|---|-------------------------|-------------------|
| Year ended 31 December 2019 | | | | | | |
| Revenue from external customers | 30,536 | 856 | 42,947 | - | - | 74,339 |
| Operating (loss)/profit | (4,769) | (1,822) | 6,048 | - | (23,160) | (23,703) |
| Interest income | 14 | - | 1 | - | 1,335 | 1,350 |
| (Loss)/profit before income tax | (4,755) | (1,822) | 6,049 | - | (21,825) | (22,353) |
| Other segment information: | | | | | | |
| Depreciation of property, plant and equipment | (943) | (23) | - | - | (194) | (1,160) |
| Depreciation of right-of-use assets | (1,860) | - | (541) | - | (5,486) | (7,887) |
| Reversal of provision of inventories | 794 | - | - | - | - | 794 |
| Reversal of impairment/(impairment) of financial assets | 79 | 1,551 | (103) | 2,316 | 3,780 | 7,623 |
| Fair value gains on financial assets at fair value through profit or loss | - | - | - | - | 750 | 750 |
| Capital expenditures* | 523 | - | 34 | - | 286 | 843 |
| Segment assets | 41,061 | 15,821 | 50,975 | - | 56,986 | 164,843 |
| Segment liabilities | 24,599 | 616 | 26,050 | - | 17,667 | 68,932 |

* Capital expenditure consists of additions to property, plant and equipment, excluding assets from the acquisition of subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

(a) Revenue from external customers

| | 2020 HK\$'000 | 2019 HK\$'000 |
|-----------|------------------|------------------|
| Hong Kong | 60,714 | 42,947 |
| PRC | 31,933 | 31,392 |
| | 92,647 | 74,339 |

The revenue information above is based on the locations of the customers.

(b) Non-current assets

| | 2020 HK\$'000 | 2019 HK\$'000 |
|----------------------|------------------|------------------|
| Hong Kong | 17,056 | 41,081 |
| PRC | 31,263 | 8,036 |
| The Island of Saipan | 30,328 | – |
| | 78,647 | 49,117 |

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets.

Information about major customers

During the year ended 31 December 2020, revenue of HK\$58,393,000 (2019: HK\$42,947,000) was derived solely from the aviation business management to a single customer, which individually accounted for over 10% of the Group's total revenue.

6 REVENUE

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| <i>Revenue from contracts with customers</i> | | |
| Sales of integrated circuits | 31,105 | 30,536 |
| Aviation business management services | 58,393 | 42,947 |
| Yacht business management services | 2,321 | – |
| | <u>91,819</u> | <u>73,483</u> |
| <i>Revenue from other sources</i> | | |
| Finance lease income | 828 | 856 |
| | <u>92,647</u> | <u>74,339</u> |

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2020

| Segments | Design and sales of integrated circuits HK\$'000 | Aviation and yacht businesses management services HK\$'000 | Total HK\$'000 |
|---|---|---|-------------------|
| Type of goods or services | | | |
| Sale of goods | 31,105 | – | 31,105 |
| Management services | – | 60,714 | 60,714 |
| Total revenue from contracts with customers | <u>31,105</u> | <u>60,714</u> | <u>91,819</u> |
| Geographical markets | | | |
| Hong Kong | – | 60,714 | 60,714 |
| PRC | 31,105 | – | 31,105 |
| Total revenue from contracts with customers | <u>31,105</u> | <u>60,714</u> | <u>91,819</u> |
| Timing of revenue recognition | | | |
| Goods transferred at a point in time | 31,105 | – | 31,105 |
| Services provided over a period of time | – | 60,714 | 60,714 |
| Total revenue from contracts with customers | <u>31,105</u> | <u>60,714</u> | <u>91,819</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 REVENUE *(Continued)*

Revenue from contracts with customers *(Continued)*

(i) Disaggregated revenue information *(Continued)*

For the year ended 31 December 2019

| Segments | Design and sales of integrated circuits HK\$'000 | Aviation business management services HK\$'000 | Total HK\$'000 |
|--|--|--|-------------------|
| Type of goods or services | | | |
| Sale of goods | 30,536 | – | 30,536 |
| Management services | – | 42,947 | 42,947 |
| Total revenue from contracts with customers | <u>30,536</u> | <u>42,947</u> | <u>73,483</u> |
| Geographical markets | | | |
| Hong Kong | – | 42,947 | 42,947 |
| PRC | 30,536 | – | 30,536 |
| Total revenue from contracts with customers | <u>30,536</u> | <u>42,947</u> | <u>73,483</u> |
| Timing of revenue recognition | | | |
| Goods transferred at a point in time | 30,536 | – | 30,536 |
| Services provided over a period of time | – | 42,947 | 42,947 |
| Total revenue from contracts with customers | <u>30,536</u> | <u>42,947</u> | <u>73,483</u> |

6 REVENUE *(Continued)*

Revenue from contracts with customers *(Continued)*

(i) Disaggregated revenue information *(Continued)*

The following table shows the movement in contract liabilities:

| | Sales of goods | |
|--|------------------|------------------|
| | 2020 HK\$'000 | 2019 HK\$'000 |
| Balance at 1 January | 440 | 2 |
| Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year | (440) | (2) |
| Increase in contract liabilities as a result of cash received | 1,717 | 440 |
| Balance at 31 December | 1,717 | 440 |

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 90 days from delivery.

Management services

Revenue is recognised in the amount that equals to the right to invoice with corresponds directly with the value to the customer of the Group's performance to date on a monthly basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 OTHER INCOME AND GAINS, NET

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Interest income | 482 | 1,350 |
| Management fee income | 11,435 | 3,000 |
| Government subsidies* | 1,142 | – |
| Gain on disposal of subsidiaries (note 34) | 4,371 | – |
| Fair value (losses)/gains of financial assets at fair value through profit or loss | (1,395) | 750 |
| Loss on disposal of property, plant and equipment | (291) | (225) |
| Sundry income | 18 | 106 |
| | 15,762 | 4,981 |

* The government subsidies were no unfulfilled conditions or contingencies.

8 LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

| | Notes | 2020 HK\$'000 | 2019 HK\$'000 |
|---|-------|------------------|------------------|
| Cost of inventories sold | | 14,884 | 16,341 |
| Depreciation of property, plant and equipment | 14 | 942 | 1,160 |
| Depreciation of right-of-use assets | 16(a) | 10,031 | 7,887 |
| Auditor's remuneration | | 1,060 | 980 |
| Employee benefits expenses (excluding directors' remuneration (note 9)): | | | |
| Salaries, allowances and benefits in kind | | 17,777 | 18,528 |
| Pension scheme contributions | | 807 | 1,738 |
| | | 18,584 | 20,266 |
| Foreign exchange difference, net | | 39 | 23 |
| Provision/(reversal of provision) for inventories* | | 1,023 | (794) |
| Impairment of finance lease receivable [#] | 21 | 2,667 | – |
| Impairment/(reversal of impairment) of trade and bills receivables [#] | 23 | 139 | (2,292) |
| Impairment/(reversal of impairment) of loans receivable [#] | 25 | 2,013 | (3,462) |
| Impairment/(reversal of impairment) of other receivables [#] | 24 | 1,287 | (1,869) |

* Included in "Cost of sales" in the consolidated statement of profit or loss.

[#] Included in "(Impairment)/reversal of impairment of financial assets" in the consolidated statement of profit or loss.

