# ETERNITY TECHNOLOGY HOLDINGS LIMITED
# 恒達科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 1725

# 2020
## ANNUAL REPORT

# CONTENTS



# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

Mr. Ma Fujun *(Chairman and Chief Executive Officer)*
Ms. Chen Xiaoyuan
Mr. Cheng Bin

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wu Chi-luen
Mr. Chan Chung Kik, Lewis
Mr. Chow Kit Ting

## AUDIT COMMITTEE

Mr. Wu Chi-luen *(Chairman)*
Mr. Chan Chung Kik, Lewis
Mr. Chow Kit Ting

## NOMINATION COMMITTEE

Mr. Ma Fujun *(Chairman)*
Mr. Chan Chung Kik, Lewis
Mr. Wu Chi-luen

## REMUNERATION COMMITTEE

Mr. Wu Chi-luen *(Chairman)*
Mr. Chan Chung Kik, Lewis
Mr. Chow Kit Ting

## AUTHORISED REPRESENTATIVES

Mr. Ma Fujun
Ms. Jian Xuegen

## COMPANY SECRETARY

Ms. Jian Xuegen

## REGISTERED OFFICE IN CAYMAN ISLANDS

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

## HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC")

Block A2
Yingzhan Industrial Park
Longtian Community
Longtian Street, Pingshan District
Shenzhen, Guangdong
PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room A, 12th Floor
Granville House
41C Granville Road
Tsim Sha Tsui
Kowloon
Hong Kong

## PRINCIPAL BANKS

The Hongkong and Shanghai Banking Corporation Limited
China Merchants Bank Shenzhen Huanggang Branch
Bank of China (Hong Kong) Limited

## CAYMAN ISLANDS PRINCIPAL REGISTRAR AND TRANSFER OFFICE

**Conyers Trust Company (Cayman) Limited**

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

**Computershare Hong Kong Investor Services Limited**

Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

## STOCK NAME

Eternity Tech

## AUDITORS

**PricewaterhouseCoopers**

*Certified Public Accountants*
*Registered Public Interest Entity Auditor*
22/F, Prince's Building
Central
Hong Kong

## SHARE LISTING

**The Stock Exchange of Hong Kong Limited (the "Stock Exchange")**

Stock code: 1725.HK

## CORPORATE WEBSITE ADDRESS

www.szeternity.com

## STOCK CODE

1725

# CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Eternity Technology Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**"), I would like to present to the shareholders of the Company the annual report of the Group for the year ended 31 December 2020 (the "**Reporting Period**").

The Group is principally engaged in the business of electronics manufacturing services ("**EMS**") which includes provision of design enhancement and verification, offering of technical advice and engineering solutions, raw materials selection and procurement, quality control, logistic and delivery and after-sale services to our customers in respect of our assembling and production of printed circuit board assemblies (the "**PCBA**") and fully-assembled electronic products.

## BUSINESS REVIEW

During the Reporting Period, trade friction between the United States of America and China became more and more tightened, bringing uncertainties to the future development of the world economy, and slowing down the economic growth of both China and the world. Further, the outbreak of the novel coronavirus (COVID-19) (the "Novel Coronavirus Outbreak") in early 2020 started to halt social and economic activities seriously nationwide. In support of official infection prevention and containment policies, our production plant in Shenzhen suspended their operations for an extended period after the Chinese New Year. Under such adverse circumstances, the Group's performance in the first half of 2020 was inevitably affected. Under the strictly infection prevention and containment measures taken by the China government, the Novel Coronavirus Outbreak in China was gradually under control and the economic in China gradually recovered in the second half year of 2020. In the second half year of 2020, the Group actively sped up the production and explored more business opportunities to enhance the Group's revenue and profitability.

During the Reporting Period, a turnover of approximately RMB547.8 million was recorded by the Group, representing a slight increase of approximately 0.3% as compared with that in the corresponding period in 2019; while the profit for the Reporting Period attributable to equity holders of the Company of approximately RMB17.3 million decreased by approximately 32.0% as compared with that in the corresponding period in 2019 of approximately RMB25.5 million mainly due to the decrease in gross profit margins, the increase in administration expenses for the subsidiaries incorporated in the Reporting Period and professional fees incurred for the application of government grant, and the impairment loss made against contract assets, trade and bills receivables, which were partially offset by the increase in government grant.

