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HENGDELI HOLDINGS LIMITED

亨得利控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3389)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2020	2019	YoY change
	RMB'000	RMB'000	
Revenue	1,219,856	2,417,181	-49.5%
Gross (loss)/profit	(148,223)	390,504	-138.0%
Loss for the year	(386,524)	(324,117)	19.3%
Loss attributable to equity shareholders	(383,076)	(332,520)	15.2%

The board (the “Board”) of directors (the “Directors”) of Hengdeli Holdings Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2020 (hereinafter referred to as the “year” or “year under review”), which have been audited by the Company’s auditor, ZHONGHUI ANDA CPA LIMITED in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants and reviewed by the audit committee of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

(Expressed in Renminbi)

	Note	2020 RMB'000	2019 RMB'000
Revenue	3	1,219,856	2,417,181
Cost of sales		<u>(1,368,079)</u>	<u>(2,026,677)</u>
Gross (loss)/profit		(148,223)	390,504
Other revenue	4	47,796	47,493
Other net gain/(loss)	4	45,435	(338,066)
Distribution costs		(135,781)	(261,342)
Administrative expenses		<u>(156,073)</u>	<u>(164,442)</u>
Loss from operations		(346,846)	(325,853)
Finance costs	5(a)	<u>(7,354)</u>	<u>(11,189)</u>
Loss before taxation	5	(354,200)	(337,042)
Income tax (expense)/credit	6	<u>(32,324)</u>	<u>12,925</u>
Loss for the year		<u>(386,524)</u>	<u>(324,117)</u>
Attributable to:			
Equity shareholders of the Company		(383,076)	(332,520)
Non-controlling interests		<u>(3,448)</u>	<u>8,403</u>
Loss for the year		<u>(386,524)</u>	<u>(324,117)</u>
Losses per share	8		
Basic		<u>RMB(0.082)</u>	<u>RMB(0.071)</u>
Diluted		<u>RMB(0.082)</u>	<u>RMB(0.071)</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME*For the year ended 31 December 2020*

(Expressed in Renminbi)

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Loss for the year	(386,524)	(324,117)
Other comprehensive income for the year (after tax and reclassification adjustments)		
Items that may be reclassified subsequently to profit or loss:		
Release of exchange differences on disposal of subsidiaries	(1,282)	–
Exchange differences on translation of overseas subsidiaries' financial statements	(87,058)	37,466
	(88,340)	37,466
Items that will not be reclassified subsequently to profit or loss:		
Equity investments at fair value through other comprehensive income – net movement in fair value reserves (non-recycling)	61,041	10,498
Exchange differences on translation of equity investments at fair value through other comprehensive income	(33,087)	7,455
Exchange differences on translation of the Company's financial statements	(80,096)	27,779
	(52,142)	45,732
Total comprehensive income for the year	(527,006)	(240,919)
Attributable to:		
Equity shareholders of the Company	(527,878)	(250,314)
Non-controlling interests	872	9,395
Total comprehensive income for the year	(527,006)	(240,919)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

(Expressed in Renminbi)

	<i>Note</i>	2020 RMB'000	2019 <i>RMB'000</i>
Non-current assets			
Investment properties		134,057	137,738
Property, plant and equipment		479,302	538,087
		613,359	675,825
Intangible assets		2,772	1,724
Goodwill	<i>9</i>	63,547	66,502
Other investments	<i>10</i>	487,251	400,184
Prepayment and deposits	<i>12</i>	1,642	21,333
Deferred tax assets		52	34,003
		1,168,623	1,199,571
Current assets			
Inventories	<i>11</i>	653,106	1,309,758
Trade and other receivables	<i>12</i>	535,487	416,263
Other investments	<i>10</i>	29,147	–
Current tax recoverable		235	2,192
Deposits with banks		226,880	548,115
Cash and cash equivalents	<i>13</i>	1,014,983	1,165,169
		2,459,838	3,441,497
Current liabilities			
Trade and other payables and contract liabilities	<i>14</i>	117,563	221,453
Bank loans	<i>15</i>	2,322	142,094
Lease liabilities		12,248	121,586
Current taxation		5,179	25,816
		137,312	510,949
Net current assets		2,322,526	2,930,548
Total assets less current liabilities		3,491,149	4,130,119

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*As at 31 December 2020*

(Expressed in Renminbi)

	<i>Note</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Non-current liabilities			
Bank loans	<i>15</i>	27,596	74,523
Lease liabilities		21,418	72,053
Deferred tax liabilities		2,325	1,956
		51,339	148,532
NET ASSETS			
		3,439,810	3,981,587
CAPITAL AND RESERVES			
Share capital		22,337	22,337
Reserves	<i>7(b)</i>	3,344,357	3,872,278
Total equity attributable to equity shareholders of the Company			
		3,366,694	3,894,615
Non-controlling interests			
		73,116	86,972
		3,439,810	3,981,587

NOTES

(Expressed in Renminbi unless otherwise indicated)

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The final results set out in this announcement do not constitute the consolidated financial statements of the Group for the year ended 31 December 2020 but are extracted therefrom.

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual 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. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Exchange”).

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value:

- equity investments

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group.

- Amendments to HKFRS 3, Definition of a Business
- Amendments to HKAS 1 and 8, Definition of Material
- Amendments to HKFRS 7, 9, and HKAS 39, Interest Rate Benchmark Reform
- Amendments to HKFRS 16, COVID-19-Related Rent Concessions

None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are retail and trading of watches and jewellery with comprehensive related customer services and maintenance, manufacturing of watch accessories, and provision of shop design and decoration service.

Turnover represents the sales value of goods sold to customers, net of value added tax and deduction of any sales discounts and returns.

The Group's customer base is diversified and at the end of reporting period 21% and 37% of the Group's revenue come from the largest customer and top five customers respectively.

Further details regarding the Group's principal activities are disclosed in note 3(b).

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography (mainly in Hong Kong, Taiwan, Malaysia and PRC).

The Group has identified the following reportable segments:

- Retail and trading
- Retail and trading of watches and jewellery business;
- Industrial group
- Manufacturing of watch accessories and shop design and decoration services business.

During the year, the Group has sold and closed certain retail stores of the watches and jewellery business. Therefore, the manufacturing of the watch accessories and shop design and decoration services business have become more significant in current year and this segment is separately reported with the comparative figures restated accordingly.