9 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| Name of director | Salaries, allowances and other benefits | | | | Employer's contribution to retirement benefit | Total |
|---|---|-----------------------|----------|--------------|---|--------------|
| | Fees | Discretionary bonuses | benefits | contribution | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| 2020 | | | | | | |
| Executive directors: | | | | | | |
| Mr. Leung Pok Man | 480 | - | - | - | - | 480 |
| Ms. Lau Mei Ying | 480 | - | - | - | - | 480 |
| Mr. Xu Yinsheng | 480 | - | - | 18 | - | 498 |
| Mr. Liu Shixia (note (v)) | 37 | 72 | - | - | - | 109 |
| Mr. Xu Beinan (note (ix)) | 207 | - | - | 7 | - | 214 |
| Ms. Li Weina (note (x)) | 154 | - | - | 8 | - | 162 |
| | <u>1,838</u> | <u>72</u> | <u>-</u> | <u>33</u> | <u>-</u> | <u>1,943</u> |
| Non-executive director: | | | | | | |
| Mr. Zhou Danqing | 120 | - | - | 6 | - | 126 |
| Independent non-executive directors: | | | | | | |
| Mr. Lee Man To (note (vi)) | 53 | - | - | - | - | 53 |
| Ms. Choi Yee Man (note (vi)) | 53 | - | - | - | - | 53 |
| Dr. Zhang Shengdong | 120 | - | - | - | - | 120 |
| Ms. Ching Ching (note (xi)) | 62 | - | - | - | - | 62 |
| Ms. Weng Yuzhen (note (xii)) | 55 | - | - | - | - | 55 |
| | <u>343</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>343</u> |
| | <u>2,301</u> | <u>72</u> | <u>-</u> | <u>39</u> | <u>-</u> | <u>2,412</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' remuneration *(Continued)*

| Name of director | Fees HK\$'000 | Salaries, allowances and other benefits HK\$'000 | Discretionary bonuses HK\$'000 | Employer's contribution to retirement benefit contributions HK\$'000 | Total HK\$'000 |
|---|------------------|--|--------------------------------------|---|-------------------|
| 2019 | | | | | |
| Executive directors: | | | | | |
| Mr. Liew Fui Kiang (note (ii)) | 20 | 80 | - | - | 100 |
| Mr. Leung Pok Man | 480 | - | - | - | 480 |
| Ms. Lau Mei Ying | 480 | - | - | - | 480 |
| Mr. Wei Xiao (note (i)) | - | 1,747 | - | 17 | 1,764 |
| Mr. Yang Lin (note (iii)) | - | - | - | - | - |
| Mr. Xu Yinsheng (note (iv)) | 326 | - | - | - | 326 |
| Mr. Liu Shixia (note (v)) | 50 | 120 | - | - | 170 |
| | <u>1,356</u> | <u>1,947</u> | <u>-</u> | <u>17</u> | <u>3,320</u> |
| Non-executive director: | | | | | |
| Mr. Zhou Danqing | <u>120</u> | <u>-</u> | <u>-</u> | <u>2</u> | <u>122</u> |
| Independent non-executive directors: | | | | | |
| Mr. Lee Man To | 120 | - | - | - | 120 |
| Ms. Choi Yee Man | 120 | - | - | - | 120 |
| Ms. Zhuge Chang (note (vii)) | 21 | - | - | - | 21 |
| Dr. Zhang Shengdong (note (viii)) | <u>100</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>100</u> |
| | <u>361</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>361</u> |
| | <u>1,837</u> | <u>1,947</u> | <u>-</u> | <u>19</u> | <u>3,803</u> |

Notes:

- (i) Resigned on 3 July 2019
- (ii) Resigned on 15 January 2019
- (iii) Appointed on 15 January 2019
- (iv) Appointed on 25 April 2019
- (v) Appointed on 3 July 2019 and resigned on 14 April 2020
- (vi) Resigned on 8 June 2020
- (vii) Resigned on 4 March 2019
- (viii) Appointed on 4 March 2019
- (ix) Appointed on 14 April 2020 and resigned on 14 August 2020
- (x) Appointed on 14 August 2020
- (xi) Appointed on 23 June 2020
- (xii) Appointed on 17 July 2020

9 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(b) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the financial year (2019: Nil).

(c) Consideration provided to third parties for making available directors' services

During the financial year ended 31 December 2020, the Company does not pay consideration to any third parties for making available directors' services (2019: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled body corporates by and connected entities with such directors

As at 31 December 2020, there are no loans, quasi-loans and other dealing arrangements in favour of directors, controlled body corporates by and controlled entities with such directors (2019: Nil).

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the years ended 31 December 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 FIVE HIGHEST PAID INDIVIDUALS

None of the five highest paid individuals serves as a director during the year (2019: one) of the Company whose emoluments are reflected in Note 9. Details of the remuneration for the year of the remaining five (2019: four) highest paid employees who are neither serves as a director nor chief executive of the Company are as follows:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Salaries, allowances and benefits in kind | 4,633 | 4,477 |
| Discretionary bonuses | 337 | 110 |
| Pension scheme contribution | 120 | 57 |
| | <u>5,090</u> | <u>4,644</u> |

The number of non-director highest paid employees whose remuneration fell within the following bands is as follows:

| | Number of individuals | |
|-------------------------------|-----------------------|----------|
| | 2020 | 2019 |
| Nil – HK\$1,000,000 | 3 | 2 |
| HK\$1,000,001 – HK\$1,500,000 | 2 | 2 |
| | <u>5</u> | <u>4</u> |

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

11 INCOME TAX EXPENSE

The Company is exempted from taxation in Bermuda. Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profit assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

| | 2020 HK\$'000 | 2019 HK\$'000 |
|-------------------------------------|------------------|------------------|
| Current – Hong Kong | 773 | 730 |
| – PRC | – | 40 |
| Over provision in prior years – PRC | (40) | (409) |
| Total tax charge for the year | 733 | 361 |

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using domestic tax rates applicable to loss in the respective countries as follows:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Loss before tax | (4,820) | (22,353) |
| Tax calculated at domestic tax rates applicable to profit in the respective countries | (1,279) | (4,249) |
| Income not subject to tax | (1,344) | (389) |
| Expenses not deductible for tax | 2,507 | 182 |
| Over provision in prior years | (40) | – |
| Profits and losses attributable to associates | (452) | – |
| Tax losses not recognised | 2,425 | 4,817 |
| Tax losses utilised from previous periods | (948) | – |
| Others | (136) | – |
| Income tax expense | 733 | 361 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 DIVIDEND

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

13 LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

(a) Basic

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Loss attributable to ordinary equity holders of the parent used in the basic and diluted loss per share calculation | <u>5,495</u> | <u>21,063</u> |

| | Number of shares | |
|--|------------------|----------------|
| | 2020 '000 | 2019 '000 |
| Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculation | <u>347,806</u> | <u>336,587</u> |

(b) Diluted

The Group has not issued any potentially dilutive ordinary shares during the years ended 31 December 2020 and 2019.