### Business Strategies

Looking forward, the Group's operating environment will remain challenging due to the spread of Novel Coronavirus (COVID-19) around the world and the escalation in tensions between the PRC and the US. But the Group will strive to sustain long-term growth in our current business, strengthen our production capacity and enhance production efficiency to secure more business opportunities by implementing the following business strategies:

- Continue to carefully review and extensively investigate into the current situation in relation to costs and resources deployment to enhance our production efficiency;
- Continue to make efforts to expand our customer base to broaden the sources of revenue and diversify business risk;
- Continue to strengthen our research and development capabilities so that we can explore more business opportunities and enlarge our customer base; and
- Construct our own production plants in Huizhou City instead of renting one to increase the interest of the shareholders in long term.

### Gratitude

On behalf of the Company, I would like to express my sincere gratitude to all our valued shareholders, customers, suppliers, banks and to our management and employees for their continuous trust and support to our Group.

By order of the Board

**Ma Fujun**
*Chairman & Executive Director*

Hong Kong
19 March 2021

## OPERATING RESULTS

### Revenue by Customers' Geographical Location

The Group is domiciled in the PRC. The Group's revenue by geographical location, which is determined by the location of customers, is as follows:

| | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| Mainland, the PRC | **439,782** | 452,170 |
| USA | **26,997** | 10 |
| India | **25,075** | 14,313 |
| South Korea | **22,698** | 15,513 |
| Austria | **14,810** | 12,422 |
| Hong Kong | **8,655** | 11,648 |
| Brazil | **517** | 23,316 |
| Others *(Note)* | **9,291** | 16,933 |
| | **547,825** | 546,325 |

*Note: Others include Taiwan, United Kingdom, Mexico and Australia.*

### Revenue by Product Type

During the Reporting Period, our revenue was generated by our two principal product types. The table below summarises the amount of revenue generated and as a percentage of total revenue from each product category for the Reporting Period and for the year ended 31 December 2019 respectively:

| | **Revenue for the year ended 31 December** | | | **% of total revenue for the year ended 31 December** | | |
|---|---|---|---|---|---|---|
| | **2020 RMB'000** | 2019 RMB'000 | Change % | **2020** | 2019 | Change |
| PCBAs | **258,612** | 194,456 | 33.0 | **47.2** | 35.6 | 11.6 |
| Fully-assembled electronic products | **289,213** | 351,869 | (17.8) | **52.8** | 64.4 | (11.6) |
| Total | **547,825** | 546,325 | 0.3 | **100.0** | 100.0 | – |

#### *PCBAs*

Based on the usage of the final electronic products which embedded with our PCBAs, our PCBAs can be broadly applied to electronic end products for three principal industries, namely, banking and finance, telecommunication and smart device. Our revenue generated from the sales of PCBAs increased by approximately 33.0% from approximately RMB194.5 million for the year ended 31 December 2019 to approximately RMB258.6 million for the Reporting Period, primarily due to the increased orders from new customers developed in the Reporting Period and the second half year of 2019 for smart device products, which is partially offset by the decreased orders for banking and finance devices due to the spread of the novel coronavirus (COVID-19) throughout the world as these banking and finance devices were mainly exported overseas by the customers.

*Fully-assembled electronic products*

Our fully-assembled electronic products that are embedded with PCBAs primarily manufactured by us in-house mainly include mobile phones, mPOS, photovoltaic inverters, tablets and street lamp controller, which are sold under the respective brands of our customers or the brands of their ultimate customers. Our revenue generated from sales of fully-assembled electronic products decreased by approximately 17.8% from approximately RMB351.9 million for the year ended 31 December 2019 to approximately RMB289.2 million for the Reporting Period, which primarily resulted from the decreased orders of mPOS products due to fierce competition and the decreased price of the mPOS products since late 2019.