In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group's retail and trading business is separated into the two reportable segments on a geographical and products and services basis, as the divisional managers for each of these regions report directly to the senior executive team. This segment primarily derive their retail and trading revenue through their own trading network. No operating segments have been aggregated to form the reportable segments.

(i) **Segment results and assets**

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the profit or loss and assets attributable to each reportable segment on the following basis:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. However, other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets, is not measured.

The measure used for reporting segment profit is "gross profit".

Segment assets represent inventories only, without eliminating the unrealised inter-segment profits.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2020 and 2019 is set out below.

	Retail and Trading				Industrial group		All others		Total	
	Hong Kong		Taiwan/Malaysia		PRC		2020	2019	2020	2019
	2020	2019	2020	2019	2020	2019				
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue from										
external customers	501,403	1,461,994	175,764	216,215	428,048	588,541	114,641	150,431	1,219,856	2,417,181
Inter-segment revenue	-	30,467	34,692	656	72,578	102,286	-	-	107,270	133,409
Reportable segment revenue	501,403	1,492,461	210,456	216,871	500,626	690,827	114,641	150,431	1,327,126	2,550,590
Reportable segment gross (loss)/profit	(286,028)	217,626	26,536	43,613	88,146	123,158	23,123	6,107	(148,223)	390,504
Reportable segment assets	450,751	1,020,649	174	167,353	101,821	121,244	100,360	535	653,106	1,309,781

The retail and trading segment in Hong Kong is mainly engaged in the retail and trading of watch and jewellery in Hong Kong. During the year ended 31 December 2020, impairment losses of RMB11,561,000 was recognised to reduce the carrying amount of the property, plant and equipment allocated to this segment.

The retail and trading segment in Taiwan/Malaysia is mainly engaged in the retail and trading of watch and jewellery in Taiwan region and Malaysia. During the year ended 31 December 2020, an impairment loss of RMB4,075,000 was recognised to reduce the carrying amount of the property, plant and equipment allocated to this segment.

Results and assets of the segment below the quantitative thresholds ("All others") are mainly attributable to trading of iron ore business.

(ii) *Reconciliations of reportable segment revenues, profit or loss and assets*

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue		
Revenue for reportable segments	1,212,485	2,400,159
Revenue for other segments	114,641	150,431
Elimination of inter-segment revenue	<u>(107,270)</u>	<u>(133,409)</u>
Consolidated revenue	<u><u>1,219,856</u></u>	<u><u>2,417,181</u></u>
(Loss)/profit		
Gross (loss)/profit for reportable segments	(171,346)	384,397
Gross profit for other segments	<u>23,123</u>	<u>6,107</u>
	(148,223)	390,504
Other revenue	47,796	47,493
Other net gain/(loss)	45,435	(338,066)
Distribution costs	(135,781)	(261,342)
Administrative expenses	(156,073)	(164,442)
Finance costs	<u>(7,354)</u>	<u>(11,189)</u>
Consolidated loss before taxation	<u><u>(354,200)</u></u>	<u><u>(337,042)</u></u>
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Assets		
Assets for reportable segments (inventories)	552,746	1,309,267
Assets for other segments (inventories)	100,360	514
Elimination of unrealised inter-segment profit	<u>–</u>	<u>(23)</u>
	653,106	1,309,758
Trade, other receivables, prepayment and deposits	537,129	437,596
Current tax recoverable	235	2,192
Cash and cash equivalents	1,014,983	1,165,169
Deposits with banks	226,880	548,115
Investment properties	134,057	137,738
Property, plant and equipment	479,302	538,087
Intangible assets	2,772	1,724
Goodwill	63,547	66,502
Other investments	516,398	400,184
Deferred tax assets	<u>52</u>	<u>34,003</u>
Consolidated total assets	<u><u>3,628,461</u></u>	<u><u>4,641,068</u></u>

(iii) Geographic information

The following table sets out information about the geographical locations of (i) the Group's revenue from external customers and (ii) the Group's investment properties, property, plant and equipment, intangible assets, goodwill, prepayment and deposits and other investments ("specified non-current assets"). The geographical locations of customers are based on the locations at which the services were provided or the goods delivered. The geographical locations of the specified non-current assets are based on the physical locations of the assets, in the case of property, plant and equipment, the locations of operations to which they are allocated, in the case of intangible assets and goodwill, and the locations of operations, in the case of prepayment and deposits and other investments.

The Group's businesses are mainly managed in three principal economic environments, Mainland China, Hong Kong and Taiwan/Malaysia.

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from external customers		
Hong Kong	501,403	1,612,425
Mainland China	542,689	588,541
Taiwan/Malaysia	175,764	216,215
	<hr/>	<hr/>
Total	1,219,856	2,417,181
	<hr/> <hr/>	<hr/> <hr/>
Specified non-current assets		
Hong Kong	591,430	536,144
Mainland China	478,085	508,858
Taiwan/Malaysia	99,056	120,566
	<hr/>	<hr/>
Total	1,168,571	1,165,568
	<hr/> <hr/>	<hr/> <hr/>

4. OTHER REVENUE AND NET LOSS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
(a) Other revenue		
Interest income	23,604	31,915
Dividend income from other investments	8,839	7,309
Rental income from investment properties	2,714	2,640
Rental income from operating leases, other than those relating to investment properties	607	732
Government grants	7,109	742
Others	4,923	4,155
	<u>47,796</u>	<u>47,493</u>

In 2020, the Group successfully applied for government grants that mainly relate to funding support and wage subsidy set up by the Chenzhou Government and the Hong Kong SAR Government respectively. The purpose of the funding support is to grant financial assistance to commercial entities who invest into its technical development district. Under the conditions of the wage subsidy, the Group is required to retain its local employees even if business is affected by the COVID-19 outbreak.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
(b) Other net gain/(loss)		
Impairment of goodwill (<i>note 9</i>)	–	(168,695)
Impairment of property, plant and equipment	(15,636)	(172,157)
Net foreign exchange gain	22,815	3,254
Net loss on disposal of property, plant and equipment	(3,929)	(468)
Net loss on disposal of subsidiaries	(19,697)	–
Rental concession	17,691	–
Net realised gain on financial assets held for trading	2,827	–
Net gain on lease modifications	40,583	–
Fair value gain on financial assets held for trading	781	–
	<u>45,435</u>	<u>(338,066)</u>

5. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
(a) Finance costs		
Interest on bank loans	3,830	4,819
Interest on lease liabilities	3,276	5,678
Bank charges	248	692
	<u>7,354</u>	<u>11,189</u>
(b) Staff costs		
Salaries, wages and other benefits	112,736	145,183
Contributions to defined contribution retirement plans	7,190	14,930
	<u>119,926</u>	<u>160,113</u>
(c) Other items		
Amortisation of intangible assets	936	504
Depreciation		
– Investment properties and property, plant and equipment	35,296	36,091
– Right-of-use assets	33,439	101,251
Impairment losses of		
– Trade receivables	2,407	156
– Other receivables	(1,147)	1,505
– Goodwill	–	168,695
– Property, plant and equipment	15,636	172,157
Expenses relating to short-term leases and leases of low-value assets	5,952	31,335
Variable lease payments not included in the measurement of lease liabilities	1,822	482
Auditors' remuneration	1,871	3,174
Cost of inventories [#]	<u>1,368,079</u>	<u>2,026,677</u>

[#] Cost of inventories includes RMB81,680,000 (2019: RMB85,646,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each type of expenses.

6. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current tax – Hong Kong Profits Tax		
Provision for the year	–	3,596
Over-provision in respect of prior years	<u>(6,624)</u>	<u>(721)</u>
	----- (6,624)	----- 2,875
Current tax – Overseas		
Provision for PRC Corporate Income Tax for the year	5,887	9,620
Provision for Taiwan Income Tax for the year	–	239
Under-provision in respect of prior years	<u>30</u>	<u>150</u>
	----- 5,917	----- 10,009
Deferred tax		
Origination and reversal of temporary differences	<u>33,031</u>	<u>(25,809)</u>
	----- 32,324	----- (12,925)
Total	<u>32,324</u>	<u>(12,925)</u>

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Loss before taxation	<u>(354,200)</u>	<u>(337,042)</u>
Notional tax on loss before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	(59,202)	(51,719)
Tax effect of non-taxable income	(4,176)	(4,531)
Tax effect of non-deductible expenses	583	35,141
Over-provision in respect of prior years	(6,594)	(571)
Reversal of deferred tax assets recognised in prior years	32,539	–
Effect of tax losses not recognised	<u>69,174</u>	<u>8,755</u>
Actual tax expense/(credit)	<u>32,324</u>	<u>(12,925)</u>

Pursuant to the rules and regulations of the Cayman Islands, the Company is exempt from income tax in the Cayman Islands. In addition, subsidiaries located in jurisdictions other than Hong Kong, Mainland China, Taiwan and Malaysia are not subject to any income tax in these jurisdictions.

The provision for Hong Kong Profits Tax is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HKD2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision of the Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2019.

The applicable income tax rate of the Group's Mainland China subsidiaries is 25% (2019: 25%) for the year.

The provision for Taiwan Income Tax is calculated at 20% (2019: 20%) of the estimated assessable profits for the year.

The provision for Malaysia Income Tax is calculated at 24% (2019: 24%) of the estimated assessable profits for the year.

7. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) Dividends payable to equity shareholders of the company attributable to the year

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interim dividend declared and paid of RMBnil per ordinary share (2019: RMB0.038 per ordinary share)	—	177,181

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the company attributable to the previous financial year, approved and paid during the year

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of RMBnil per share (2019: 0.012 per share)	—	55,952

(b) **Share capital**

Authorised and issued share capital

	2020		2019	
	Number of shares	Amount <i>HKD</i>	Number of shares	Amount <i>HKD</i>
Authorised:				
Ordinary shares of HKD0.005 each	<u>10,000,000,000</u>	<u>50,000,000</u>	<u>10,000,000,000</u>	<u>50,000,000</u>
Issued and fully paid:				
At 1 January	4,662,666,959	23,313,334	4,662,666,959	23,313,334
Share repurchased	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December	<u>4,662,666,959</u>	<u>23,313,334</u>	<u>4,662,666,959</u>	<u>23,313,334</u>
		equivalent <i>RMB'000</i>		equivalent <i>RMB'000</i>
		<u>22,337</u>		<u>22,337</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

8. LOSSES PER SHARE

(a) **Basic losses per share**

The calculation of basic losses per share is based on the loss attributable to equity shareholders of the Company of RMB383,076,000 (2019: loss of RMB332,520,000) and the weighted average of 4,662,666,959 ordinary shares (2019: 4,653,379,288 ordinary shares) in issue during the year, calculated as follows:

(i) **Weighted average number of ordinary shares**

	2020	2019
Issued ordinary shares at 1 January	4,662,666,959	4,662,666,959
Effect of shares under share award scheme	<u>-</u>	<u>(9,287,671)</u>
Weighted average number of ordinary shares at 31 December	<u>4,662,666,959</u>	<u>4,653,379,288</u>

(ii) Consolidated loss attributable to ordinary equity shareholders of the Company

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Loss attributable to equity shareholders of the Company	<u><u>(383,076)</u></u>	<u><u>(332,520)</u></u>

(iii) Losses per share

	2020	2019
Basic losses per share	<u><u>RMB(0.082)</u></u>	<u><u>RMB(0.071)</u></u>

(b) Diluted losses per share

There were no dilutive potential ordinary shares during the years ended 31 December 2020 and 2019, and therefore, diluted losses per share are the same as basic losses per share.

9. GOODWILL

	<i>RMB'000</i>
Cost:	
At 1 January 2019	256,248
Exchange adjustments	<u>1,803</u>
At 31 December 2019	----- 258,051
At 1 January 2020	258,051
Exchange adjustments	<u>(33,711)</u>
At 31 December 2020	----- 224,340
Accumulated impairment losses:	
At 1 January 2019	(22,654)
Exchange adjustments	(200)
Impairment loss for the year	<u>(168,695)</u>
At 31 December 2019	----- (191,549)
At 1 January 2020	(191,549)
Exchange adjustments	<u>30,756</u>
At 31 December 2020	----- (160,793)
Carrying amount:	
At 31 December 2020	<u><u>63,547</u></u>
At 31 December 2019	<u><u>66,502</u></u>

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units identified according to places of operations and reportable segments as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Industrial group	<u>63,547</u>	<u>66,502</u>

The recoverable amounts of the cash-generating units are determined based on value-in-use calculations. The key assumptions for the value-in-use calculations are the discount rate and revenue/gross profit growth rate. The Group prepares cash flow forecasts derived from the two year financial budgets and extrapolates cash flows for the following three to five years based on estimated annual average growth rates in sales ranging from 5% to 26% (2019: 3% to 13%), growth rates in gross profit ratio ranging from 1% to 7% (2019: 0% to 2%), at a discount rate from 10.8% to 11.4% (2019: 14.5%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments. The growth rates are determined by management based on the performance of the relevant cash-generating units and their estimated future development.