14 PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor Vehicle HK\$'000 | Total HK\$'000 |
|---|---------------------------------------|---|------------------------------|-------------------|
| Cost | | | | |
| At 1 January 2019 | 74 | 9,906 | 970 | 10,950 |
| Additions | 118 | 725 | – | 843 |
| Acquisition of subsidiaries (note 33) | – | 305 | – | 305 |
| Disposals | (89) | (486) | – | (575) |
| Exchange realignment | – | (195) | (6) | (201) |
| At 31 December 2019 and 1 January 2020 | 103 | 10,255 | 964 | 11,322 |
| Additions | – | 14 | – | 14 |
| Disposal of subsidiaries (note 34) | – | (324) | – | (324) |
| Disposals | – | (865) | – | (865) |
| Exchange realignment | – | 552 | 16 | 568 |
| At 31 December 2020 | 103 | 9,632 | 980 | 10,715 |
| Accumulated depreciation | | | | |
| At 1 January 2019 | (74) | (6,310) | (138) | (6,522) |
| Charge for the year (note 8) | (2) | (986) | (172) | (1,160) |
| Disposals | 2 | 285 | – | 287 |
| Exchange realignment | – | 111 | – | 111 |
| At 31 December 2019 and 1 January 2020 | (74) | (6,900) | (310) | (7,284) |
| Charge for the year (note 8) | (7) | (731) | (204) | (942) |
| Disposal of subsidiaries (note 34) | – | 169 | – | 169 |
| Disposal | – | 574 | – | 574 |
| Exchange realignment | – | (474) | (7) | (481) |
| At 31 December 2020 | (81) | (7,362) | (521) | (7,964) |
| Net carrying amount | | | | |
| At 31 December 2020 | 22 | 2,270 | 459 | 2,751 |
| At 31 December 2019 | 29 | 3,355 | 654 | 4,038 |

15 INVESTMENT PROPERTIES

| | 2020 HK\$'000 |
|---|------------------|
| Carrying amount at 1 January | – |
| Acquisition of assets and liabilities (note 32) | <u>30,328</u> |
| Carrying amount at 31 December | <u>30,328</u> |

The Group's investment properties comprises a leasehold land in the Island of Saipan. The directors of the Company have determined that the class of its investment property's asset is leasehold land, based on nature, characteristics and risk of each property.

The Group's investment properties in the Island of Saipan based on valuation performed by BMI Appraisals Limited, an independent professional qualified valuer. The properties in the Island of Saipan was revalued at US\$4,500,000 (equivalent to HK\$30,328,000). Each year, the Group's management decide to appoint which external valuer to be responsible for the external valuation of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed for financial reporting purpose.

Particular of the Group's investment properties is as follows:

| Location | Use | Tenure | Attributable interest of the Group |
|--|-------------|-------------------|--|
| Tract Number 21942-6 located in Capitol Hill , the Island of Saipan | Residential | Medium term lease | 100% |

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

| | Fair value measurement as at 31 December 2020 using | | | Total HK\$'000 |
|---|---|--|--|-------------------|
| | Quoted prices in active markets (Level 1) HK\$'000 | Significant observable inputs (Level 2) HK\$'000 | Significant unobservable inputs (Level 3) HK\$'000 | |
| Recurring fair value measurement for: Leasehold land | – | – | 30,328 | <u>30,328</u> |

15 INVESTMENT PROPERTIES *(Continued)*

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

| | Leasehold land HK\$'000 |
|---|--|
| Carrying amount at 1 January 2020 | – |
| Acquisition of assets and liabilities (note 32) | 30,328 |
| Carrying amount at 31 December 2020 | 30,328 |

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

| Investment properties held by the Group | Valuation techniques | Significant unobservable inputs | Range or weighted average 2020 | Relationship of input to fair value |
|--|---------------------------------|--|---|---|
| Tract Number 21942-6 located in Capitol Hill, the Island of Saipan | Sales comparison method | Estimated market price per square meter (US\$) | 800-1,200 | The higher the market price, the higher the fair value |

Fair value of the Group's investment properties are generally derived using comparison approach based on market comparables of similar properties.

15 INVESTMENT PROPERTIES *(Continued)*

The sales comparison method is adopted by making reference to comparable market transactions in the assessment of the fair value of the investment properties. The approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors, including the transaction date, level of floor, environmental atmosphere, size of apartment and etc.

16 LEASES

The Group as lessee

The Group leases office premises for its daily operations. The lease term is two years, with an option to renew the lease when all term are renegotiated. Lease payments are usually increased annually to reflect current market rentals.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

| | Office premises HK\$'000 |
|--|------------------------------------|
| As at 1 January 2019 | 658 |
| Additions | 22,004 |
| Acquisition of subsidiaries | 1,782 |
| Depreciation charge | <u>(7,887)</u> |
| As at 31 December 2019 and 1 January 2020 | 16,557 |
| Disposal of subsidiaries (note 34) | (807) |
| Depreciation charge | (10,031) |
| Covid-19-related rent concessions from lessors | (664) |
| Exchange realignment | <u>37</u> |
| As at 31 December 2020 | <u><u>5,092</u></u> |

16 LEASES *(Continued)*

The Group as lessee *(Continued)*

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Carrying amount at 1 January | 18,103 | 658 |
| New leases | – | 22,004 |
| Additions as a result of acquisition of non-controlling interest | – | 1,782 |
| Disposal of subsidiaries (note 34) | (833) | – |
| Payments | (11,474) | (6,998) |
| Accretion of interest recognised during the year | 518 | 657 |
| Covid-19-related rent concessions from lessors | (664) | – |
| Exchange realignment | 37 | – |
| Carrying amount at 31 December | <u>5,687</u> | <u>18,103</u> |
| Analysed into: | | |
| Current portion | 5,620 | 12,466 |
| Non-current portion | 67 | 5,637 |
| | <u>5,687</u> | <u>18,103</u> |

(c) The amounts recognised in profit or loss in relation to leases are as follows:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Interest on lease liabilities | 518 | 657 |
| Depreciation charge of right-of-use assets | 10,031 | 7,887 |
| Total amount recognised in profit or loss | <u>10,549</u> | <u>8,544</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 INTANGIBLE ASSETS

As at 31 December 2019, the expenditure for technology development incurred by Shenzhen Qiping is recorded as the expenditure for the development of naked-eye 3D projects. Such projects have reached the final testing stage and will be used in the production and sales of naked-eye 3D products in the future, and can be granted the patent finally. Therefore, the final research and development (“R&D”) expenditure is recognized as capital expenditure. During the year, the amount was written-off due to the disposal of Shenzhen Qiping (note 34).

| | Computer software HK\$'000 | R&D HK\$'000 | Total HK\$'000 |
|--|---|-----------------------------|---------------------------|
| At 31 December 2020 | | | |
| Cost at 1 January 2020, net of accumulated amortisation | – | 2,087 | 2,087 |
| Disposal of subsidiaries (note 34) | – | (2,123) | (2,123) |
| Exchange realignment | – | 36 | 36 |
| | <u>–</u> | <u>36</u> | <u>36</u> |
| At 31 December 2020 | <u>–</u> | <u>–</u> | <u>–</u> |
| Cost | – | – | – |
| Accumulated amortisation | – | – | – |
| Net carrying amount | <u>–</u> | <u>–</u> | <u>–</u> |
| At 31 December 2019 | | | |
| Cost at 1 January 2019, net of accumulated amortisation | – | – | – |
| Acquisition of subsidiaries (note 33) | – | 2,190 | 2,190 |
| Exchange realignment | – | (103) | (103) |
| | <u>–</u> | <u>2,087</u> | <u>2,087</u> |
| At 31 December 2019 | <u>–</u> | <u>2,087</u> | <u>2,087</u> |
| Cost | 5,005 | 2,087 | 7,092 |
| Accumulated amortisation | (5,005) | – | (5,005) |
| Net carrying amount | <u>–</u> | <u>2,087</u> | <u>2,087</u> |

18 INVESTMENTS IN ASSOCIATES

| | 2020 HK\$'000 |
|-------------------------|------------------|
| Share of net assets | 15,221 |
| Goodwill on acquisition | 12,723 |
| | 27,944 |

Particulars of the associate are as follows:

| Company name | Particulars of issued shares held | Place of incorporation and business | Percentage of ownership interest attributable to the Group | Principal activities |
|--|-----------------------------------|-------------------------------------|--|--|
| Red Power Developments Limited ("Red Power") | Ordinary shares | BVI/PRC | 20.2 | Development, sales, lease and maintenance of equipment involving the application of aviation technology and provision of air transportation services |

The Group's shareholdings in the associates all comprise equity shares held by the Company.

