

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



## **CEFC Hong Kong Financial Investment Company Limited**

**香港華信金融投資有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1520)**

### **ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020**

#### **FINANCIAL HIGHLIGHTS**

- Revenue of the Group for the year ended 31 December 2020 was approximately HK\$114,474,000 (2019: HK\$158,714,000), representing a decrease of approximately 27.9% as compared with the previous year.
- The loss attributable to owners of the Company for the year ended 31 December 2020 was approximately HK\$68,115,000 (2019: HK\$76,680,000), representing a decrease of approximately 11.2%.
- Loss per share of the Company for the year ended 31 December 2020 was approximately HK\$4.03 cents (2019: HK\$4.54 cents).
- The Directors do not recommend the payment of any final dividend for the year ended 31 December 2020.

## RESULTS

The board of Directors (the “Board”) hereby announce the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2020 together with the comparative figures for the corresponding period in 2019 as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2020*

	<i>Notes</i>	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
<b>Revenue</b>	5	<b>114,474</b>	158,714
Cost of sales		<u><b>(89,517)</b></u>	<u>(126,518)</u>
<b>Gross profit</b>		<b>24,957</b>	32,196
Other income and gains	5	<b>9,663</b>	10,947
Impairment of goodwill		<b>(22,734)</b>	(30,290)
Reversal of/(provision for) expected credit loss on trade receivables		<b>8</b>	(246)
Provision for expected credit loss on loans and interest receivables		<b>(17,021)</b>	(989)
Selling and distribution expenses		<b>(16,271)</b>	(17,698)
Administrative expenses		<b>(45,325)</b>	(64,093)
Finance costs		<u><b>(315)</b></u>	<u>(875)</u>
<b>Loss before income tax</b>	6	<b>(67,038)</b>	(71,048)
Income tax expense	7	<u><b>(1,077)</b></u>	<u>(5,632)</u>
Loss for the year attributable to owners of the Company		<u><b>(68,115)</b></u>	<u>(76,680)</u>
<b>Other comprehensive income, net of tax, attributable to owners of the Company</b>			
<b>Item that may be reclassified subsequently to profit or loss:</b>			
Exchange gain/(loss) on translation of financial statements of foreign operations		<u><b>1,343</b></u>	<u>(541)</u>
<b>Total comprehensive income for the year attributable to owners of the Company</b>		<u><u><b>(66,772)</b></u></u>	<u><u>(77,221)</u></u>
<b>Loss per share attributable to owners of the Company</b>	9		
Basic and diluted loss per share (HK cents)		<u><u><b>(4.03)</b></u></u>	<u><u>(4.54)</u></u>

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*As at 31 December 2020*

	<i>Notes</i>	<b>2020</b> <b>HK\$'000</b>	<b>2019</b> <b>HK\$'000</b>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>9,620</b>	11,535
Right-of-use assets		<b>6,445</b>	9,822
Goodwill	<i>10</i>	<b>34,632</b>	57,366
Intangible asset		<b>800</b>	800
Loans and interest receivables	<i>13</i>	<b>–</b>	1,472
Deferred tax assets		<b>599</b>	1,591
		<b>52,096</b>	82,586
<b>Current assets</b>			
Inventories	<i>11</i>	<b>11,971</b>	14,987
Trade and bills receivables	<i>12</i>	<b>19,136</b>	24,099
Loans and interest receivables	<i>13</i>	<b>108,762</b>	111,029
Deposits, prepayments and other receivables		<b>12,594</b>	13,630
Tax recoverable		<b>594</b>	–
Pledged bank deposit		<b>–</b>	3,726
Cash and bank balances		<b>78,547</b>	100,997
		<b>231,604</b>	268,468
<b>Current liabilities</b>			
Trade and bills payables	<i>14</i>	<b>24,651</b>	22,900
Accruals, other payables and receipts in advance		<b>13,098</b>	11,680
Contract liabilities		<b>2,551</b>	2,089
Lease liabilities	<i>15</i>	<b>3,654</b>	5,568
Provision for taxation		<b>–</b>	641
		<b>43,954</b>	42,878
<b>Net current assets</b>		<b>187,650</b>	225,590
<b>Total assets less current liabilities</b>		<b>239,746</b>	308,176
<b>Non-current liabilities</b>			
Lease liabilities	<i>15</i>	<b>1,321</b>	2,979
<b>Net assets</b>		<b>238,425</b>	305,197
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital		<b>16,900</b>	16,900
Reserves		<b>221,525</b>	288,297
<b>Total equity</b>		<b>238,425</b>	305,197

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Statutory reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2019	16,900	375,963	2,988	3,344	683	(17,460)	382,418
Loss for the year	–	–	–	–	–	(76,680)	(76,680)
<b>Other comprehensive income</b>							
– Exchange loss on translation of financial statements of foreign operations	–	–	–	–	(541)	–	(541)
<b>Total comprehensive income for the year</b>	–	–	–	–	(541)	(76,680)	(77,221)
At 31 December 2019	16,900	375,963	2,988	3,344	142	(94,140)	305,197
Loss for the year	–	–	–	–	–	(68,115)	(68,115)
<b>Other comprehensive income</b>							
– Exchange gain on translation of financial statements of foreign operations	–	–	–	–	1,343	–	1,343
<b>Total comprehensive income for the year</b>	–	–	–	–	1,343	(68,115)	(66,772)
At 31 December 2020	16,900	375,963	2,988	3,344	1,485	(162,255)	238,425

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

### 1. GENERAL

CEFC Hong Kong Financial Investment Company Limited (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands on 19 June 2013. The address of the registered office and principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KYI-III, Cayman Islands and Room 706, 7/F, Capital Centre, 151 Gloucester Road, Wanchai, Hong Kong respectively. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The parent of the Company is New Seres CEFC Investment Fund LP (in liquidation) (“New Seres”), an exempted limited liability partnership registered in Cayman Islands. To the best of the directors’ knowledge, information and belief, the ultimate controlling party of the Company is Shanghai Zhong’an United Investment Fund Co., Ltd.

An order was made on 10 August 2020 for winding up of New Seres and the appointment of Mr. Jess Shakespeare of PwC Corporate Finance & Recovery (Cayman) Limited, Mr. Yat Kit Jong and Mr. Man Chun So, both of PricewaterhouseCoopers Limited, as the joint official liquidators of New Seres. For details, please refer to the announcements of the Company dated 15 June 2020 and 12 August 2020.

The Company is an investment holding company and its subsidiaries (together the “Group”) are principally engaged in design, manufacturing and trading of apparels and provision of money lending services.