10. OTHER INVESTMENTS

(a) Equity investments at fair value through other comprehensive income

	<i>Note</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Equity securities designated at FVOCI (non-recycling)			
– Listed securities		485,766	400,184
– Unlisted securities	(i)	<u>1,485</u>	<u>–</u>
		<u>487,251</u>	<u>400,184</u>

Notes:

- (i) The directors are in the view that the cost of RMB1,485,000 represents the best estimate of fair value within that range.
- (ii) The value of the above equity securities was individually insignificant (individually less than 5% of the Group's total assets).

(b) Equity investments at fair value through profit or loss

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Equity securities, at fair value		
– Listed securities	<u>29,147</u>	<u>–</u>

11. INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Raw materials	12,503	22,132
Work in progress	36,865	34,940
Finished goods	603,738	1,252,686
	653,106	1,309,758

Inventories recognised as an expense in the consolidated statement of profit or loss comprise:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Carrying amount of inventories sold	1,061,685	1,987,625
Write down of inventories	313,754	49,890
Reversal of write-down of inventories	(7,360)	(10,838)
	1,368,079	2,026,677

12. TRADE AND OTHER RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current assets		
Trade receivables, net of loss allowance	187,197	161,219
Other receivables, net of loss allowance	<u>264,399</u>	<u>187,903</u>
Financial assets measured at amortised cost	451,596	349,122
Prepayment and deposits	<u>83,891</u>	<u>67,141</u>
	<u>535,487</u>	<u>416,263</u>
Non-current assets		
Prepayment and deposits	<u>1,642</u>	<u>21,333</u>
	<u>537,129</u>	<u>437,596</u>

All of the trade and other receivables in current assets are expected to be recovered within one year.

Other receivables include advances to third parties of RMB213,285,000 (2019: RMB129,241,000), which are interest bearing at 6% per annum as at 31 December 2020 and are recoverable within one year. The advances to third parties are fully secured by collaterals obtained by the Group as at 31 December 2020.

Ageing analysis

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 3 months	168,318	155,740
Over 3 months but less than 12 months	6,215	5,420
Over 12 months	<u>12,664</u>	<u>59</u>
	<u>187,197</u>	<u>161,219</u>

Trade receivables are due within 30 to 180 days from the date of billing.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Cash at banks and on hand	<u>1,014,983</u>	<u>1,165,169</u>

14. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade payables	55,292	131,789
Contract liabilities	10,222	15,904
Other payables and accrued expenses	<u>52,049</u>	<u>73,760</u>
	<u>117,563</u>	<u>221,453</u>

Ageing analysis

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 1 month	23,289	108,979
Over 1 month but less than 3 months	10,258	18,422
Over 3 months but less than 12 months	8,076	4,108
Over 12 months	<u>13,669</u>	<u>280</u>
	<u>55,292</u>	<u>131,789</u>

15. BANK LOANS

As at 31 December 2020, the bank loans were repayable as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 1 year or on demand	<u>2,322</u>	142,094
After 1 year but within 2 years	4,636	4,658
After 2 years but within 5 years	13,908	13,973
After 5 years	<u>9,052</u>	55,892
	<u>27,596</u>	<u>74,523</u>
	<u>29,918</u>	<u>216,617</u>

As at 31 December 2020, the bank loans were secured as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Bank loans within one year or on demand		
Secured	2,322	54,836
Unsecured	<u>–</u>	<u>87,258</u>
	<u>2,322</u>	<u>142,094</u>
Bank loans after one year		
Secured	<u>27,596</u>	<u>74,523</u>
	<u>29,918</u>	<u>216,617</u>

Certain secured bank loans are all drawn down under certain bank facilities secured by mortgages over certain land and buildings of the Group with aggregate carrying values of RMB99,047,000 (2019: RMB142,163,000).

As at 31 December 2020 and 2019, the banking facilities were not subject to the fulfilment of the covenants based on the lending arrangements with financial institutions.

MANAGEMENT DISCUSSION AND ANALYSIS

I. FINANCIAL REVIEW

The Group maintained a sound and stable financial position.

Revenue

For the year ended 31 December 2020, the Group recorded revenue of approximately RMB1,219,856,000 (2019: RMB2,417,181,000), representing a year-on-year decrease of 49.5%, among which retail sales amounted to approximately RMB677,167,000 (2019: RMB1,678,209,000), representing a year-on-year decrease of 59.6%; the revenue from the industrial group and others amounted to approximately RMB542,689,000 (2019: RMB738,972,000), representing a year-on-year decrease of 26.6%.

Under the background of the spread of coronavirus and deep recession of the economy, watch retail in each region of the Group, especially in Hong Kong, has experienced difficulties, resulting in a notable decline in retail sales. Many shops recorded significant losses. During the year, the Group resolved to cease the operation of the retail business. The industrial group and others also faced significant adversity and challenge. With the impact of global pandemic, business operation was becoming more difficult.

Breakdown of revenue: (for the year ended 31 December 2020)

	2020		2019	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Retail and Trading Business				
Hong Kong	501,403	41.1	1,461,994	60.5
Taiwan/Malaysia	175,764	14.4	216,215	8.9
Industrial Group and others	542,689	44.5	738,972	30.6
Total	<u>1,219,856</u>	<u>100</u>	<u>2,417,181</u>	<u>100</u>

Gross loss and gross loss margin

As of 31 December 2020, the Group's gross loss amounted to approximately RMB148,223,000 (2019: gross profit RMB390,504,000), representing a year-on-year decrease of 138.0%. Gross loss margin was approximately 12.2% (2019: gross profit margin 16.2%), representing a year-on-year decrease of 28 percentage points. The decrease in gross profit and gross profit margin was mainly due to the significant decrease in the retail revenue resulted from the impact of the economic environment and other factors such as the increase in the inventory provisions.