## Gross Profit and Gross Profit Margin

Gross profit of the Group for the Reporting Period was approximately RMB49.6 million, representing a decrease of approximately RMB10.9 million or 18.0% as compared with approximately RMB60.5 million for the year ended 31 December 2019. Overall gross profit margin decreased from 11.1% for the year ended 31 December 2019 to 9.1% for the Reporting Period.

| | **Gross profit for the year ended 31 December** | | | **Gross profit margin for the year ended 31 December** | | |
|---|---|---|---|---|---|---|
| | **2020 RMB'000** | 2019 RMB'000 | Change (%) | **2020 %** | 2019 % | Change (%) |
| PCBAs | **37,266** | 32,746 | 13.8 | **14.4** | 16.8 | (2.4) |
| Fully-assembled electronic products | **12,328** | 27,733 | (55.5) | **4.3** | 7.9 | (3.6) |
| Total | **49,594** | 60,479 | (18.0) | **9.1** | 11.1 | (2.0) |

*PCBAs*

The gross profit derived from the sales of PCBAs increased by approximately 13.8% to approximately RMB37.3 million for the Reporting Period (2019: approximately RMB32.7 million). The gross profit margin decreased to approximately 14.4% for the Reporting Period (2019: approximately 16.8%), which primarily resulted from (i) fixed operation costs incurred during the suspension period of the Group's plant due to the Novel Coronavirus Outbreak; (ii) orders from new customers for smart devices PCBAs with a lower gross profit margin due to fierce competition and the slowing down economic while orders from existing customers for banking and finance PCBAs with a higher gross profit decreased due to the spread of the novel coronavirus disease (COVID-19) throughout the world during the Reporting Period; (iii) increased rental expenses of the equipment incurred to speed up the production process in order to meet the orders delayed in the first quarter of the customers after the resumption of our production plant; and (iv) the price of raw materials was increasing since the Novel Coronavirus Outbreak.

*Fully-assembled electronic products*

The gross profit derived from the sales of fully-assembled electronic products decreased by approximately 55.5% to approximately RMB12.3 million for the Reporting Period (2019: approximately RMB27.7 million). The gross profit margin decreased to approximately 4.3% for the Reporting Period (2019: approximately 7.9%), which was mainly due to (i) fixed operation costs incurred during the suspension period of the Group's plant; (ii) increased outsourcing fees incurred to speed up the production process in order to meet the orders delayed in the first quarter of the customers after the resumption of our production plant; and (iii) we offered a more competitive price to our mPOS customers since late 2019 due to fierce competition and the slowing down economic in China.

### Other Income

Other income of the Group, comprises discretionary government grants received by the Group, increased by approximately 230.7% from approximately RMB3.8 million for the year ended 31 December 2019 to approximately RMB12.6 million for the Reporting Period due to the increase in government grants received.

### Selling and Distribution Expenses

Selling and distribution expenses mainly comprised (i) employee benefit expenses which include salaries and allowance, social insurance contributions and staff welfare expenses of our sales staff; (ii) transportation charges; (iii) sales commission paid to our sales agents in respect of customer introduction; (iv) credit insurance fees and (v) other expenses. For the Reporting Period, selling and distribution expenses amounted to approximately RMB13.2 million (2019: approximately RMB15.0 million), representing a decrease of approximately 12.0% as compared to the year ended 31 December 2019. Selling and distribution expense against revenue ratio decreased from approximately 2.8% for the year ended 31 December 2019 to 2.4% for the Reporting Period. The decrease in the selling and distribution expense was mainly due to that the transportation charges for mPOS products were born by the customer since September 2020.

### Administrative Expenses

Administrative expenses mainly represented (i) employee benefit expenses which include salaries and allowance, social insurance contributions and staff welfare expenses of our administrative staff; (ii) professional fees; and (iii) other expenses. For the Reporting Period, administrative expenses amounted to approximately RMB23.0 million (2019: approximately RMB18.6 million), representing an increase of approximately 23.7% as compared to the year ended 31 December 2019. The increase in administrative expenses was mainly due to: (i) the increased professional fees incurred for the application of government grants received in the Reporting Period; and (ii) increased operating administrative expense for the newly incorporated subsidiaries in Huizhou, the PRC and Germany.