The consolidated financial statements for the year ended 31 December 2020 were approved for issue by the board of directors on 31 March 2021.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

### 2.1 Adoption of new or amended HKFRSs – effective 1 January 2020

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) has issued a number of amended 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 HKAS 8	Definition of Material
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Interest Rate Benchmark Reform

None of these amended HKFRSs has a material impact on the Group’s results and financial position for the current or prior period.

The Group has not early applied any new or amended HKFRSs that is not yet effective for the current accounting period.

### 2.2 New or amended HKFRSs that have been issued but are not yet effective

The following new or amended HKFRSs, potentially relevant to the Group’s consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group’s current intention is to apply these changes on the date on which they become effective.

Amendments to HKAS 1 HK Interpretation 5 (2020)	Classification of Liabilities as Current or Non-current <sup>5</sup> Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause <sup>5</sup>
Amendments to HKAS 16	Proceeds before Intended Use <sup>3</sup>
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract <sup>3</sup>
Amendments to HKFRS 3	Reference to the Conceptual Framework <sup>4</sup>
Amendments to HKFRS 16	Covid-19 – Related Rent Concessions <sup>1</sup>
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 <sup>2</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 June 2020

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>4</sup> Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2023

### **Amendments to HKAS 1, Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause**

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

HK Interpretation 5 (2020) (“HK Int 5 (2020)”) was revised as a consequence of the Amendments to HKAS 1 issued in August 2020. The revision to HK Int 5 (2020) updates the wordings in the interpretation to align with the Amendments to HKAS 1 with no change in conclusion and do not change the existing requirements

### **Amendments to HKAS 16, Proceeds before Intended Use**

The amendments prohibit 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, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

### **Amendments to HKAS 37, Onerous Contracts – Cost of Fulfilling a Contract**

The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

### **Amendments to HKFRS 3, Reference to the Conceptual Framework**

The amendments update HKFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

## **Amendment to HKFRS 16, Covid-19-Related Rent Concessions**

HKFRS 16 was amended to provide a practical expedient to lessees in accounting for rent concessions arising as a result of the Covid-19 pandemic, by including an additional practical expedient in HKFRS 16 that permits entities to elect not to account for rent concessions as modifications. The practical expedient applies only to rent concessions occurring as a direct consequence of Covid-19 pandemic and only if all of the following criteria are satisfied:

- (a) 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;
- (b) the reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- (c) there is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with this practical expedient, which means the lessee does not need to assess whether the rent concession meets the definition of lease modification. Lessees shall apply other requirements of HKFRS 16 in accounting for the rent concession.

## **Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2**

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the “Reform”). The amendments complement those issued in November 2019 and relate to (a) changes to contractual cash flows in which an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; (b) hedge accounting in which an entity will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and (c) disclosures in which an entity will be required to disclose information about new risks arising from the Reform and how it manages the transition to alternative benchmark rates.



## **Amendments to HKFRSs, Annual Improvements to HKFRSs 2018-2020**

The annual improvements amend a number of standards, including:

- HKFRS 9, Financial Instruments, which clarifies the fees included in the ‘10 per cent’ test in paragraph B3.3.6 of HKFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other’s behalf are included.
- HKFRS 16, Leases, which amends Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

The management anticipates that application of these new or amended HKFRSs will have no material impact to the Group’s financial performance and consolidated financial positions and/or on the disclosures in the future consolidated financial statements.

### **3. BASIS OF PREPARATION**

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as the “HKFRSs”) and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosure required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been prepared under historical cost convention.

It should be noted that accounting estimates and assumptions are used in the preparation of the consolidated financial statements. Although these estimates are based on management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company. All values are rounded to the nearest thousand except when otherwise indicated.

### **4. SEGMENT INFORMATION**

An operating segment is a component of the Group that is engaged in business activities from which the Group may earn revenue and incur expenses, and is identified on the basis of the internal management reporting information that is provided to and regularly reviewed by the Group’s chief operating decision maker in order to allocate resources and assess performance of the segment. During the year, the Company has identified design, manufacturing and trading of apparels and provision for money lending services as the reportable and operating segments of the Group.

Each of these operating segments is managed separately as each of them requires different business strategies.

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than certain cash and bank balances and other corporate assets not attributable to the reportable segments;
- all liabilities are allocated to operating segments other than certain lease liabilities and other corporate liabilities not attributable to the reportable segments; and
- segment results represent the loss or profit incurred or earned by each segment without allocation of certain other income, certain administrative expenses, such as the Group’s rental expenses of head office, administrative staff costs, and directors’ emoluments.

The segment information provided to the executive directors for the reportable segments during the year is as follows:

	<b>Design, manufacturing and trading of apparels <i>HK\$ '000</i></b>	<b>Money lending services <i>HK\$ '000</i></b>	<b>Total <i>HK\$ '000</i></b>
<b>Year ended 31 December 2020</b>			
Revenue from external customers	107,053	7,421	114,474
Segment loss	(14,646)	(39,226)	(53,872)
<i>Reconciliation</i>			
Bank interest income			693
Unallocated corporate expenses			(13,544)
Finance costs			(315)
Loss before tax			(67,038)
<b>At 31 December 2020</b>			
Segment assets	69,540	149,789	219,329
Other corporate assets			64,371
Total assets			283,700
Segment liabilities	41,115	845	41,960
Other corporate liabilities			3,315
Total liabilities			45,275
<b>Other segment information</b>			
<b>Year ended 31 December 2020</b>			
Amount included in the measure of segment profit or loss or assets:			
Impairment of inventories	(2,634)	—	(2,634)
Reversal of provision for expected credit loss (“ECL”) on trade receivables	8	—	8
Provision for ECL on loans and interest receivables	—	(17,021)	(17,021)
Impairment of goodwill	—	(22,734)	(22,734)
Subcontracting income, net ( <i>note 5</i> )	5,817	—	5,817
Depreciation ( <i>note (a)</i> )	(4,551)	(2,159)	(6,710)
Capital expenditure ( <i>note (a)</i> )	79	—	79

	Design, manufacturing and trading of apparels <i>HK\$ '000</i>	Money lending services <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
Year ended 31 December 2019			
Revenue from external customers	146,995	11,719	158,714
Segment loss	(15,733)	(26,506)	(42,239)
<i>Reconciliation</i>			
Bank interest income			773
Unallocated corporate expenses			(28,707)
Finance costs			(875)
Loss before tax			(71,048)
<b>At 31 December 2019</b>			
Segment assets	83,915	190,802	274,717
Other corporate assets			76,337
Total assets			351,054
Segment liabilities	41,008	2,507	43,515
Other corporate liabilities			2,342
Total liabilities			45,857
<b>Other segment information</b>			
<b>Year ended 31 December 2019</b>			
Amount included in the measure of segment profit or loss or assets:			
Impairment of inventories	(1,456)	–	(1,456)
Provision for ECL on trade receivables	(246)	–	(246)
Provision for ECL on loans and interest receivables	–	(989)	(989)
Impairment of goodwill	–	(30,290)	(30,290)
Subcontracting income, net ( <i>note 5</i> )	8,814	–	8,814
Depreciation ( <i>note (a)</i> )	(4,594)	(1,806)	(6,400)
Capital expenditure ( <i>note (a)</i> )	916	2,120	3,036

The Company is an investment holding company and the principal places of the Group's operations are in the PRC (including Hong Kong). Management determines the Group is domiciled in Hong Kong, the PRC, which is the Group's principal operating location.