Loss for the year

The Group recorded loss of approximately RMB386,524,000 during the year (2019: RMB324,117,000). Loss attributable to equity shareholders amounted to approximately RMB383,076,000 (2019: RMB332,520,000). The loss was mainly due to the decrease of revenue affected by the economic environment, the inventory provisions, the impairment of property, plant and equipment, and the loss on the disposal of the retail business.

Financial status and net debt to equity ratio

The Group maintained a sound and stable financial position. As at 31 December 2020, the Group had total equity of approximately RMB3,439,810,000 (2019: RMB3,981,587,000) and net current assets of approximately RMB2,322,526,000 (2019: RMB2,930,548,000), with cash and cash equivalents and deposits with approximately RMB1,241,863,000 (2019: RMB1,713,284,000) and total bank loans of approximately RMB29,918,000 (2019: RMB216,617,000). As at 31 December 2020, there were no bank loans bearing interests at fixed rates (2019: RMB102,733,000, at fixed rates of approximately 3.59% to 5.10%). All bank loans bore interests at floating rates of 1.40% to 1.75% (2019: 1.70% to 3.06%). As at 31 December 2020, approximately 0% (2019: 18%), 0% (2019: 29%), 0% (2019: 6%) and 100% (2019: 47%) of bank loans were denominated in RMB, HKD, USD and NTD, respectively. The maturity profile of bank loans is set out in note 15 to the accompanying financial statements. During the year under review, there was no sign of significant changes in the Group's demand for loans in a particular quarter.

As at 31 December 2020, the Group's total debt amounted to approximately RMB29,918,000 (2019: RMB216,617,000). The net debt to equity ratio of the Group was zero (2019: zero) (Net debt is defined as total debt (which includes total interest-bearing borrowing) less cash and cash equivalents). It established a solid foundation for the further business expansion of the Group.

The Group adopts prudent treasury policies in financial and cash management, manages bank credit availability and monitors risks of credit cost centrally in various ways. The Group maintains a good partnership with a number of banks which provide financing facilities, and reviews its funding liquidity and financing needs regularly.

Foreign exchange risk

The Group's transactions are mainly denominated in HKD, RMB and NTD. During the year under review, the foreign exchange movements of such currencies were managed properly. Accordingly, the Group was not exposed to significant risks associated with foreign exchange fluctuations. The Group has not entered into foreign exchange hedging arrangements to manage foreign exchange risk but has been actively monitoring its foreign exchange risk.

Pledge of assets

As at 31 December 2020, the Group had land and buildings equivalent to approximately RMB99,047,000 (2019: RMB142,163,000) pledged as security for mortgage.

Contingent liabilities

As at 31 December 2020, the Group had no material contingent liabilities (2019: nil).

Current assets

As at 31 December 2020, the current assets of the Group amounted to approximately RMB2,459,838,000 (2019: RMB3,441,497,000), comprising inventories of approximately RMB653,106,000 (2019: RMB1,309,758,000), trade and other receivables of approximately RMB535,487,000 (2019: RMB416,263,000), cash and cash equivalents and deposits with banks of approximately RMB1,241,863,000 (2019: RMB1,713,284,000).

As at 31 December 2020 cash and cash equivalents of approximately 14% (2019: 11%), 82% (2019: 77%) and 4% (2019: 12%) were denominated in RMB, HKD and other currencies, respectively.

Current liabilities

As at 31 December 2020, the current liabilities of the Group amounted to approximately RMB137,312,000 (2019: RMB510,949,000), comprising bank loans of approximately RMB2,322,000 (2019: RMB142,094,000), trade and other payables of approximately RMB117,563,000 (2019: RMB221,453,000), lease liabilities of approximately RMB12,248,000 (2019: RMB121,586,000) and current taxation of approximately RMB5,179,000 (2019: RMB25,816,000).

Capital structure

The Company's capital structure is composed of issued share capital, reserves and accumulated profits. As at 31 December 2020, the issued share capital of the Company was 4,662,666,959 shares (2019: 4,662,666,959 shares), with reserves and accumulated profits of approximately RMB3,344,357,000 (2019: RMB3,872,278,000) in total.

Significant investment, material acquisition and disposal

During the year under review, Taiwan Hengdeli Company Limited* (台灣亨得利有限公司), an indirect wholly-owned subsidiary of the Company, had sold 80% equity interest and the paid-up capital of Jing Guang Tang Company Limited* (精光堂國際股份有限公司), an indirect non-wholly owned subsidiary of the Company, to Lee Shun-Lung (李順龍), Lee Shun-Fu (李順富) and Chung Hsiao-Yun (鍾曉芸), at a consideration of approximately NTD93.7 million (equivalent to approximately HKD25 million). For details of this disposal, please refer to the announcements of the Company dated 23 October 2020 and 20 November 2020.

The Company has no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year under review, except as disclosed above and in the notes to the financial statements in this announcement.

Except as disclosed in the notes to the financial statements, the Company did not hold other significant investments during the year under review.

Final Dividend

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

II. BUSINESS REVIEW

During the year under review, the Group's business was primarily focused on the sale of internationally renowned-brand watches, comprehensive related customer services and maintenance in Hong Kong, Macau, Taiwan and Malaysia, high-end product accessories manufacturing, commercial space integration services and e-commerce, etc.

Retail Network

The Group's retail network is mainly located in Hong Kong, Macau, Taiwan and Malaysia where retail stores mainly included "Elegant", "Hengdeli"/"Watchshoppe", and certain single-brand boutiques. "Elegant" stores are mainly located in Hong Kong, selling high-end internationally renowned-brand watches, while "Hengdeli"/"Watchshoppe" stores are mainly located in Taiwan and Malaysia, selling mid-end and mid-to-high-end internationally renowned-brand watches.

The Group has maintained sound business relationships with many world-renowned-brand watch suppliers over the years, including SWATCH Group, LVMH Group, RICHMONT Group and KERING Group, etc. During the year, the Group was engaged in the distribution of over 50 internationally renowned brands from the above four major brand suppliers and other independent watchmakers, including Breguet, Blancpain, Bulgari, Cartier, Girard-Perregaux, Harry Winston, IWC, Jaeger-LeCoultre, Longines, Mido, Omega, Parmigiani, Vacheron-Constantin, Tissot, Zenith, and Hublot, etc.