### Net impairment losses on financial assets

Net impairment losses on financial assets mainly represented the provision of impairment of contract assets, trade and bills receivables. For the Reporting Period, net impairment of approximately RMB5.1 million (2019: RMB0.6 million) was made against the contract assets, trade and bills receivables which were difficult to be recovered.

### Finance Costs, Net

Our finance costs mainly comprised interest expenses on bank borrowings, finance lease liability and lease liabilities while our finance income mainly represented interest income on cash and cash equivalents and pledged bank deposits. For the Reporting Period, the net finance costs of the Group were approximately RMB0.1 million (2019: approximately RMB1.1 million) representing a decrease of approximately 89.0% as compared to the year ended 31 December 2019. The decreased net finance cost was primarily due to (i) some finance costs were capitalised for the construction of production plant in Huizhou, and (ii) the repayment of existing interest-bearing liabilities while the new bank borrowings were borrowed near the end of 2020.

### Income Tax Expense

Income tax expense amounted to approximately RMB3.0 million for the Reporting Period (2019: approximately RMB3.7 million), representing a decrease of approximately 19.5% as compared to the year ended 31 December 2019. Our major operating subsidiary, Shenzhen Hengchang Sheng Technology Company Limited* (深圳市恒昌盛科技有限公司) ("Shenzhen Hengchang Sheng"), enjoyed a preferential tax treatment because of its accreditation as a New/High - Tech Technology Enterprise and the applicable tax rate was 15%. The decrease in income tax expense was mainly attributed to the decrease in the profit of our major operating subsidiary, Shenzhen Hengchang Sheng.

## Profit Attributable to Equity Holders of the Company

As a result of the facts discussed above, profit attributable to equity holders of the Company decreased by approximately 32.0% from approximately RMB25.5 million for the year ended 31 December 2019 to approximately RMB17.3 million for the Reporting Period.

## Treasury, Liquidity and Capital Resources

The Group funds its capital expenditure and working capital requirement for the conduct of its normal course of business by using a mix of proceeds from the listing of the Company on the Main Board of the Stock Exchange on 16 August 2018 (the "**Listing Date**"), internal resources and bank borrowings. The management of the Group closely monitors the Group's liquidity position to ensure the Group has a sufficient level of cash and banking facilities to meet its funding needs.

### *Net Current Assets*

The Group had net current assets of approximately RMB142.0 million as at 31 December 2020 (2019: approximately RMB153.2 million). The current ratio of the Group decreased from approximately 1.7 as at 31 December 2019 to approximately 1.5 as at 31 December 2020.

## Borrowings, the Pledge of Assets and Restricted Cash

The bank borrowings of the Group amounted to approximately RMB26.7 million as at 31 December 2020 (31 December 2019: approximately RMB16.4 million). The weighted average interest rate per annum of the Group's bank borrowings as at 31 December 2020 was 4.35% (31 December 2019: 4.13%). As at 31 December 2020, the bank borrowings were secured by pledged bank deposit, land-use rights, certain equipment and a corporate guarantee provided by the Company. As at 31 December 2019, the bank borrowings were secured by pledged bank deposit, certain equipment and a corporate guarantee provided by the Company. As at 31 December 2020, the bank deposits amounting to RMB33.7 million (31 December 2019: RMB7.5 million) were pledged in banks for the facilities granted by banks to the Group, a performance bond to a new customer and security for the forward exchange contracts. Also, as at 31 December 2019, a deposit of approximately RMB2.7 million was held in a designated bank account to guarantee the construction and investment in relation to the plant in Huizhou. The cash and cash equivalents, pledged bank deposits, short term bank deposits and restricted cash and bank borrowings were mainly denominated in Renminbi ("**RMB**"), Hong Kong Dollars ("**HK$**") and United States Dollars ("**USD**") and Euros ("**EUR**").

The Group had unutilised banking facilities of approximately RMB235.6 million as at 31 December 2020 (31 December 2019: approximately RMB9.1 million).