The Group's revenue from external customers is divided into the following geographical areas, based on locations of customers:

	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
The USA	<b>100,037</b>	130,894
Hong Kong	<b>12,665</b>	22,912
Others	<b>1,772</b>	4,908
	<u><b>114,474</b></u>	<u>158,714</u>

Geographical location of external customers is based on the location at which the customers are domiciled.

The principal non-current assets held by the Group are located in the PRC (including Hong Kong).

Revenue from each of the major customers which accounted for 10% or more of the Group's revenue for the year is set out below:

	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
Customer A	<b>50,399</b>	82,648
Customer B	<b>18,210</b>	N/A*

\* Accounted for less than 10% of the Group's revenue

As at 31 December 2020, 11% (2019: 5%) of the Group's trade receivables was due from these customers. Revenue earned from these customers were reported in the design, manufacturing and trading of apparels operating segment.

*Note:*

- (a) Depreciation and capital expenditures, which represent the depreciation, additions and lease modifications of property, plant and equipment and right-of-use assets, have been included in:

	<b>Design, manufacturing and trading of apparels <i>HK\$ '000</i></b>	<b>Money lending services <i>HK\$ '000</i></b>	<b>Unallocated <i>HK\$ '000</i></b>	<b>Consolidated <i>HK\$ '000</i></b>
<b>For the year ended 31 December 2020</b>				
Depreciation	4,551	2,159	1,334	8,044
Capital expenditures	79	–	2,046	2,125
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>For the year ended 31 December 2019</b>				
Depreciation	4,594	1,806	7,136	13,536
Capital expenditures	916	2,120	1,181	4,217
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## **5. REVENUE, AND OTHER INCOME AND GAINS**

Revenue represents the interest income from loans receivable, and sales of apparels, net of returns, discounts and sales related taxes. Further details regarding the Group's principal activities are disclosed in note 4.

The Group's revenue from contracts with customers represents sale of goods which is recognised at a point in time. An analysis of the Group's revenue and other income and gains are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Revenue from contracts with customers:</b>		
Sale of goods	107,053	146,995
<b>Revenue from other source:</b>		
Interest income from loans receivable	7,421	11,719
Total revenue	<u>114,474</u>	<u>158,714</u>
<b>Other income and gains</b>		
Gain on disposals of property, plant and equipment	—	12
Gain on lease modification	—	496
Bank interest income	693	773
Subcontracting income, net	5,817	8,814
Government subsidies ( <i>note</i> )	2,446	730
Sundry income	707	122
	<u>9,663</u>	<u>10,947</u>

*Note:* Included in profit or loss is HK\$2,050,000 (2019: Nil) of government grants obtained from Employment Support Scheme ("ESS") under the Anti-epidemic Fund launched by the Hong Kong SAR Government supporting the payroll of the Group's employees. Under the ESS, the Group had to commit to spend these grants on payroll expenses, and not reduce employee head count below prescribed levels for a specified period of time. The Group does not have other unfulfilled obligations relating to this program.

The performance obligation of sale of goods is satisfied upon delivery and acceptance of the apparels products and payment is generally due within 10-180 days from delivery. Some contracts provide customers with a right of return which gives rise to variable consideration subject to conditions.

The disaggregation of the Group's revenue from contracts with customers are as follows:

	<b>Design, manufacturing and trading of apparels</b>	
	<b>2020</b>	2019
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
<b>Geographical markets</b>		
The USA	<b>100,037</b>	130,894
Hong Kong	<b>5,244</b>	11,193
Others	<b>1,772</b>	4,908
	<hr/>	<hr/>
Total revenue from contracts with customers	<b>107,053</b>	146,995
	<hr/> <hr/>	<hr/> <hr/>

The following table provides information about trade and bills receivables and contract liabilities from contracts with customers.

	<b>2020</b>	2019
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
As at 31 December		
Trade and bills receivables ( <i>note 12</i> )	<b>19,136</b>	24,099
Contract liabilities	<b>2,551</b>	2,089
	<hr/> <hr/>	<hr/> <hr/>

The Group has applied the practical expedient to its sales contracts of apparels products and therefore no information are disclosed for revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for apparels production that had an original expected duration of one year or less.



## 6. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging/(crediting):

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Auditor's remuneration	750	710
Cost of inventories recognised as expense ( <i>note (i)</i> )	89,517	126,518
Depreciation of property, plant and equipment	2,435	4,164
Written-off of property, plant and equipment	–	6,122
Depreciation of right-of-use assets	5,609	9,372
Foreign exchange loss/(gain), net	71	(156)
Impairment on inventories	2,634	1,456
(Reversal of)/provision for ECL on trade receivables	(8)	246
Provision for ECL on loans and interest receivables	17,021	989
Short-term lease expense	872	1,364
Employee benefit expense (including directors' emoluments)		
– Wages and salaries	41,891	52,309
– Pension scheme contribution – defined contribution plans	1,844	2,082
– Other benefits	1,556	2,090
	<b>=====</b>	<b>=====</b>

*Note:*

- (i) Cost of inventories includes subcontracting charges, staff costs, and depreciation, totaling HK\$27,897,000 (2019: HK\$41,990,000).