During the year under review, the Group's retail business of renowned watches suffered unprecedented tough times due to the raging of the novel coronavirus that almost resulted in a global lockdown which, in addition to ongoing US-China trade frictions and geopolitical unrest, has made the operating environment in Hong Kong, Macau, Taiwan and Southeast Asia exceptionally difficult that the Group's retail business of renowned watches suffered heavy losses as a result. Retail sales in Hong Kong experienced a substantial decline, representing a year-on-year decrease of 65.7%, while the sales in Taiwan and Malaysia was also hit hard. Watch retail business of the Group suffered tremendous losses.

In the face of severe crises, the Board continued to closely monitor the efficiency and effectiveness of the renowned watch business, and carry out periodic performance evaluations promptly. The Group has adopted various methods, including shop closure and staff layoff, to reduce cost and enhance efficiency. As stated in the announcement of the Group dated 4 September 2020, the Group had also attempted to liaise with landlords of its shops for rental reductions or concessions, but the result was not very fruitful. The Group has only achieved temporary reductions of rent from certain landlords as most landlords were not willing to commit to any long-term arrangement of rental reductions or concessions. As disclosed in the Company's interim results announcement for the six months ended 30 June 2020, the Group had recorded an unaudited loss attributable to equity shareholders of approximately RMB71,000,000, which was mainly attributable to the decrease in revenue of the retail business of renowned watches and the impairment of property, plant and equipment, and inventory provisions.

Given the unfavorable factors such as challenging conditions, severe losses in the renowned watch business and deteriorating market environment, the Group expected that the prospects for the retail business in Hong Kong, Macau, Taiwan and Southeast Asia would be gloomy, and that the outlook for renowned watch retail business would be even more pessimistic. The Board rendered such business to no longer be commercially attractive. As stated in the announcement of the Group dated 4 September 2020, after careful and due consideration, the Board has resolved to cease the operation of the Group's renowned watch retail business.

During the year under review, the Group's retail sales of renowned watches recorded a heavy loss, representing a year-on-year decrease of 59.6%. As of 31 December 2020, the Group still operated two retail outlets located in Hong Kong and Macau, respectively. The Group also had four branded pop-up shops in Hong Kong. As of the date of this announcement, the Group has sold or closed the said two outlets and the four pop-up shops, and has generally ceased the operation of the renowned watch retail business. The Board believed that it is in the best interests of the Company and its shareholders as a whole to cease the watch retail business, so that the Group will be able to focus its resources on businesses that can offer favorable prospects to the Group.

Industrial Group

The Group has a relatively mature industrial chain for high-end product accessories manufacturing and platforms for commercial space integration services, mainly covering from the manufacturing of watch accessories and packaging products to commercial space design, production and decoration. Companies are mainly located in Suzhou, Guangzhou and Dongguan. Our branches and subsidiaries have earned a solid reputation in their respective fields, forming tight relationships, mutual trust and interest sharing with brand suppliers. A wide customer base covering China, Switzerland, the United States and other countries in the Asia Pacific region has been established.

During the year under review, the industrial group also faced great difficulties and challenges. The impact of the pandemic has highlighted the operation difficulties of its three subsidiaries which are all located in Mainland China, and many of our peers in the Mainland have failed to survive. As the Group is committed to stability and development through innovation, while ensuring the safety and health of our staff, the Group resumed production in a timely manner and took various measures to respond to the pandemic, achieving relatively significant results. Under the concerted efforts of all staff members, the revenue of the industrial group for the year under review decreased by 27.3% as compared with the same period of last year, which was less than the peers in the industry. However, the industrial group still recorded a profit of over RMB10 million, which was a challenging achievement. The sound operation of the industrial group has laid a solid foundation for future business development of the Group.

During the year, the pandemic has been well-controlled in Mainland China, and each major economic indicator has shown positive signals, which indicate the overall economy standstill after the strike of the pandemic. The Group believes that with significantly extensive market advantages and potential for domestic demand, the favorable long-term fundamentals of China's economy remain unchanged and the developing trend of the economy at a medium to high speed will continue. Under the background of the strong industrial strategy of the Chinese government, the Group will seek opportunities to conduct industry integration of the upstream and downstream products, as well as strive for improving leadership in the industry through fully seizing the development opportunities, further strengthening the industrial management together with technical R&D and innovation, taking quality as the priority and driving growth by innovation. By leveraging Mainland China's stable economic development environment, we will maintain and expand the manufacturing of accessories for mid-to-high-end products such as watches that can bring stable income to the Group, improve the level of existing commercial space integration services, and conduct deeper cooperation with brands and international peers in various ways. At the same time, the Group will spare no effort to implement a limited diversification process on its business, integrate the manufacturing of high-end product accessories into other fields of high-end lifestyle products such as jewelry, cosmetics and mobile phones, and expand the commercial space beautification services to the fields including living space beautification services, and continue to expand our business model, enrich product pipelines, so as to realize a new breakthrough in our development. The Group firmly believes that the industrial group, through its rapid improvement, will provide internal impetus to the Group's sustainability and development.

III. OUTLOOK

At present, the COVID-19 pandemic is still spreading globally, the trend for political instability is still very obvious while there are still many difficulties and challenges for economic operation in the world and China. However, the pandemic in Mainland China is largely under control, and for the year as a whole, there have been positive signals from various key economic indicators, showing that the economy has generally withstood the impact of the pandemic. The Group believes that with China's significant market advantages and potentials for domestic demand, the long-term positive fundamentals of China's economy remain unchanged and the trend for medium-to-high economic growth will continue. Adhering to the principle of "sound, steady and long-term operations", the Group will continue to seek new business opportunities with an open mind and innovative thinking based on the stable and sustainable development of its overall business, so as to ensure the healthy survival of the Group.