On 1 September 2020, the Company acquired 20.2% of equity interest in Red Power and its subsidiaries (the "Red Power Group") by issuing of 33,658,000 ordinary shares of the Company. The directors consider that the Group can only exercise significant influence over the Red Power Group based on its board composition and current shareholding, and accordingly it is classified as associates of the Group. Red Power Group is accounted for using equity method in the consolidated financial statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 INVESTMENTS IN ASSOCIATES *(Continued)*

The following table illustrates the summarized financial information in respect of the Red Power Group, adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

| | 2020 HK\$'000 |
|--|--|
| Current assets | 288,394 |
| Non-current assets, excluding goodwill | 32,180 |
| Goodwill on acquisition of associates | 12,723 |
| Current liabilities | (246,249) |
| Non-current liabilities | (781) |
| Amount attributable to non-controlling interest | 1,804 |
| Net assets | <u>88,071</u> |
| Net assets, excluding goodwill | <u>75,348</u> |
| Reconciliation to the Group's interest in associates: | |
| Proportion of the Group's ownership | 20.2% |
| The Group's share of net assets of the associate, excluding goodwill | 15,221 |
| Goodwill on acquisition (less cumulative impairment) | <u>12,723</u> |
| Carrying amount of the investment | <u>27,944</u> |
| | For the period from 1 September 2020 to 31 December 2020 HK\$'000 |
| Revenue | 59,682 |
| Profit for the period | 13,564 |
| Other comprehensive income | 3,135 |
| Total comprehensive income for the period | 16,699 |
| Dividends received | - |

19 EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Equity investments designated at fair value through other comprehensive income | | |
| Unlisted investment, at fair value | | |
| Cornerstone Securities Limited | 12,321 | 23,100 |

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

20 DEFERRED TAX ASSETS

| | Provision of Inventories HK\$'000 |
|---|---|
| At 1 January 2019 | 619 |
| Exchange realignment | (12) |
| At 31 December 2019 and at 1 January 2020 | 607 |
| Exchange realignment | 39 |
| At 31 December 2020 | 646 |

The Group has tax losses arising in Hong Kong of HK\$87,130,000 (2019: HK\$75,602,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK\$2,736,000 (2019: HK\$11,141,000) that will expire within 10 years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as management not considered probable that taxable profits will be available against which the tax losses can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 FINANCE LEASE RECEIVABLE

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|------------------------|------------------|---|------------------|
| | 2020 HK\$'000 | 2019 HK\$'000 | 2020 HK\$'000 | 2019 HK\$'000 |
| Finance lease receivables comprises: | | | | |
| Within one year | 6,384 | 5,671 | 6,095 | 5,668 |
| After one year but within two years | – | – | – | – |
| Gross investment in lease | 6,384 | 5,671 | 6,095 | 5,668 |
| Less: Unearned finance income | (289) | (3) | – | – |
| Present value of minimum lease payments | 6,095 | 5,668 | 6,095 | 5,668 |
| Less: Impairment | (2,667) | – | (2,667) | – |
| | 3,428 | 5,668 | 3,428 | 5,668 |

The movements in the loss allowance for impairment of finance lease receivables are as follows:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|-------------------------------------|------------------|------------------|
| At beginning of year | – | 2,644 |
| Impairment (note 8) | 2,667 | – |
| Amount written off as uncollectible | – | (2,644) |
| At end of year | 2,667 | – |

The Group applies the HKFRS 9 general approach to measuring expected credit losses which uses a 12-month basis ECL for finance lease receivables. However, when there has been a significant increase in credit risk since origination, the allowances will be based on the lifetime ECL. The Group determines the provision for ECL by exercising significant judgements to evaluate the collectability from individual finance lease receivable after taking into account their creditworthiness, whether they have financial difficulties, experience of default or delinquency in interest payment, ageing analysis and forecast of future events and economic conditions which may impact the recoverability of finance lease receivables.

22 INVENTORIES

| | 2020 HK\$'000 | 2019 HK\$'000 |
|------------------|------------------|------------------|
| Raw materials | 156 | 8,786 |
| Work in progress | 1,795 | 1,573 |
| Finished goods | 2,090 | 2,073 |
| Inventories, net | 4,041 | 12,432 |

23 TRADE AND BILLS RECEIVABLES

| | 2020 HK\$'000 | 2019 HK\$'000 |
|-----------------------------|------------------|------------------|
| Trade receivables | 20,102 | 51,682 |
| Impairment | (312) | (173) |
| Bills receivables | 19,790 | 51,509 |
| | 3,569 | 2,790 |
| Trade and bills receivables | 23,359 | 54,299 |

23 TRADE AND BILLS RECEIVABLES *(Continued)*

Trade receivables

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivables balances. Trade receivables are non-interest-bearing.

The ageing analysis of trade receivables as at the end of the reporting period, based on invoice or date and net of loss allowance, is as follows:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Within 1 month | 6,875 | 5,967 |
| More than 1 month but less than 3 months | 10,105 | 14,931 |
| More than 3 months | 2,810 | 30,611 |
| | 19,790 | 51,509 |

The movements in the loss allowance for impairment of trade receivables are as follows:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| At beginning of year | 173 | 2,465 |
| Impairment/(reversal of impairment) (note 8) | 139 | (2,292) |
| At end of year | 312 | 173 |

23 TRADE AND BILLS RECEIVABLES *(Continued)*

Trade receivables *(Continued)*

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

| | Current | | Past due | | | | Total | |
|-----------------------------------|--------------|-------|---------------|--------|--------------|--------|---------------|--------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | | | | | | | | |
| Expected credit loss rate | 1.87% | 0.63% | 1.72% | 0.52% | 0.14% | 0.19% | 1.55% | 0.34% |
| Gross carrying amount (HK\$'000) | 7,006 | 6,005 | 10,282 | 15,008 | 2,814 | 30,669 | 20,102 | 51,682 |
| Expected credit losses (HK\$'000) | 131 | 38 | 177 | 77 | 4 | 58 | 312 | 173 |

Bills receivables

The maturity dates of the Group's bills receivables as at the end of the reporting period are as follows:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| Within 1 month | 724 | 1,101 |
| More than 1 month but less than 3 months | 980 | 894 |
| More than 3 months but less than 6 months | 1,390 | 795 |
| More than 6 months but within 1 year | 475 | – |
| | 3,569 | 2,790 |

In determining the expected credit losses for bills receivables, the directors of the Company have considered the bills received by the Group with a maturity period less than one year are assessed an 12 months ECL by reference to the external credit rating and concluded that the credit risk inherent in the Group's outstanding bills receivables is insignificant as at 31 December 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--------------------------------|------------------|------------------|
| Deposits and other receivables | 6,222 | 7,369 |
| Prepayments | 7,957 | 9,802 |
| Impairment | (1,359) | – |
| | 12,820 | 17,171 |
| Less: non-current portion | (211) | (3,335) |
| Current portion | 12,609 | 13,836 |

Deposits and other receivables mainly represent rental deposits, interest receivables of loans to independent third parties. Where applicable, an impairment analysis is performed in deposits and other receivables at each reporting date by considering the probability of default of comparable companies with published credit ratings. In the situation where no comparable companies with credit rating can be identified, expected credit losses are estimated by a loss rate of 44% (2019: nil) with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forward-looking information, as appropriate. As at 31 December 2020 and 2019, the Group has concluded that the probability of default and loss rate are low and the financial impact of expected credit losses for deposits and other receivables under HKFRS 9 is insignificant for the years ended 31 December 2020 and 2019.