## 7. INCOME TAX EXPENSE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current income tax charged for the year:		
Hong Kong profits tax	79	597
USA corporate income tax ("CIT")	–	6
Under provision in respect of prior years	–	1,287
	<hr/>	<hr/>
	79	1,890
Deferred tax	998	3,742
	<hr/>	<hr/>
	1,077	5,632
	<hr/> <hr/>	<hr/> <hr/>

- (i) Pursuant to the rules and regulations of the British Virgin Islands ("BVI") and the Cayman Islands, the Group is not subject to any taxation under these jurisdictions.
- (ii) Hong Kong profits tax is calculated at 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong, except for the first HK\$2,000,000 of qualified entity's assessable profit is calculated at 8.25% (2019: 8.25%), which is in accordance with the new two-tiered profits tax rates regime with effect from the year of assessment 2018/19.
- (iii) PRC enterprise income tax ("EIT") is calculated at a rate of 25% (2019: 25%) on the estimated assessable profits of the Group's PRC subsidiary for the year.

Under the law of the PRC on EIT, corporate withholding income tax is levied on the foreign investor for the dividends distributed out of the profits generated by the foreign investment enterprises. The Group's applicable withholding income tax rate is 5% (2019: 5%).

- (iv) The USA CIT comprises federal income tax is calculated at a rate of 15% and state and local income tax is calculated at various rates on the estimated assessable profits of the Group's subsidiary in the USA.

## 8. DIVIDENDS

No interim dividend was declared during the year (2019: Nil) and the board of directors of the Company does not recommend the payment of any final dividend for the year ended 31 December 2020 (2019: Nil).

## 9. LOSS PER SHARE

The calculations of basic loss per share are based on the loss for the year attributable to owners of the Company of approximately HK\$68,115,000 (2019: HK\$76,680,000) and the weighted average of 1,690,000,000 (2019: 1,690,000,000) shares in issue during the year.

Diluted loss per share are the same as the basic loss per share as there were no potential ordinary shares in existence during the years.

## 10. GOODWILL

The amount of goodwill capitalised as an asset, arising from business combination, is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cost at 31 December	99,109	99,109
Accumulated impairment losses	(64,477)	(41,743)
Carrying amount as at 31 December	<u>34,632</u>	<u>57,366</u>

For the purpose of impairment testing, goodwill and intangible asset are allocated to the cash-generating unit (“CGU”) in relation to the Group’s provision for money lending services (“Money Lending CGU”) in Hong Kong.

The recoverable amount of Money Lending CGU has been determined from value-in-use calculation based on cash flow projections from formally approved budgets by management covering a five-year period. The discount rate applied to the cash flow projections is 15.6% (2019: 11.4%). Cash flows beyond the five-year period are extrapolated using a steady growth rate of 3% (2019: 3%), which does not exceed the long-term growth rate for the relevant industry in Hong Kong. The discount rate used is pre-tax and reflected specific risks relating to the relevant Money Lending CGU. The growth rate of cash flows of 3% within the five-year period have been based on past experience.

## 11. INVENTORIES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Raw materials and consumables	4,051	2,778
Work in progress	864	623
Finished goods	18,999	20,895
	<u>23,914</u>	<u>24,296</u>
Less: provision for loss allowance of inventories of finished goods	<u>(11,943)</u>	<u>(9,309)</u>
	<u><b>11,971</b></u>	<u><b>14,987</b></u>

## 12. TRADE AND BILLS RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	19,781	21,727
Less: impairment loss	<u>(645)</u>	<u>(653)</u>
	<u>19,136</u>	<u>21,074</u>
Bills receivable	–	3,025
	<u><b>19,136</b></u>	<u><b>24,099</b></u>

Trade receivables are recognised at their original invoice amounts which represented their fair values at initial recognition. The Group's trade receivables are attributable to a number of independent customers with credit terms. Bills receivable are received from independent customers under the ordinary course of business. The Group normally allows a credit period ranging from 10 to 180 days (2019: 10 to 180 days) to its customers. Trade and bills receivables are non-interest bearing.

Ageing analysis of trade receivables based on invoice date and net of loss allowance is as follows:

	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
0 to 30 days	8,897	5,290
31 to 60 days	4,403	2,659
61 to 90 days	2,230	5,034
91 to 180 days	913	3,466
Over 180 days	2,693	4,625
	<u>19,136</u>	<u>21,074</u>

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

	HK\$'000
At 1 January 2019	407
Provision for loss allowance recognised during the year ( <i>note 6</i> )	<u>246</u>
<b>At 31 December 2019 and 1 January 2020</b>	<b>653</b>
Reversal of provision for loss allowance recognised during the year ( <i>note 6</i> )	<u>(8)</u>
<b>At 31 December 2020</b>	<b><u>645</u></b>

The Group provided for impairment loss on individual assessment based on the accounting policy established under HKFRS 9 for the years ended 31 December 2020 and 2019. The Group did not hold any collateral as security over the trade receivables. However, in order to minimise the credit risk of not receiving payments from its customers, the Group has entered into arrangements with a financial institution in the USA and a bank in Hong Kong (which in turn entered into certain arrangement with an insurance company in this connection), and Hong Kong Export Credit Insurance Corporation (a statutory body which provides Hong Kong exporters with insurance protection against non-payment risks arising from commercial and political events), which offered trade receivable credit protection arrangement against the Group's trade receivables for certain major customers. As at 31 December 2020, trade receivables of approximately HK\$15,323,000 (2019: HK\$7,584,000) were under such arrangements of which if the Group ultimately becomes unable to collect the trade receivables, the Group will be entitled to receive compensation for the trade receivables from the relevant financial institution, the bank and the statutory body.

### 13. LOANS AND INTEREST RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current		
Loans receivable	–	1,472
Current		
Loans receivable	123,763	111,068
Interest receivables	4,808	2,749
Less: impairment loss	(19,809)	(2,788)
	<u>108,762</u>	<u>111,029</u>
	<u><u>108,762</u></u>	<u><u>112,501</u></u>

The Group's loans and interest receivables, which arose from the money lending business of providing corporate loans, personal loans and property mortgage loans in Hong Kong, are denominated in HK\$.

As at 31 December 2020, loans and interest receivables of HK\$58,901,000 (2019: HK\$73,560,000) were unsecured while remaining loans and interest receivables of HK\$49,861,000 (2019: HK\$38,941,000) were secured by charges over certain properties in Hong Kong and personal properties such as diamonds and jewelries, and guaranteed by certain independent third parties. The interest rates on all loans receivable are from 3% to 36% (2019: 2.3% to 36%) per annum and loans receivable are due within 12 months (2019: 12 to 24 months) and contain repayment on demand clause. The maximum exposure to credit risk at each of the reporting dates is the carrying value of the loans and interest receivables mentioned above.

Before granting loans to outsiders, the Group uses an internal credit assessment process to assess the potential borrower's credit quality and defines credit limits granted to borrowers. Credit limits granted attributed to borrowers are reviewed by the management periodically.