In 2021, the Group will leverage the consistently stable environment of economic development in Mainland China to focus on expanding the development in the production of high-end accessories for renowned watches, and on engaging in deeper cooperation with brands and international counterparts in various ways, striving to become an indispensable independent segment in the global industrial ecological chain of high-end watch groups. The Group will continue to enhance the service standard of its integrated services for commercial space in domestic and international markets. In 2021, the Group will also embark on a limited number of diversified business activities to include the production of high-end product accessories in other high-end lifestyle products such as jewellery, cosmetics and mobile phones, and to expand its commercial space beautification services to include living space beautification services, so as to truly establish the Group as a platform for business-friendly and home-friendly lifestyle services and achieve a new breakthrough in corporate development.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Tuesday, 11 May 2021 to Friday, 14 May 2021 (both days inclusive) to confirm the members on the register of members who are eligible to attend and vote at the general meeting. In order to establish entitlements to attending and voting at the general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 10 May 2021.

PURCHASE, SALE OR REPURCHASE OF SECURITIES

During the year under review, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities (2019: nil).

As of 31 December 2020, the issued share capital of the Company was 4,662,666,959 shares (2019: 4,662,666,959 shares).

AUDIT COMMITTEE AND THE SCOPE OF WORK OF ZHONGHUI ANDA CPA LIMITED

The Company has established an audit committee in compliance with the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “Exchange”). The audit committee comprises three independent non-executive Directors, namely, Messrs. Cai Jianmin (Chairman), Wong Kam Fai, William and Liu Xueling, who are responsible for reviewing the accounting principles and practices adopted by the Company as well as significant or unusual items, internal controls, financial reporting, risk management and control matters, which included a review on the audited annual results for the year ended 31 December 2019 and the interim report for 2020. According to the terms of reference of the audit committee adopted and implemented by the Company, the audit committee is responsible for reviewing the accounting principles and practices adopted by the Company as well as significant or unusual items, internal controls, financial reporting matters and duties of risk management and control.

During the year, the audit committee of the Company held meetings on 31 March, 7 May, 5 June and 18 August 2020 to review the annual report, change of auditor and interim financial reports of the Group respectively. All members of the committee namely, Messrs. Cai Jianmin, Wong Kam Fai, William and Liu Xueling, attended the meetings.

The final results of the Company for the year ended 31 December 2020 have been reviewed by the audit committee of the Company. The financial figures in this announcement of the Group’s results for the year ended 31 December 2020 have been agreed by the Group’s auditor, ZHONGHUI ANDA CPA Limited, to the amounts set out in the Group’s audited consolidated financial statements for the year.

REMUNERATION COMMITTEE

The Company has established a remuneration committee in compliance with the Listing Rules. During the year under review, the remuneration committee comprises three Directors including Messrs. Liu Xueling (Chairman) and Cai Jianmin, being independent non-executive Directors, and Mr. Zhang Yuping, Chairman and executive Director of the Group. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management of the Group.

The remuneration committee held one meeting during the year to review matters related to the remuneration structure of the Directors and senior management of the Company. All members, namely Messrs. Liu Xueling, Cai Jianmin and Zhang Yuping, attended the meeting.

According to the terms of reference of the remuneration committee adopted by the Company, the remuneration committee acts as a consultant regarding the remuneration matters of the Directors and senior management of the Company, while the Board retains the ultimate power to approve the remuneration of the Directors and senior management.

NOMINATION COMMITTEE

The Company has established a nomination committee in compliance with the Listing Rules. During the year under review, the nomination committee comprises three Directors, including Mr. Zhang Yuping (Chairman), executive Director and Chairman of the Group, and Messrs. Cai Jianmin and Liu Xueling, who are independent non-executive Directors. The Company has adopted and implemented the terms of reference of the nomination committee. The nomination committee is mainly responsible for making recommendations to the Board on the appointment of Directors and succession of the Board.

Two meetings were held by the nomination committee during the year to review matters related to the nomination and selection policies for the Board members as well as matters related to retirement by rotation and re-election of Directors. All members of the nomination committee (namely Messrs. Zhang Yuping, Cai Jianmin, and Liu Xueling) attended the meeting.

CORPORATE GOVERNANCE

Since its establishment, the Company has been committed to maintaining a high standard of corporate governance practice to ensure transparency of the Group's management, so that the long term development of our shareholders, customers, employees as well as the Group can be safeguarded. The Company has established the Board, an audit committee, a remuneration committee and a nomination committee that are up to the requirements as being diligent, accountable and professional. ZHONGHUI ANDA CPA Limited has been appointed as the Group's external auditors.

Compliance with the Corporate Governance Code

The Company has adopted the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The Directors are of the opinion that the Company had complied with the Corporate Governance Code except for a deviation from provision A.2.1 during the year under review. Given its existing corporate structure, the roles of Chairman and Chief Executive Officer of the Company have not been separated, but are both performed by Mr. Zhang Yuping. Although the roles and duties of Chairman and Chief Executive Officer have been performed by the same individual, all major decisions have been made after consultation with the Board or, where applicable, directly by the Board. There are three independent non-executive Directors in the Board, all of which possess adequate independence and therefore the Board believes that the Company has achieved adequate balance of power and been able to guarantee scientific decision-making.

Composition of the Board

To maintain high-level independence and objectivity in decision making, and supervise the management of the Group in a comprehensive and equitable manner, the Board of the Group comprises three executive Directors (Messrs. Zhang Yuping (Chairman of the Group), Huang Yonghua and Lee Shu Chung, Stan), one non-executive Director (Mr. Shi Zhongyang) and three independent non-executive Directors (Messrs. Cai Jianmin, Wong Kam Fai, William and Liu Xueling).

To ensure that the Board operates in an independent and accountable manner, the three executive Directors have been assigned with different responsibilities. Mr. Zhang Yuping, Chairman, is in charge of the Group's overall management and strategic development, while Mr. Lee Shu Chung, Stan is in charge of the overall business operation of the Group, and Mr. Huang Yonghua is responsible for coordination and supervision.

The three independent non-executive Directors have professional expertise and extensive experience in the areas of accounting, economics, law, computing control and management, and business administration, respectively, and can adequately act for the benefits of our shareholders. Their terms of office are as follows:

Cai Jianmin: 26/9/2020-25/9/2023;

Wong Kam Fai, William: 26/9/2020-25/9/2023;

Liu Xueling: 01/6/2019-31/5/2022.

One of our non-executive Directors, Mr. Shi Zhongyang, has professional expertise and extensive experience in the areas of law and business management. He will supervise the Company's daily operation, and provide corresponding opinions and recommendations in a timely manner, which is beneficial to the standardised operation of the Company and safeguarding the interests of our shareholders. His term of office is as follows:

Shi Zhongyang: 15/2/2021-14/2/2024.