## Gearing Ratio

Our gearing ratio, which is calculated by total borrowings divided by total equity, was approximately 10.7% and 7.0% as at 31 December 2020 and 31 December 2019, respectively. During the Reporting Period, the bank borrowings increased by approximately RMB10.3 million which was mainly due to the increased borrowings for the construction of our production plant in Huizhou. The gearing remained low due to our low level of bank borrowings as well as the increase in our equity contributed by our profitable operations.

## Capital Structure

As at 31 December 2020, the Company's issued share capital was HK$3,000,000 and the number of issued shares of the Company was 300,000,000 ordinary shares of HK$0.01 each.

### Foreign Exchange Exposure and Exchange Rate Risk

The Group's assets, liabilities and transactions are mainly denominated in RMB, HK$, USD and EUR, and there are no significant assets and liabilities denominated in other currencies. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in a currency other than the respective functional currencies of the Group's entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The management monitors our foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise. During the Reporting Period, the Group entered into certain USD forward exchange contracts with a bank amounting to approximately US$15.0 million to hedge its exposure to USD exchange rate risk.

### Capital Expenditure

For the Reporting Period, the Group had capital expenditure of approximately RMB56.3 million (2019: RMB32.0 million). The capital expenditure was mainly related to the construction of production plant in Huizhou, the additions of a land use right, office equipment, plant and machinery and intangible assets.

## DIVIDEND

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

## EMPLOYEES AND EMOLUMENTS POLICY

The key components of the Group's remuneration package include basic salary, and where appropriate, other allowances, commission, bonuses and the Group's contribution to mandatory provident funds or state-managed retirement benefits scheme.

As at 31 December 2020, the Group had 546 employees with a total remuneration of approximately RMB47.5 million during the Reporting Period (2019: approximately RMB48.9 million). The salaries of the employees were determined with reference to individual performance, work experience, qualification and current industry practices.

## ACQUISITION OF LAND USE RIGHT IN HUIZHOU CITY

On 7 July 2020, Eternity Technology (Huizhou) Company Limited* (恒達科技 (惠州) 有限公司) (the "**Eternity (Huizhou)**"), an indirect wholly owned subsidiary of the Company, entered into a confirmation letter with Huizhou City Land Resources Bureau* (惠州市國土資源局) to confirm that Eternity (Huizhou) successfully won the bid for the Auction for the land use rights of the Land, which was located at Xinxing Industrial Park, Daya Bay Western District, Huizhou City, the PRC* (中國惠州市大亞灣西區新興產業園) at a consideration of RMB25.5 million.

## CONSTRUCTION OF A FACTORY IN HUIZHOU CITY

On 16 July 2020, Huizhou Eternity Technology Company Limited *(惠州市恒昌盛科技有限公司) (the "**Huizhou Eternity**"), an indirect wholly owned subsidiary of the Company, entered into a construction contract with Huizhou City Chunlin Construction Engineering Company Limited* (惠州市春林建築工程有限公司) (the "Contractor") pursuant to which the Contractor agreed to undertake the construction works for the factory located at Block JD-130-05-02, South District, Shuikou Private Industrial Park, Huicheng District, Huizhou City, the PRC* (中國惠州市惠城區水口民營工業園南區JD-130-05-02地塊) at the price of approximately RMB79.9 million (subject to adjustments).

## MATERIAL ACQUISITIONS, DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES AND SIGNIFICANT INVESTMENTS

Saved as aforesaid in this report, the Group did not have any material acquisitions, disposals of subsidiaries, associates and joint ventures and significant investments during the Reporting Period.

## USE OF PROCEEDS

Our business objectives and planned use of proceeds as stated in the prospectus dated 3 August 2018 published by the Company (the "**Prospectus**") were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus. The actual use of proceeds was based on the actual market development. The net proceeds from the Share Offer (made pursuant to the Prospectus) (the "**Share Offer**") received by the Company, after deducting related underwriting fees and estimated expenses payable by the Company in connection with the Share Offer were approximately HK$96.7 million. As disclosed in the Company's announcement dated 16 July 2020 (the "**Change of Use of Proceeds Announcement**"), having carefully considered the latest business environment and development needs of the Group, the Board had resolved to change the proposed use of part of the unutilised Net Proceeds in the amount of approximately HK$40.6 million originally allocated for (i) expand our production capacity and enhance our production efficiency; (ii) lease new premises to align with our production capacity expansion, convert our existing warehouse into an intelligent warehouse and set up an additional intelligent warehouse; and (iii) upgrade our ERP system and enhance our capabilities in information technology, to construction of a production base in Huizhou. The following table sets forth the status of the use of revised allocation of the Net Proceeds as at 31 December 2020 and the date of the change of Use of Proceeds Announcement:

| Business objectives as stated in the Prospectus and Change of Proceeds Announcement | Use of proceeds as stated in the Prospectus and adjusted for the actual net proceeds HK$ million | Actual use of proceeds from the Listing Date to the date of the Change of Use of Proceeds Announcement HK$ million | Reallocation HK$ million | Amount utilized after reallocation HK$ million | Remaining balance HK$ million | Expected time frame |
|---|---|---|---|---|---|---|
| Expand our production capacity and enhance our production efficiency | 64.7 | 43.7 | (21.0) | — | — | — |
| Lease new premises to align with our production capacity expansion, convert our existing warehouse into an intelligent warehouse and set up an additional intelligent warehouse | 17.4 | 0.8 | (16.6) | — | — | — |
| Further strengthen our research and development capabilities | 4.5 | 4.4 | — | 0.1 | — | — |
| Upgrade our ERP system and enhance our capabilities in information technology | 3.4 | 0.4 | (3.0) | — | — | — |
| General working capital | 6.7 | 6.0 | — | 0.7 | — | — |
| Construction of a production base in Huizhou | — | — | 40.6 | 23.4 | 17.2 | to be used during the year ending 31 December 2021 |
| | 96.7 | 55.3 | — | 24.2 | 17.2 | |

The unutilised net proceeds have been placed with licensed banks in Hong Kong and PRC as interest-bearing deposits in accordance with the intention of the Board as disclosed in the Prospectus and the Change of Use of Proceeds Announcement.

## CAPITAL COMMITMENT

As at 31 December 2020, the Group's capital commitment amounted to approximately RMB44.6 million (2019: RMB0.9 million). The capital commitment was mainly related to the acquisition of machinery and equipment to expand our production capacity and enhance our production efficiency and construction of Huizhou factory.

## CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 December 2020 (2019: Nil).

## EVENT AFTER THE REPORTING PERIOD

There were no significant events after the Reporting Period up to the date of this report.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. Ma Fujun (馬富軍)**, aged 47, is the chairman of our Board, Executive Director and chief executive officer of the Company. Mr. Ma was first appointed as a Director of the Company on 15 March 2017. Mr. Ma together with his brother-in-law, Mr. Cheng Bin, founded Eternity Technology Development Limited (恒昌科技發展有限公司) ("**Eternity Technology**") in 2003. Mr. Ma is also the director, general manager, legal representative and chairman of the board of Shenzhen Hengchang Sheng, Eternity Technology (Huizhou) Limited* (恒達科技 (惠州) 有限公司) and Hong Chang Sheng (Xiamen) Technology Company Limited* (弘昌盛科技 (廈門) 有限公司), and the sole director of Total United Holdings Limited (全協控股有限公司) ("**Total United**"), Agreeable Company Limited (致同有限公司) ("**Agreeable**") and Eternity Technology. He is responsible for the overall management, strategic planning, and business development of our Group. Mr. Ma has over 17 years of experience in electronics engineering. He attended Xi'an University of Technology from September 1994 to July 1997 and obtained a Junior College Education Degree in Mechatronic Engineering in July 1997. From March 2001 to May 2011, Mr. Ma served as the general manager, legal representative and chairman of the board of directors of Shenzhen Active Tactics Electronics Company Limited.