As at the reporting date, the Group reviewed its loans and interest receivables for evidence of impairment on both individual and collective basis. The Group recognised impairment loss on individual assessment based on the accounting policy established under HKFRS 9 for the years ended 31 December 2020 and 2019.

The Group has measured impairment loss for loans and interest receivables based on 12-month ECLs unless there have been a significant increase in credit risk since origination, then the allowance will be based on lifetime ECLs. The Group has assessed the ECLs on loans and interest receivables based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. As at 31 December 2020, HK\$1,800,000 (2019: HK\$1,799,000) provision for impairment loss was made on loans and interest receivables that were credit-impaired.

#### 14. TRADE AND BILLS PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	24,651	10,481
Bills payable	–	12,419
	<u>24,651</u>	<u>22,900</u>

Credit periods of trade payables normally granted by its suppliers were ranging from 15 to 120 days.

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0 to 30 days	8,586	6,077
31 to 60 days	1,864	171
61 to 90 days	2,081	851
91 to 180 days	6,961	2,337
Over 180 days	5,159	1,045
	<u>24,651</u>	<u>10,481</u>

Bills payable are normally settled on 180-day credit terms.

## 15. LEASE LIABILITIES

	Office premises <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>As at 1 January 2019</b>	20,490	1,072	21,562
Addition	4,204	—	4,204
Effect of modification to lease terms ( <i>note</i> )	(7,922)	—	(7,922)
Interest expense	827	48	875
Lease payments	(9,906)	(266)	(10,172)
<b>As at 31 December 2019 and 1 January 2020</b>	7,693	854	8,547
Effect of modification to lease terms ( <i>note</i> )	2,125	—	2,125
Interest expense	279	36	315
Lease payments	(5,746)	(266)	(6,012)
<b>As at 31 December 2020</b>	<u>4,351</u>	<u>624</u>	<u>4,975</u>

*Note:* During the year ended 31 December 2020, the Group remeasured the carrying amounts of lease liabilities to reflect an increase in the lease terms by one to two years (2019: a decrease in the lease terms by one to two years).

The present value of future lease payments as at 31 December 2020 and 2019 is analysed as:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current liabilities	3,654	5,568
Non-current liabilities	<u>1,321</u>	<u>2,979</u>
	<u>4,975</u>	<u>8,547</u>



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

The Group principally engages in (i) design, manufacturing and trading of apparel, namely apparel operation; and (ii) provision of money lending business, namely money lending operation.

### **REVENUE**

Difficult environment had an adverse impact on our revenue for 2020. Affected by global spread of COVID-19 pandemic in 2020, revenue of the Group for the reporting period decreased by approximately 27.9% to approximately HK\$114,474,000 (2019: HK\$158,714,000).

### **APPAREL OPERATION**

Revenue from apparel operation is principally derived from the sales of apparel products. The Group's products can be classified into two categories, namely, private label products and own brand products. Private label products are those designed and manufactured under the private labels owned or specified by the Group's customers, while own brand products are those designed and manufactured under the Group's proprietary labels.

Since the outbreak of COVID-19, the United States is one of the regions mostly affected by the pandemic. The U.S. economy slowed down significantly in the first half of 2020, and in certain period its economy drew to a near total halt. Following rolling out highly accommodative monetary policy and fiscal measures, the U.S. economy showed a sign of recovery in the second half in 2020. As U.S. market is the principal market for our apparel operation, revenue from our apparel operation tumbled in the reporting period amid plunging demand due to difficult environment. Some major U.S. private label customers reduced their orders to us under grim economic environment. On the other hand, we strengthened the partnership with certain existing own brand customers, and this alleviated certain adverse impact arisen from decline of orders from those private label customers.

For the first half of 2020, we recorded a decrease of 61.9% in revenue from apparel operation on year-on-year basis. The decline in revenue from apparel operation narrowed in the second half of 2020. For 2020 as a whole, the revenue from apparel operation was approximately HK\$107,053,000 (2019: HK\$146,995,000), declined by 27.2%. Apparel operation remained the largest contributor to the Group's business, accounting for 93.5% of total revenue.

## **APPAREL OPERATION — PRIVATE LABEL PRODUCTS**

Revenue from certain major private label customers dropped in the year, resulting in revenue from private label products decreased by approximately 46.3% to approximately HK\$56,205,000 (2019: HK\$104,760,000). Private label products continued to be the largest contributor of the apparel operation, contributing 52.5% (2019: 71.3%) of the total revenue from apparel operation for the year. The gross profit derived from private label products decreased by 50.3% to approximately HK\$4,178,000 (2019: HK\$8,405,000) and the gross profit margin decreased to approximately 7.4% in 2020, compared with approximately 8.0% in 2019.

## **APPAREL OPERATION — OWN BRAND PRODUCTS**

Own brand products accounted for 47.5% (2019: 28.7%) of the revenue from apparel operation for the year. For the year 2020, revenue from own brand products increased by approximately 20.4% to approximately HK\$50,848,000 (2019: HK\$42,235,000) and gross profit increased by 10.7% to approximately HK\$13,358,000 (2019: HK\$12,072,000). The gross profit margin for own brand products decreased from approximately 28.6% in 2019 to approximately 26.3% in 2020.

## **MONEY LENDING BUSINESS**

Our money lending business primarily offers loans to individual consumers and small businesses in Hong Kong.

The COVID-19 pandemic also had far-reaching economic and social consequences in Hong Kong and inflicted significant impacts on all walks of life. Many industries experienced extremely difficult operating conditions. Business sentiment in Hong Kong took a big hit. Hong Kong economy contracted by 6.1% in 2020, the sharpest annual decline on record. Subsequent to recession in 2019, the Hong Kong economy registered a contraction for the second consecutive year in 2020, which is the first time on record.

During this difficult time, we supported certain of our customers by agreeing not to charge interest for their outstanding loans, in order to help our customers to weather the difficulties arisen from the COVID-19 pandemic. Revenue from money lending operation was approximately HK\$7,421,000 for the year ended 31 December 2020 (2019: HK\$11,719,000), fell by approximately 36.7%.

Our loans and interest receivables decreased by approximately 3.3%, from approximately HK\$112,501,000 at 31 December 2019 to approximately HK\$108,762,000 at 31 December 2020.

## **COST OF SALES**

As there was no direct cost incurred for money lending operation, cost of sales was incurred entirely for apparel operation only.

The cost of sales was approximately HK\$89,517,000 for the year ended 31 December 2020 (2019: HK\$126,518,000), decreased by approximately 29.2%.

The decrease in cost of sales for 2020 was primarily reflected by less material costs, sub-contracting costs, direct wages and overhead costs due to decline in revenue from apparel operation for the period.