Duties of the Board

The Board of the Company is accountable to the general meeting and performs the following major duties: reporting duties to the general meetings; executing the resolutions of the general meetings; determining investment and profit distribution proposals of the Company; formulating plans as to the increase or decrease of the registered capital of the Company; preparing plans in respect of the split-up, consolidation, alteration and dissolution of the Company; appointing and dismissing the general manager of the Company and determining his or her remuneration.

In respect of the corporate governance functions, during the year under review, the Board discharged corporate governance duties in accordance with its terms of reference, or to be specific, the following corporate governance duties during the year under review:

- reviewing policies and practices on corporate governance;
- reviewing and monitoring the training and continuous professional development of the Directors and senior management;
- reviewing and monitoring the Company's policies and practices on compliance with the legal and regulatory requirements;
- reviewing and monitoring the code of conduct applicable to the Directors and employees; and
- reviewing the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

Members of the Board are provided with appropriate and sufficient information in a timely manner for their understanding of the latest developments of the Group, which is helpful in the discharge of their duties.

The management of the Company is accountable to the Board and performs the following major duties: reporting to the Board, executing the resolutions of the Board, and completing all the tasks assigned by the Board.

Risk Management and Internal Control

The Group has established effective risk management and internal control systems to provide reasonable (though not absolute) assurance against material misstatement or loss and to manage (rather than eliminate) risks of failing to achieve business objectives. The Board is responsible for the risk management and internal control systems and reviewing their effectiveness.

In order to safeguard the interests of our shareholders, the Group has established an enterprise risk management framework to provide top-down and bottom-up approaches to identify, assess, mitigate and monitor key risks in a proactive and structured manner. The Group has established departments dedicated to the supervision and control of financial and operational risks, including an internal audit department. Such departments formulate annual internal audit plans and are responsible for performing daily and special internal control procedures in aspects relating to business operation, financial reporting and compliance control and in accordance with the targets set by the senior management, which includes conducting audits and examination of all aspects and at all departments once or twice a year, so as to enhance internal control and ensure the sound development of the Company. Such departments will report the audit and examination results to the audit committee and the Board for them to assess the effectiveness of the internal control and risk management of the Company, any significant failures or weaknesses in internal control, and to take necessary actions promptly to remedy any significant failures or weaknesses. If necessary, such departments will follow up regularly on remedial actions in response to significant internal control failures or weaknesses.

The Company has established a disclosure mechanism regarding the procedures of proper information disclosure to ensure that inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

The audit committee and the Board have reviewed the effectiveness of the internal control systems of the Group and completed the annual review on the risk management and internal control systems (including their effectiveness). Based on the reviews made by independent auditors and the Group's self-assessment of the risk management and internal control systems of the Group, the Group believes that, these systems are effective and adequate. However, we will continue to review the effectiveness of these systems as well as further improve the internal administration and control systems of the Company if required.

ATTENDANCE OF THE DIRECTORS AT THE MEETINGS

In 2020, a total of eleven Board meetings and an annual general meeting were held by the Company. The attendance of the Directors at the meetings was as follows:

Name	Frequency of attendance at the Board meetings		Rate of attendance	Remarks	Frequency of attendance at the annual general meeting		Rate of attendance	Remarks
	Frequency of attendance at the Board meetings	Rate of attendance			Frequency of attendance at the annual general meeting	Rate of attendance		
Zhang Yuping	10	91%	Abstained	1	100%			
Huang Yonghua	11	100%		1	100%			
Lee Shu Chung, Stan	11	100%		1	100%			
Cai Jianmin	11	100%		1	100%			
Shi Zhongyang	6	55%	By proxy 5 times	0	0	By proxy		
Wong Kam Fai, William	11	100%		1	100%			
Liu Xueling	11	100%		1	100%			

Members of the Board are provided with appropriate and sufficient information in a timely manner for their understanding of the latest developments of the Group, which is helpful in the discharge of their duties.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Every newly appointed Director will be given an introductory session so as to ensure that he/she will gain appropriate understanding of the Group's business and his/her duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements. The Company provides regular updates on the business development of the Group. The Directors are continually updated on the latest development regarding the Listing Rules and other applicable statutory requirements to ensure compliance with and upkeep of good corporate governance practices.

The Directors are committed to complying with the requirements under provision A.6.5 of the Corporate Governance Code on Directors' training so as to ensure that their contribution to the Board remains informed and relevant. During the year under review, the Directors of the Company attended relevant training in accordance with the Listing Rules and provided the relevant training records to the Company. According to the records, details of Directors' attendance at the training sessions during the year under review are as follows:

Name	Updates on corporate governance, laws and regulations		Accounting/financial/management and other professional expertise	
	Material reading	Seminar/training attending	Material reading	Seminar/training attending
Zhang Yuping	✓	✓	✓	✓
Huang Yonghua	✓	✓	✓	✓
Lee Shu Chung, Stan	✓	✓	✓	✓
Shi Zhongyang	–	–	–	–
Cai Jianmin	✓	✓	✓	✓
Wong Kam Fai, William	✓	✓	✓	✓
Liu Xueling	✓	✓	✓	✓

INDEPENDENCE OF THE BOARD

The Board has received confirmation from all the independent non-executive Directors regarding their independence made in accordance with Rule 3.13 of the Listing Rules. The Board considers that all the incumbent independent non-executive Directors have met the requirements of the guidelines set out in Rule 3.13 of the Listing Rules and remained independent.

SECURITIES TRANSACTIONS BY DIRECTORS

The Board had adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the Company's code for securities transactions by its Directors. After making specific enquiries with all the Directors, the Company has confirmed that during the year under review, all of them had complied with the standard as required by the above code.

By Order of the Board
Zhang Yuping
Chairman

Hong Kong, 23 March 2021

As at the date of this announcement, the executive Directors are Mr. Zhang Yuping (Chairman), Mr. Huang Yonghua and Mr. Lee Shu Chung, Stan; the non-executive Director is Mr. Shi Zhongyang; and the independent non-executive Directors are Mr. Cai Jianmin, Mr. Wong Kam Fai, William and Mr. Liu Xueling.

* For identification purpose only