The movements in the loss allowance for the impairment of other receivables and other assets are as follows:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|----------------------|------------------|------------------|
| At beginning of year | – | – |
| Impairment (note 8) | 1,287 | – |
| Exchange realignment | 72 | – |
| | 1,359 | – |

25 LOANS RECEIVABLES

| | 2020 HK\$'000 | 2019 HK\$'000 |
|------------------------------|------------------|------------------|
| Loans receivables, unsecured | 8,626 | 18,705 |
| Less: Impairment | <u>(2,136)</u> | <u>(38)</u> |
| | <u>6,490</u> | <u>18,667</u> |

The Group's loans receivables are stated at amortised cost and bear fixed interest rates at 5% and 10%. The credit terms of these loans receivables ranging from one to two years. During the year, the loan receivables were extended for one year and repayable in 2021.

The movements in the loss allowance for the impairment of loans receivables are as follows:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| At beginning of year | 38 | 3,500 |
| Impairment/(reversal of impairment) (note 8) | 2,013 | (3,462) |
| Exchange realignment | <u>85</u> | <u>–</u> |
| At end of year | <u>2,136</u> | <u>38</u> |

The Group applies general approach to measuring expected credit losses which uses a 12-month basis ECL for loans receivables. The Group determines the provision for ECL by exercising significant judgements to evaluate the collectability from individual loans receivables after taking into account their creditworthiness, whether they have financial difficulties, experience of default or delinquency in interest or principal payments, ageing analysis and forecast of future events and economic conditions which may impact the recoverability of loans receivables.

26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Listed equity investments, at fair value | <u>150</u> | <u>1,545</u> |

The above equity investments were classified as financial assets at fair value through profit or loss as they were held for trading.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 CASH AND CASH EQUIVALENTS

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---------------------------|------------------|------------------|
| Cash and cash equivalents | 28,031 | 8,516 |

As at 31 December 2020, the cash and bank balances of the Group's subsidiary in the Mainland China denominated in Renminbi ("RMB") amounted to HK\$17,187,000 (2019: HK\$5,857,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for others currencies through banks authorised to conduct foreign exchange business.

Cash at banks and time deposits earns interest at floating rate based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

28 TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on invoice date is as follows:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Within 1 month | 1,707 | 3,167 |
| More than 1 month but less than 3 months | 2,284 | – |
| More than 3 months | 19,236 | 24,771 |
| | 23,227 | 27,938 |

The trade payables are non-interest bearing and are normally settled on within 30 to 90 days.

Included in the Group's trade payable are amounts due to the Group's associates of HK\$13,144,000 (2019: nil), which are repayable within 360 days.

29 OTHER PAYABLES AND ACCRUALS

| | 2020 HK\$'000 | 2019 HK\$'000 |
|-----------------------------------|------------------|------------------|
| Accruals | 5,055 | 6,169 |
| Contract liabilities (note (a)) | 1,717 | 440 |
| Due to holding company (note (b)) | 5,028 | – |
| Other payables (note (c)) | 7,614 | 15,621 |
| | 19,414 | 22,230 |

Notes:

- (a) Details of contract liabilities are as follows:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| <i>Short-term advances received from customers</i> | | |
| Sale of goods | 1,717 | 440 |

Contract liabilities include short-term advances received to design and sales of integrated circuits. The increase in contract liabilities in 2020 was mainly due to the increase in short-term advances received from customers in relation to the design and sales of integrated circuits at the end of the year.

- (b) The amount due to the holding company is unsecured, interest free and repayable in 2021.
- (c) The other payable is unsecured, interest free and have an average term of one month, except for a loan of RMB5,000,000 (equivalent to HK\$5,938,000), which bear interest at rate of 5% per annum and are repayable in 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 SHARE CAPITAL

| | Number of shares '000 | Ordinary shares HK\$'000 | Share premium HK\$'000 | Total HK\$'000 |
|---|-----------------------------|--------------------------------|------------------------------|-------------------|
| At 1 January 2019, 31 December 2019 and 1 January 2020 | 336,587 | 33,659 | 101,263 | 134,922 |
| Issue of shares (Note) | <u>33,658</u> | <u>3,366</u> | <u>21,205</u> | <u>24,571</u> |
| At 31 December 2020 | <u>370,245</u> | <u>37,025</u> | <u>122,468</u> | <u>159,493</u> |

The total authorised number of ordinary shares is 1,000,000,000 shares (2019: 1,000,000,000 shares) with a par value of HK\$0.1 per share (2019: HK\$0.1 per share). All issued shares are fully paid.

Note:

On 1 September 2020, a total of 33,658,000 ordinary shares, which represent approximately 9.1% of the issued share capital of the Company, were issued by the Company to Ever Digital Limited as consideration shares for acquisition of 20.2% equity interest in an associate.

The 33,658,000 consideration shares were issued at prices of HK\$0.73 per share with total consideration of approximately HK\$24,571,000 of which HK\$3,366,000 was credit to share capital and HK\$21,205,000 was credit to share premium account. Further details of which are set out in the Company's announcement dated 14 February 2020 and 1 September 2020.

31 OTHER RESERVES

| | Share premium HK\$'000 | Exchange reserve HK\$'000 | Fair value reserve HK\$'000 | Capital reserve HK\$'000 | Total HK\$'000 |
|---|------------------------------|---------------------------------|-----------------------------------|--------------------------------|-------------------|
| At 1 January 2019 | <u>101,263</u> | <u>(1,992)</u> | <u>196</u> | <u>–</u> | <u>99,467</u> |
| Other comprehensive loss for the year: | | | | | |
| Changes in fair value of equity investments designed at fair value through other comprehensive income | – | – | (96) | – | (96) |
| Exchange differences on translation | <u>–</u> | <u>(853)</u> | <u>–</u> | <u>–</u> | <u>(853)</u> |
| Total comprehensive loss for the year | – | (853) | (96) | – | (949) |
| Capital contribution from non-controlling shareholders | <u>–</u> | <u>–</u> | <u>–</u> | <u>156</u> | <u>156</u> |

31 OTHER RESERVES *(Continued)*

| | Share premium HK\$'000 | Exchange reserve HK\$'000 | Fair value reserve HK\$'000 | Capital reserve HK\$'000 | Total HK\$'000 |
|---|------------------------------|---------------------------------|-----------------------------------|--------------------------------|-------------------|
| At 31 December 2019 and 1 January 2020 | 101,263 | (2,845) | 100 | 156 | 98,674 |
| Other comprehensive loss for the year: | | | | | |
| Changes in fair value of equity investments designed at fair value through other comprehensive income | - | - | (10,779) | - | (10,779) |
| Exchange differences on translation | - | 2,653 | - | - | 2,653 |
| Total comprehensive loss for the year | - | 2,653 | (10,779) | - | (8,126) |
| Disposal of subsidiaries (note 34) | - | - | - | (156) | (156) |
| Issue of shares (note 30) | 21,205 | - | - | - | 21,205 |
| At 31 December 2020 | 122,468 | (192) | (10,679) | - | 111,597 |

32 ACQUISITION OF ASSETS AND LIABILITIES

On 21 September 2017 and 1 November 2017, the Group entered into a loan agreement with Imperial Pacific International Holdings Limited ("Imperial Pacific") with principal amount of approximately HK\$7.7 million and a sales agreement with billing amount approximately HK\$23.4 million. Since the loan and trade receivables were overdue, the Group had sent numerous demand letters and engaged legal adviser to issue legal letters to Imperial Pacific demanding for repayment of outstanding loan and trade receivables. At the same time, the Group continued to communicate with Imperial Pacific to negotiate the repayment arrangement.