## **GROSS PROFIT AND GROSS PROFIT MARGIN**

Gross profit for the year ended 31 December 2020 was approximately HK\$24,957,000 (2019: HK\$32,196,000), decreased by 22.5%. The gross profit margin increased from approximately 20.3% for the year ended 31 December 2019 to 21.8% for the year ended 31 December 2020. During the year, apparel operation contributed approximately HK\$17,536,000 (2019: HK\$20,477,000) to the gross profit, and money lending operation contributed approximately HK\$7,421,000 (2019: HK\$11,719,000) to the gross profit.

The gross profit from apparel operation decreased by 14.4% to approximately HK\$17,536,000 for the year ended 31 December 2020, due to decline in revenue from apparel operation. Nonetheless, the gross profit margin of apparel operation increased to 16.4% for the year ended 31 December 2020 (2019: 13.9%), principally attributed to change in product mix. For the year 2020, revenue from own brand products, which had higher gross profit margin, increased by approximately 20.4% to approximately HK\$50,848,000 (2019: HK\$42,235,000). On the other hand, revenue from private label products, which had less gross profit margin, decreased by approximately 46.3% to approximately HK\$56,205,000 (2019: HK\$104,760,000).

The gross profit from money lending operation decreased by 36.7% to approximately HK\$7,421,000 for the year ended 31 December 2020 (2019: HK\$11,719,000), as there was decline in revenue from money lending operation in the year. The gross profit margin was 100% for money lending operation for the year ended 31 December 2020 (2019: 100%), as there was no direct cost incurred in generating revenue in the money lending operation.

## **OTHER INCOME AND GAINS**

Other income and gains was approximately HK\$9,663,000 for the year ended 31 December 2020 (2019: HK\$10,947,000), decreased by 11.7%. Due to low utilization of capacity of our Jiaxing factory as a result of sluggish manufacturing demand, we also processed subcontracting orders from outside in a bid to increase income. In 2020, there was subcontracting income of approximately HK\$5,817,000 (2019: HK\$8,814,000), fell by 34.0%.

We received wage subsidies of approximately HK\$2,050,000 (2019: nil) in 2020 granted from the Hong Kong SAR government's Employment Support Scheme under Anti-Epidemic Fund for the use of paying wages of employees.

## **IMPAIRMENT LOSS ON GOODWILL**

Goodwill arose on the acquisition of our money lending operation in November 2016, which was the fair value of consideration exceeding the fair value of the net identifiable assets of the acquiree.

Impairment loss on goodwill of approximately HK\$22,734,000 (2019: HK\$30,290,000) was incurred. This arose from our downward update on future revenue from money lending operation assumptions based on negative outlook of Hong Kong economy. Our money lending business primarily offers loans to individual consumers and small businesses in Hong Kong. The risks to the Hong Kong economy skewed to the downside, and this would unavoidably pose negative impact on our money lending business.

## **REVERSAL OF/(PROVISION FOR) EXPECTED CREDIT LOSS ON TRADE RECEIVABLES**

Reversal of expected credit loss on trade receivables of approximately HK\$8,000 (2019: Provision for expected credit loss of approximately HK\$246,000) was recorded for the year ended 31 December 2020. We provided impairment loss on trade receivables on individual assessment.

## **PROVISION FOR EXPECTED CREDIT LOSS ON LOANS AND INTEREST RECEIVABLES**

Provision for expected credit loss on loans and interest receivables of approximately HK\$17,021,000 (2019: HK\$989,000) was recorded for the year ended 31 December 2020, increased by 1,621.8%. The significant increase in provision was resulted from updates in our credit risk assessment which reflected the expected future impact of continuing uncertainties and challenges over COVID-19 pandemic.

## **SELLING AND DISTRIBUTION EXPENSES**

Selling and distribution expenses mainly consist of (i) import duty and transportation costs for delivery of the products; (ii) staff costs for our sales representatives; and (iii) depreciation of showroom tenancy as right-of-use assets. The selling and distribution expenses incurred in the reporting period were approximately HK\$16,271,000 (2019: HK\$17,698,000), decreased by 8.1% on a year to year basis. During the year, the product mix of apparel operation changed and there were more own brand product orders in 2020, for which we were responsible for import duty and transportation expenses in U.S. for those own brand product orders, thus driving up the import duty and transportation costs. Excluding import duty and transportation expenses in U.S., most of the selling expenses recorded decreases for the reporting period, especially staff costs and travelling expenses. As a percentage of revenue, selling and distribution expenses increased to 14.2% for the year ended 31 December 2020 from 11.2% for the year ended 31 December 2019.

## **ADMINISTRATIVE EXPENSES**

Administrative expenses primarily consist of (i) staff costs; (ii) depreciation of right-of-use assets; and (iii) professional fees. The administrative expenses for the year ended 31 December 2020 were approximately HK\$45,325,000 (2019: HK\$64,093,000), decreased by 29.3%. In 2020, we adopted certain cost-cutting measures to reduce our operation costs. Most of the administrative expenses registered decreases for the period, in particular staff costs, depreciation of right-of-use assets and depreciation of property, plant and equipment. In addition, we scrapped property, plant and equipment of approximately HK\$6,122,000 due to the relocation of head offices in 2019, and there was no related expenditure in 2020.

## **FINANCE COSTS**

Finance costs were approximately HK\$315,000 (2019: HK\$875,000), decreased by 64.0%. Finance costs were the imputed interests on lease liabilities.

## **LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY**

The loss attributable to owners of the Company for the year ended 31 December 2020 was approximately HK\$68,115,000 (2019: HK\$76,680,000), representing a decrease in loss attributable to the owners of the Company of 11.2%. The revenue decreased for the year due to difficult environment, coupled with the substantial increase in provision for expected credit loss on loans and interest receivables. Nonetheless, this financial impact was offset in certain degree by decline in selling and distribution expenses and administrative expenses as previously discussed.

## GOODWILL

Goodwill arose on the acquisition of our money lending operation in November 2016, which was the fair value of consideration exceeding the fair value of the net identifiable assets of the acquiree. Goodwill is subject to impairment review periodically.

Impairment loss on goodwill of approximately HK\$22,734,000 (2019: HK\$30,290,000) was incurred. This arose from our downward update on future revenue from money lending operation assumptions based on negative outlook of Hong Kong economy. Goodwill was valued at approximately HK\$34,632,000 at 31 December 2020.