On 27 March 2020, Imperial Pacific is in debt to the Group of approximately HK\$31.8 million, being the aggregate sum of a billing amount of approximately HK\$23.4 million, the outstanding principal amount of a loan of approximately HK\$7.7 million and the interest receivable of approximately HK\$0.7 million.

In order to settle all amounts owed by Imperial Pacific to the Group, it was agreed that:

- (a) the Company agreed to conditionally waive the interest of the loan of approximately HK\$7.7 million since 27 March 2020, conditionally on the completion of the whole settlement package;
- (b) Imperial Pacific agreed to repay approximately HK\$1.5 million for the billing amount in cash. After the repayment of approximately HK\$1.5 million, Imperial Pacific is expected to owe the debt of approximately HK\$30.3 million ("Debt") to the Group immediately before completion of the whole settlement package.

32 ACQUISITION OF ASSETS AND LIABILITIES *(Continued)*

- (c) The Company agreed to purchase 100% equity interests in Ideal Best, a wholly-owned subsidiary of Imperial Pacific, and its subsidiaries (the “Ideal Best Group”) for settling off the Debt due from Imperial Pacific at the consideration of HK\$30,328,000 (the “Acquisition”). Ideal Best Group were engaged in holding a leasehold land in the Island of Saipan. The consideration for the Acquisition has been determined by the Group having taken into account, among other things, the valuation of the leasehold land held by Ideal Best Group as appraised by the independent valuer engaged by the Group under market comparison approach.

At the time of Acquisition, Ideal Best did not actively engage in any business and accordingly, in the opinion of the directors, the Acquisition does not constitute a business combination but an acquisition of assets and liabilities. The Acquisition was completed in December 2020. As a result, Ideal Best became a direct wholly-owned subsidiary of the Company and its financial results were consolidated into the Group’s consolidated financial statements.

For accounting purpose, the cost of Acquisition of HK\$30,328,000 million has been allocated to the following identifiable assets and liabilities of Ideal Best as at the date of Acquisition as follows:

| | HK\$'000 |
|---|---------------|
| Net assets acquired: | |
| Investment properties (note 15) | <u>30,328</u> |
| Total identifiable net assets acquired | <u>30,328</u> |
| Satisfied by: | |
| Set-off of trade, loan and interest receivables | <u>30,328</u> |

As the consideration was satisfied by way of the set-off and Ideal Best did not have cash and cash equivalents balance at the Acquisition date, there was no cash flow in respect of the Acquisition.

33 BUSINESS COMBINATION

2019

On 4 January 2019, the Group acquired a 70% equity interest in Shenzhen Qiping Technology Company Limited (深圳奇屏科技有限公司) (“Shenzhen Qiping”, together with its subsidiaries, collectively referred to as “Qiping Group”) for a total consideration of HK\$2,337,000. Shenzhen Qiping was engaged in research and development real time 2D-3D conversion display products and provide software and hardware integration services for 2D-3D conversion display products in PRC. The fair values of the identifiable assets and liabilities of Shenzhen Qiping acquired as at the date of the acquisition were as follows:

| | HK\$'000 |
|---|---------------------|
| Net assets acquired: | |
| Property, plant and equipment (note 14) | 305 |
| Intangible assets (note 17) | 2,190 |
| Cash and cash equivalents | 675 |
| Inventories | 1,376 |
| Prepayments, other receivables and other assets | 7,395 |
| Trade payables | (108) |
| Other payables and accruals | <u>(8,494)</u> |
| Total identifiable net assets | 3,339 |
| Non-controlling interests | <u>(1,002)</u> |
| Consideration | <u><u>2,337</u></u> |

An analysis of the cash flows in respect of the acquisition is as follows:

| | HK\$'000 |
|---|-----------------------|
| Cash consideration | (2,337) |
| Cash and cash equivalents acquired | <u>675</u> |
| Net inflow of cash and cash equivalents included in cash flows from investing activities | <u><u>(1,662)</u></u> |

Since the acquisition, Shenzhen Qiping contributed HK\$475,000 to the Group’s revenue and HK\$3,848,000 to the consolidated loss for the year ended 31 December 2019.

Had the combination taken place at the beginning of the year, the revenue of the Group and the loss of the Group for the year would have been HK\$74,627,000 and HK\$22,843,000, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 DISPOSAL OF SUBSIDIARIES

| | Notes | 2020 HK\$'000 |
|--|-------|------------------|
| Net assets disposed of: | | |
| Property, plant and equipment | 14 | 155 |
| Intangible assets | 17 | 2,123 |
| Right-of-use assets | 16(a) | 807 |
| Inventories | | 6,674 |
| Cash and bank balances | | 784 |
| Trade receivables, prepayments and other receivables | | 7,564 |
| Trade payables, accruals and other payables | | (19,618) |
| Lease liabilities | 16(b) | (833) |
| Non-controlling interests | | 639 |
| | | (1,705) |
| Capital reserve | | (156) |
| | | (1,861) |
| Gain on disposal of subsidiaries | 5 | 4,371 |
| | | 2,510 |
| Satisfied by: | | |
| Cash | | 2,510 |

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

| | 2020 HK\$'000 |
|--|------------------|
| Cash consideration | 2,510 |
| Cash and bank balances disposed of | (784) |
| Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary | 1,726 |

35 NON-CONTROLLING INTERESTS

The total non-controlling interests mainly relate to Shenzhen Qiping, a 70% owned subsidiary of the Group.

As at 31 December 2019, the current asset, current liabilities and non-current assets of Shenzhen Qiping are HK\$15,341,000, HK\$19,579,000 and HK\$2,801,000, respectively. The Shenzhen Qiping was disposed during the year (note 34).

36 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash acquisition of associates that the consideration of HK\$24,570,000 was settled way of issuance of the Company's consideration 33,658,000 ordinary shares. Further details are set out in note 18 to the financial statement.

During the year, right-of-use assets and lease liabilities was reduced by HK\$664,000 due to covid-19-related rent concessions from lessors. The amount was deducted from actual rental payment directly.

During the year, the Group had non-cash additions to investment properties of HK\$30,328,000 in respect of a leasehold land, and the amount was settled through set-off of certain trade, loan and interest receivables.

For 31 December 2019, the Group had non-cash additions to right-of-use assets and lease liabilities of HK\$22,004,000 and HK\$22,004,000 respectively, in respect of lease arrangements for office premises.

(b) Changes in liabilities arising from financing activities

2020

| | Other loan HK\$'000 | Lease liabilities HK\$'000 |
|--|------------------------|-------------------------------|
| At 1 January 2020 | – | 18,103 |
| Changes from financing cash flows | – | (11,474) |
| New other borrowing | 5,938 | – |
| Foreign exchange movement | – | 37 |
| Interest expense | – | 518 |
| Covid-19-related rent concessions from lessors | – | (664) |
| Disposal of subsidiaries | – | (833) |
| | <u>5,938</u> | <u>5,687</u> |
| At 31 December 2020 | 5,938 | 5,687 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

(b) Changes in liabilities arising from financing activities (Continued)

| | Leases liabilities |
|--|---------------------------|
| | HK\$'000 |
| At 1 January 2019 | 658 |
| Changes from financing cash flows | (6,341) |
| New leases | 22,004 |
| New leases from acquisition of subsidiaries | 1,782 |
| Interest expenses | 657 |
| Interest paid classified as operating cash flows | <u>(657)</u> |
| At 31 December 2019 | <u>18,103</u> |

37 RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group entered into the following material transactions with related parties during the year.

(a) In addition to the transactions details elsewhere in there financial statements, the Group had the following transactions with related parties during the year:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Management fee income charged to the holding company | 93 | – |
| Cost of services charged by associates | <u>7,508</u> | <u>–</u> |

Note:

The cost of service charged by associates were made according to the agreement.

(b) Outstanding balances with related parties

Balances with related parties are included in notes 28 and 29 to the financial statements.

37 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Key management compensation

Key management includes directors (executive and non-executive) and a senior management. The compensation paid or payable to key management for employee services is shown below:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Salaries and allowances and benefits in kind | 4,039 | 4,051 |
| Discretionary bonuses | 328 | — |
| | 4,367 | 4,051 |

38 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Other than the equity investments designated at fair value through other comprehensive income and financial assets at fair value through profit or loss, all financial assets and liabilities of the Group as at 31 December 2020 and 2019 were financial assets at amortised cost and financial liabilities at amortised cost, respectively.

Management has assessed that the fair values of cash and cash equivalents, the current portion of finance lease receivables, loans receivables, trade and bills receivables, financial assets included in prepayments, other receivables and other assets, lease liabilities, trade and other payables approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the board of directors and the Audit Committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the board of directors. The valuation process and results are discussed with the Audit Committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of pledged deposits, interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

38 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments designated at fair value through other comprehensive income have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry and size and to calculate an appropriate market multiple, such as market capitalisation-to-book value ratio for each comparable company identified. The multiple is calculated by dividing the market capitalisation of the comparable company by a book value measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding market capitalisation measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

For the fair value of unlisted equity investments designated at fair value through other comprehensive income, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2020

| | Fair value measurement using | | | Total HK\$'000 |
|--|---|--|--|-------------------|
| | Quoted prices in active markets (Level 1) HK\$'000 | Significant observable inputs (Level 2) HK\$'000 | Significant unobservable inputs (Level 3) HK\$'000 | |
| Equity investments designated at fair value through other comprehensive income | – | – | 12,321 | 12,321 |
| Financial assets at fair value through profit or loss | 150 | – | – | 150 |

38 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy *(Continued)*

As at 31 December 2019

| | Fair value measurement using | | | Total HK\$'000 |
|--|---|--|--|-------------------|
| | Quoted prices in active markets (Level 1) HK\$'000 | Significant observable inputs (Level 2) HK\$'000 | Significant unobservable inputs (Level 3) HK\$'000 | |
| Equity investments designated at fair value through other comprehensive income | – | – | 23,100 | 23,100 |
| Financial assets at fair value through profit or loss | 1,545 | – | – | 1,545 |

The Group did not have any financial liabilities measured at fair value as at 31 December 2020 and 2019.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2019: Nil).

The movements in fair value measurements within Level 3 during the year are as follows:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|
| Equity investments at fair value through other comprehensive income | | |
| At 1 January | 23,100 | 23,196 |
| Total losses recognised in other comprehensive income | (10,779) | (96) |
| At 31 December | 12,321 | 23,100 |

The Group did not have any financial liabilities measured at fair value as at 31 December 2020 and 2019.

39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk factors

The Group's principal financial instruments are used to raise finance for the Group's operations and investments. The Group has various other financial assets and liabilities such as loans and trade and bills receivables, other receivables and other assets, finance lease receivables, financial assets at fair value through profit or loss, cash and cash equivalents, and financial liabilities included in trade payables, other payables and accruals and lease liabilities which arise directly from its operations. The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, equity price risk, credit risk and liquidity risk. The board of directors review and agree policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group operates in both the PRC and Hong Kong. Most of the transactions for the PRC reporting entity is denominated in RMB, whereas that for Hong Kong reporting entities are denominated in HK\$ and United States dollar ("US\$"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Management is responsible for managing the net position in each foreign currency. The Group currently does not have a foreign currency hedging policy. As the assets and liabilities of the PRC reporting entity is mainly denominated in RMB, its functional currency, the directors are of the opinion that their volatility of their profits against changes in exchange rates of foreign currencies would not be significant. Accordingly, no sensitivity analysis is performed.

Moreover, as the assets and liabilities of the HK reporting entities are mainly denominated in HK\$, its functional currency, and US\$ are reasonably stable against the HK\$ under the Linked Exchange Rate System, the directors are of the opinion that the Group does not have significant foreign exchange risk. Accordingly, no sensitivity analysis is performed.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing financial assets and interest-bearing financial liabilities. Interest-bearing financial assets are the interests on loans receivables and deposits with banks. Interests on deposits with banks based on deposit rates offered by bank while interests on loans receivables are based on fixed rates. Interest bearing financial liabilities are the interest are based on fixed rates. As at 31 December 2020, the Group has no significant interest rate risk as the Group has no significant interest-bearing assets or liabilities.

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from financial assets at fair value through profit or loss as at 31 December 2020. The Group's listed investments are listed on the Stock Exchange and are valued at quoted market prices at the end of the reporting period.

39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Financial risk factors (Continued)

Equity price risk (Continued)

The following table demonstrates the sensitivity to every 10% (2019: 10%) change in the fair values of the listed equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

| | Carrying amount of equity investment HK\$'000 | Decrease/ (increase) in loss before tax HK\$'000 |
|--|---|--|
| 2020 | | |
| Investment listed in: | | |
| Hong Kong – financial assets at fair value through profit or loss | 150 | 15 |
| 2019 | | |
| Investment listed in: | | |
| Hong Kong – financial assets at fair value through profit or loss | 1,545 | 155 |

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to the financial lease and loans and trade receivables. In order to minimise the credit risk, the Group has established policies and systems for monitoring and control of credit risk. The management has delegated different divisions responsible for determination of credit limits, credit approvals and other monitoring processes to ensure that follow up action is taken to recover overdue debts. In addition, management reviews the recoverable amounts of loans and trade receivables individually or collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management considers that the Group's credit risk is significantly reduced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Financial risk factors (Continued)

Credit risk (Continued)

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of those instruments.

At the end of the reporting period, the Group had concentrations of credit risk as 99% (2019: 99%) of the Group's trade receivables were due from the Group's top five largest customers. The Group mitigates its concentration risk from its major customers by doing businesses with a number of customers for the same or similar products and the Group actively monitors the credit quality of its customers and adjusts the credit limits granted to the customers should their credit quality deteriorate or when there are signs of slow payment of outstanding receivables. Further quantitative data in respect of the Group's exposure to credit risk arising from these receivables are disclosed in notes 23 and 24 to the consolidated financial statements.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2020

| | 12-month ECLs | Lifetime ECLs | | | Total HK\$'000 |
|--|------------------|---------------------|---------------------|---------------------|-------------------|
| | | Stage 1 HK\$'000 | Stage 2 HK\$'000 | Stage 3 HK\$'000 | |
| Finance lease receivable | - | 6,095 | - | - | 6,095 |
| Trade and bills receivables* | 3,569 | - | - | 20,102 | 23,671 |
| Financial assets included in other receivables and other assets | | | | | |
| – Normal** | 6,222 | - | - | - | 6,222 |
| – Doubtful** | - | 172 | 1,187 | - | 1,359 |
| Cash and cash equivalents | | | | | |
| – Not yet past due | 28,031 | - | - | - | 28,031 |
| Loan receivable | | | | | |
| – Not yet past due | - | 8,626 | - | - | 8,626 |
| | 37,822 | 14,893 | 1,187 | 20,102 | 74,004 |

39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Financial risk factors (Continued)

Credit risk (Continued)

As at 31 December 2019

| | 12-month | Lifetime ECLs | | | Total |
|--|---------------|---------------|----------|---------------|---------------|
| | ECLs | | | | |
| | Stage 1 | Stage 2 | Stage 3 | Simplified | |
| | HK\$'000 | HK\$'000 | HK\$'000 | approach | HK\$'000 |
| | | | | HK\$'000 | |
| Finance lease receivable | 5,668 | – | – | – | 5,668 |
| Trade and bills receivables* | – | – | – | 54,472 | 54,472 |
| Financial assets included in other receivables and other assets | | | | | |
| – Normal** | 7,369 | – | – | – | 7,369 |
| – Doubtful** | – | – | – | – | – |
| Cash and cash equivalents | | | | | |
| – Not yet past due | 8,516 | – | – | – | 8,516 |
| Loan receivable | | | | | |
| – Not yet past due | 18,667 | 38 | – | – | 18,705 |
| | <u>40,220</u> | <u>38</u> | <u>–</u> | <u>54,472</u> | <u>94,730</u> |

* For trade and bills receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 23 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

Further quantitative data in respect of the Group’s exposure to credit risk arising from trade and bills receivables are disclosed in note 23 to the financial statements.