## INVENTORY

The following table sets out a summary of the Group's inventory balances as at respective financial position dates below:

	As at 31 December 2020 <i>HK\$'000</i>	As at 31 December 2019 <i>HK\$'000</i>
Raw materials and consumables	4,051	2,778
Work in progress	864	623
Finished goods	18,999	20,895
	<hr/>	<hr/>
	23,914	24,296
Less: Provision for loss allowance of inventories of finished goods	(11,943)	(9,309)
	<hr/>	<hr/>
	11,971	14,987
	<hr/>	<hr/>
Inventory turnover day	49	43
	<hr/>	<hr/>

The Group's inventories decreased by approximately HK\$3,016,000 or 20.1%, from approximately HK\$14,987,000 as at 31 December 2019 to approximately HK\$11,971,000 as at 31 December 2020. The inventory turnover day increased from 43 days as at 31 December 2019 to 49 days as at 31 December 2020. In 2020 certain obsolete inventories of approximately HK\$2,634,000 were impaired.

## TRADE AND BILLS RECEIVABLES

The following table sets out a summary of the Group's trade and bills receivables balances as at respective financial position dates below:

	As at 31 December 2020 <i>HK\$'000</i>	As at 31 December 2019 <i>HK\$'000</i>
Trade receivables	19,136	21,074
Bills receivable	—	3,025
	<u>19,136</u>	<u>24,099</u>
Trade receivables turnover day	<u>61</u>	<u>48</u>

The Group's trade and bills receivables decreased by approximately HK\$4,963,000 or 20.6% from approximately HK\$24,099,000 as at 31 December 2019 to approximately HK\$19,136,000 as at 31 December 2020. The trade receivables turnover day increased from 48 days as at 31 December 2019 to 61 days as at 31 December 2020, primarily because there were more orders in 2020 derived from customers who requested for longer credit period.

## LOANS AND INTEREST RECEIVABLES

The Group's loans and interest receivables decreased by approximately 3.3%, from HK\$112,501,000 at 31 December 2019 to approximately HK\$108,762,000 at 31 December 2020. The loans receivable as at 31 December 2020 were mainly comprised of mortgage loans receivables, corporate loans receivables and personal loans receivables.

## DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

The Group's deposits, prepayments and other receivables decreased by approximately HK\$1,036,000 or 7.6% from approximately HK\$13,630,000 as at 31 December 2019 to approximately HK\$12,594,000 as at 31 December 2020, primarily because fewer trade deposits were placed to our suppliers to purchase raw materials and finished goods.

## TRADE AND BILLS PAYABLES

The following table sets out a summary of the Group's trade and bills payables balances as at respective financial position dates below:

	As at 31 December 2020 HK\$'000	As at 31 December 2019 HK\$'000
Trade payables	24,651	10,481
Bills payable	—	12,419
	<u>24,651</u>	<u>22,900</u>
Trade payables turnover day	<u>101</u>	<u>30</u>

The Group's trade and bills payables increased by approximately HK\$1,751,000 or 7.6% from approximately HK\$22,900,000 as at 31 December 2019 to approximately HK\$24,651,000 as at 31 December 2020. The trade payables turnover day increased from 30 days as at 31 December 2019 to 101 days as at 31 December 2020, primarily due to our request of extending credit period granted by suppliers.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, cash and bank balances amounted to approximately HK\$78,547,000 (2019: pledged bank deposits and cash and bank balances of approximately HK\$104,723,000). Total lease liabilities of the Group as at 31 December 2020 was approximately HK\$4,975,000 (2019: HK\$8,547,000), of which approximately HK\$3,654,000 (2019: HK\$5,568,000) would be repayable within one year and all the remaining lease liabilities of approximately HK\$1,321,000 (2019: HK\$2,979,000) would be repayable after one year.

The current ratio of the Group was approximately 5.27 as at 31 December 2020 (2019: 6.26).



## **GEARING RATIO**

The gearing ratio of the Group, calculated as total lease liabilities over total equity was approximately 2.1% as at 31 December 2020 (2019: 2.8%).

## **CHARGE ON ASSETS**

The Group did not have any pledge or charge on assets as at 31 December 2020. As at 31 December 2019, the Group's time deposit of approximately HK\$3,726,000 and building and leasehold land with net carrying value of approximately HK\$5,317,000 were pledged as securities for the Group's bills payable.

## **CONTINGENT LIABILITIES**

As at 31 December 2020, the Group did not have any material contingent liabilities (2019: nil).

## **TREASURY POLICY**

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the period under review. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

## **FOREIGN EXCHANGE EXPOSURE**

The Group derives the majority of its revenue in United States Dollars ("US\$") while substantial portion of our costs are denominated in Renminbi ("RMB"). Appreciation of RMB against US\$ will therefore directly decrease the profit margin of the Group if the Group is unable to increase the selling prices of its products accordingly. If the Group increases the selling prices of its products as a result of the appreciation of RMB, it may in turn affect the Group's competitiveness against its other business competitors. To the extent that the Company needs to convert future financing into RMB for the Group's operations, appreciation of the RMB against the relevant foreign currencies would have an adverse effect on the purchasing power of the RMB amount that the Company would receive from the conversion.

The exchange rates between RMB and US\$ are subject to changes in the PRC Government's policies and global political and economic conditions.

## **MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES**

There was no material acquisition or disposal of subsidiaries and affiliated companies during the years ended 31 December 2020 and 2019.

## **THE SUBSCRIPTION AND THE USE OF PROCEEDS**

As disclosed in the joint announcement issued by the Company and New Seres dated 15 February 2017 (the "Joint Announcement") and the circular of the Company dated 10 April 2017 (the "Circular"), the Company entered into an agreement with New Seres on 26 January 2017 in relation to the subscription of 860,000,000 new shares in the Company by New Seres (the "Subscription"). The Subscription was completed on 2 May 2017, raising net proceeds of approximately HK\$195,720,000. Set out below are the details of the utilisation of the net proceeds from the Subscription during the financial year ended 31 December 2020:

	<b>Intended use of the net proceeds as disclosed in the Joint Announcement and the Circular HK\$'000</b>	<b>Actual use of the net proceeds up to 31 December 2020 HK\$'000</b>	<b>Unutilised net proceeds as at 31 December 2020 HK\$'000</b>
<b>(i) for the development of the loan financing business of the Group including but not limited to:</b>			
— the provision of loans of larger principal amount and longer term (e.g. mortgage loans)	103,432	160,240	Over-utilised of HK\$56,808 (Note 1)
— the expansion of sales and customer service team and the overheads for the loan financing business	9,000	5,261	3,739 (Note 1)
— the marketing campaign for the loan financing business	5,000	1,246	3,754 (Note 1)

	Intended use of the net proceeds as disclosed in the Joint Announcement and the Circular HK\$ '000	Actual use of the net proceeds up to 31 December 2020 HK\$ '000	Unutilised net proceeds as at 31 December 2020 HK\$ '000
(ii) for the development of the securities and asset management business of the Group including but not limited to:			
— the settlement of the outstanding consideration for the Acquisition	28,900	3,000 (Note 3)	25,900 (Note 2)
— the business development of Prior Securities and Prior Asset	11,388	—	11,388 (Note 2)
— the grant of securities margin financing loans	38,000	—	38,000 (Note 2)
	<u>195,720</u>	<u>169,747</u>	<u>25,973</u>

*Notes:*

1. As the development of the financing business has exceeded expectation, no significant additional expenses were expected to be incurred on expansion of sales and customer service team and marketing campaign, and the unutilised proceeds as at 31 December 2020 had accordingly been used principally towards provision of loans to clients.