39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Financial risk factors (Continued)

Liquidity risk

Internally generated cash flows are the general sources of funds to finance the operations of the Group. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations. The Group aims to maintain sufficient bank deposits to meet its short term cash requirements. The Group's liquidity risk management includes diversifying the funding sources.

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

| | 2020 | | |
|-----------------------------|---|--------------------------|-------------------|
| | On demand or within one year HK\$'000 | 1 to 5 years HK\$'000 | Total HK\$'000 |
| Trade payables | 23,227 | – | 23,227 |
| Other payables and accruals | 12,669 | – | 12,669 |
| Lease liabilities | 5,683 | 67 | 5,750 |
| | <u>41,579</u> | <u>67</u> | <u>41,646</u> |
| | | | |
| | 2019 | | |
| | On demand or within one year HK\$'000 | 1 to 5 years HK\$'000 | Total HK\$'000 |
| Trade payables | 27,938 | – | 27,938 |
| Other payables and accruals | 21,790 | – | 21,790 |
| Lease liabilities | 13,006 | 7,444 | 20,450 |
| | <u>62,734</u> | <u>7,444</u> | <u>70,178</u> |

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total liabilities expressed as a percentage of the total equity and liabilities. As at 31 December 2020, the gearing ratio was approximately 32% (2019: 41.9%). Management considers a ratio of not more than 30% as optimal.

39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

2020

| | Financial assets at amortised cost HK\$'000 | Financial assets at fair value through profit or loss HK\$'000 | Financial assets at fair value through other comprehensive income HK\$'000 | Total HK\$'000 |
|--|---|--|---|-------------------|
| Equity investments designated at fair value through other comprehensive income | - | - | 12,321 | 12,321 |
| Financial lease receivables | 3,428 | - | - | 3,428 |
| Trade and bills receivables | 23,359 | - | - | 23,359 |
| Financial assets included in other receivables and other assets | 6,222 | - | - | 6,222 |
| Loans receivables | 6,490 | - | - | 6,490 |
| Equity investments at fair value through profit or loss | - | 150 | - | 150 |
| Cash and cash equivalents | 28,031 | - | - | 28,031 |
| | 67,530 | 150 | 12,321 | 80,001 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Financial instruments by category (Continued)

Financial assets (Continued)

2019

| | Financial assets at amortised cost HK\$'000 | Financial assets at fair value through profit or loss HK\$'000 | Financial assets at fair value through other comprehensive income HK\$'000 | Total HK\$'000 |
|--|---|--|---|-------------------|
| Equity investments designated at fair value through other comprehensive income | - | - | 23,100 | 23,100 |
| Financial lease receivables | 5,668 | - | - | 5,668 |
| Trade and bills receivables | 54,299 | - | - | 54,299 |
| Financial assets included in other receivables and other assets | 7,369 | - | - | 7,369 |
| Loans receivables | 18,667 | - | - | 18,667 |
| Equity investments at fair value through profit or loss | - | 1,545 | - | 1,545 |
| Cash and cash equivalents | 8,516 | - | - | 8,516 |
| | <u>94,519</u> | <u>1,545</u> | <u>23,100</u> | <u>119,164</u> |

Financial liabilities

| | Financial liabilities at amortised cost | |
|-----------------------------|--|------------------|
| | 2020 HK\$'000 | 2019 HK\$'000 |
| Lease liabilities | 5,687 | 18,103 |
| Trade payables | 23,227 | 27,938 |
| Other payables and accruals | 12,669 | 21,790 |
| | <u>41,583</u> | <u>67,831</u> |

40 STATEMENT OF FINANCIAL POSITION

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

| | 2020 HK\$'000 | 2019 HK\$'000 |
|---|------------------|------------------|
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 136 | 193 |
| Investments in subsidiaries | 75,418 | 81,828 |
| Investments in associates | 24,570 | – |
| Right-of-use assets | 4,280 | 12,860 |
| Long-term deposits | – | 3,137 |
| Total non-current assets | <u>104,404</u> | <u>98,018</u> |
| CURRENT ASSETS | | |
| Loans receivables | 1,138 | 11,990 |
| Prepayments, other receivables and other assets | 3,319 | 1,226 |
| Cash and cash equivalents | 913 | 478 |
| Total current assets | <u>5,370</u> | <u>13,694</u> |
| CURRENT LIABILITIES | | |
| Trade payables | – | 12 |
| Other payables and accruals | 7,420 | 3,438 |
| Lease liabilities | 4,827 | 9,812 |
| Total current liabilities | <u>12,247</u> | <u>13,262</u> |
| NET CURRENT (LIABILITIES)/ASSETS | <u>(6,877)</u> | <u>432</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | <u>97,527</u> | <u>98,450</u> |
| NON-CURRENT LIABILITIES | | |
| Lease liabilities | – | (4,378) |
| NET ASSETS | <u>97,527</u> | <u>94,072</u> |
| CAPITAL AND RESERVES | | |
| Share capital | 37,025 | 33,659 |
| Other reserves (note) | 280,834 | 259,629 |
| Accumulated losses (note) | <u>(220,332)</u> | <u>(199,216)</u> |
| Total equity | <u>97,527</u> | <u>94,072</u> |

Xu Yinsheng
Director

Li Weina
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40 STATEMENT OF FINANCIAL POSITION *(Continued)*

Note: Reserve movement of the Company

| | Accumulated losses HK\$'000 | Other reserves | | | Total HK\$'000 |
|----------------------------|-----------------------------------|------------------------------|------------------------------------|--------------------------------|-------------------|
| | | Share premium HK\$'000 | Contributed surplus HK\$'000 | Capital reserve HK\$'000 | |
| At 1 January 2019 | (178,921) | 101,263 | 137,800 | 20,566 | 259,629 |
| Loss for the year | (20,295) | - | - | - | - |
| At 31 December 2019 | (199,216) | 101,263* | 137,800* | 20,566* | 259,629 |
| Loss for the year | (21,116) | - | - | - | - |
| Issue of share (note 30) | - | 21,205 | - | - | 21,205 |
| At 31 December 2020 | (220,332) | 122,468* | 137,800* | 20,566* | 280,834 |

* These reserve accounts comprise the other reserves of HK\$280,834,000 (2019: HK\$259,629,000) in the statement of financial position.

41 COMPARATIVE AMOUNTS

Certain Comparative amounts have been reclassified to conform to the current year's presentation. In the opinion of the directors of the Company, this presentation would better reflect the financial performance of the Group.

42 APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 30 March 2021.