2. On 25 January 2017, the Group entered into two sale and purchase agreements (as supplemented and amended) thereof (the “Agreements”) with a vendor in relation to the acquisition (the “Acquisition”) of the entire share capital of Prior Securities Limited (“Prior Securities”) and Prior Asset Management Limited (“Prior Asset”). The conditions precedent pursuant to the Agreements were not fulfilled or satisfied by 31 July 2018, being the long stop date of the Agreements, therefore the Acquisition was not completed and the Agreements were automatically terminated.

The amount of HK\$5,000,000 which represented payments of non-refundable deposit for the Acquisition was forfeited after the termination of the Agreements. The forfeiture of the nonrefundable deposit was reflected in the annual result for the year ended 31 December 2018.

The unutilised proceeds, amounting to HK\$75,288,000, which were originally allocated for the development of the securities and asset management business (including the Acquisition), have been retained by the Group for its future acquisition(s), and business development and/or working capital purposes. As there was no suitable merger and acquisition opportunity arising in the meantime to deploy the unutilised proceeds, the unutilised proceeds were re-allocated to working capital purposes after 31 December 2019 of which (i) approximately HK\$45,000,000 is for purchase of raw materials and/or garments for the apparel operation of the Group; (ii) approximately HK\$20,000,000 is for staff costs; (iii) approximately HK\$5,000,000 is for rental and lease payments and; (iv) approximately HK\$5,288,000 is for other operating expenses.

Up to 31 December 2020, of the unutilised proceeds of HK\$75,288,000, (i) approximately HK\$45,000,000 was spent in purchasing of raw materials and/or garments for the apparel operation of the Group; (ii) approximately HK\$20,000,000 was spent in staff costs; (iii) approximately HK\$5,000,000 was spent in rental and lease payments and; (iv) approximately HK\$5,288,000 was spent in other operating expenses.

3. Up to 31 December 2020, the amount of HK\$3,000,000 was utilised which represented payment of the second non-refundable deposit for the Acquisition in accordance with the terms of the Agreements.

## **CAPITAL COMMITMENTS**

As at 31 December 2020, the Group did not have any significant capital commitment (2019: nil).

## **EMPLOYEES AND REMUNERATION POLICY**

As at 31 December 2020, the Group had a total of 208 employees (2019: 293 employees). Total staff costs (including Directors’ emoluments) for the year ended 31 December 2020 were approximately HK\$45,291,000, as compared to approximately HK\$56,481,000 for the year ended 31 December 2019. Remuneration is determined with reference to market norms as well as individual employees’ performance, qualification and experience.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

There was no specific plan for material investments or capital assets as at 31 December 2020 (2019: nil).

## **FINAL DIVIDEND**

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

## **EVENTS AFTER THE REPORTING DATE**

There are no important subsequent events which would materially affect the Company or the Group after 31 December 2020 and up to the date of this announcement.

## **FUTURE PROSPECTS**

Global economy was hard hit by COVID-19 pandemic in 2020. Looking ahead into 2021, outlook for the global economy hinges upon the ability to contain COVID-19 pandemic among countries. On the premise that the COVID-19 pandemic would gradually abate resulting from the implementation of mass vaccination campaigns, we believe the global economy will bounce back gradually in 2021. For U.S., we expect its economy will regain momentum and post a recovery as the COVID-19 pandemic impact could ease on the ground that effective vaccines can be widely deployed, coupled with implementing highly easing monetary policy and the additional fiscal measures in 2021.

On the other hand, tension between China and the U.S. also pose risks to our operation. Although China and the U.S. signed Phase One trade deal in January 2020, China-U.S. relation remained tense throughout 2020, and trade barriers imposed earlier remained in place. Facing the rising trade protectionism, we don't expect existing trade barriers will be lifted in short term. Nonetheless, we expect China-US tensions would not escalate significantly under the new U.S. administration and hopefully this would reduce uncertainties that existed in few years before, and provide a more stable environment for businesses.

Amid an improving external environment, we expect the Hong Kong economy would show some gradual recovery in 2021. However, the recovery pace will hinge upon the degree of how the local epidemic will be contained. Restrictive measures of varying degrees will likely remain in place before the epidemic is effectively under control, inevitably affecting local consumption sentiment and economic activities.

Facing the continuous uncertainties and challenges, we are mindful of the potential impact of those uncertainties and challenges on our operation and we will take appropriate actions to manage the potential impact. Also, we will try to look for new business opportunities to diversify the revenue stream of the Group which will in turn benefit the Group and the shareholders as a whole.

## **OTHER INFORMATION**

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

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

### **CORPORATE GOVERNANCE CODE**

The Company has complied with the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year. The Board will keep reviewing and updating such practices from time to time to ensure compliance with legal and commercial standards.

### **AUDIT COMMITTEE**

The audit committee of the Company has reviewed the audited consolidated annual results of the Company for the year ended 31 December 2020 and considered that the Company had complied with all applicable accounting standards and requirements and had made adequate disclosure.

## **AUDITOR'S PROCEDURES PERFORMED ON THIS RESULTS ANNOUNCEMENT**

The figures in respect of the announcement of the Group's consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

By order of the Board  
**CEFC Hong Kong Financial Investment Company Limited**  
**Tin Yat Yu Carol**  
*Chairman & Executive Director*

Hong Kong, 31 March 2021

*As at the date of this announcement, the executive directors of the Company are Ms. Tin Yat Yu Carol and Mr. Cheung Ka Lung; and the independent non-executive directors of the Company are Mr. Tang Shu Pui Simon, Mr. Hon Ming Sang and Ms. Lo Wing Sze JP.*