**Ms. Chen Xiaoyuan (陳筱媛)**, aged 47, is an Executive Director of the Company. Ms. Chen was first appointed as a Director of the Company on 15 March 2017. Ms. Chen is also a director and vice general manager of Shenzhen Hengchang Sheng and a supervisor of other subsidiaries of the Company. She is primarily responsible for the accounting and financial functions of our Group. Ms. Chen graduated from Jiangxi University of Finance and Economics majoring in foreign-related Accounting in June 1995. Ms. Chen joined our Group on 27 August 2007 as a manager of the Finance Department of Shenzhen Hengchang Sheng and was promoted to a vice general manager in April 2015. Prior to joining Shenzhen Hengchang Sheng, she worked as a financial manager at Telehof Electronics Instruments & Equipment (Shenzhen) Co., Ltd, which specialised in the manufacture and sales of security products and surge protective devices, from October 1997 to October 2006.

**Mr. Cheng Bin (程彬)**, aged 43, is an Executive Director of the Company. Mr. Cheng was first appointed as a Director of the Company on 15 March 2017. He is also a supervisor and vice general manager of Shenzhen Hengchang Sheng and a director, manager and legal representative of a subsidiary of the Company. He is primarily responsible for the sales and marketing functions of our Group. Mr. Cheng completed vocational education at Jiangxi Shipping Technical School* (江西船舶技術學校) in July 1996. From November 2000 to December 2008, Mr. Cheng was a manager at Shenzhen Active Tactics Electronics Company Limited which principally involved in the surface-mount technology stencil production business. Mr. Cheng together with his brother-in-law, Mr. Ma, founded Eternity Technology in 2003. He first joined our Group as a director of Eternity Technology from 2 January 2003 to 23 July 2007. He joined Shenzhen Hengchang Sheng as project manager in January 2009 and has been a vice general manager since July 2014.

* For identification purpose only

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Chan Chung Kik Lewis (陳仲戟)**, aged 48, has been appointed as an Independent Non-executive Director since 25 July 2018. He is primarily responsible for overseeing the management of our Group independently. Mr. Chan obtained a Bachelor's Degree of Commerce in Accounting from the University of Canberra in Australia in September 1997. He is currently a fellow of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. Mr. Chan has more than 23 years of experience in auditing, accounting and corporate finance. Mr. Chan is currently the chief financial officer and the company secretary of Brilliant Circle Holdings International Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1008). He served as an independent non-executive director of Shandong Xinhua Pharmaceutical Company Limited, a company listed on the Main Board of the Stock Exchange (Stock Code:719) and the Shenzhen Stock Exchange (Stock Code: 000756), from May 2014 to June 2018. Mr. Chan also serves as the independent non-executive director of (i) Hong Guang Lighting Holdings Company Limited, a company listed on GEM Board of the Stock Exchange (Stock Code: 8343), since December 2016; (ii) Founder Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 418), since March 2017; (iii) Peking University Resources (Holdings) Company Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 618), since March 2017; and (iv) Wing Chi Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 6080), since September 2017.

**Mr. Wu Chi-luen (吳季倫)**, aged 44, has been appointed as an Independent Non-executive Director since 25 July 2018. He is primarily responsible for overseeing the management of our Group independently. Mr. Wu graduated from the Department of Mathematics (Applied Mathematics Section), College of Science and Engineering and was conferred the Degree of Bachelor of Science in June 2000 and graduated from the Graduated School of Management (Master's Program), College of Management with a Degree of Master of Business Administration in June 2002, both at the Fu-Jen Catholic University in Taiwan. Mr. Wu served as a Territory Sales Representative of Seagate Technology Taiwan Limited from October 2010 to October 2014 and has over 5 years of experience in the industry of information technology and is knowledgeable on technology trend and industry know-how. From June 2015 to January 2019 and from August 2017 to January 2019, he has been an executive director and vice chief executive officer of InvesTech Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1087).

**Mr. Chow Kit Ting (周傑霆)**, aged 36, has been appointed as an Independent Non-executive Director since 25 July 2018. He is primarily responsible for overseeing the management of our Group independently. Mr. Chow obtained a Bachelor Degree of Commerce with a major in Accountancy from Macquarie University in November 2007. He is a member of Certified Public Accountants (CPA) Australia and a member of Hong Kong Institute of Certified Public Accountants. From September 2007 to March 2015, Mr. Chow has worked in audit department in Deloitte Touche Tohmatsu and his last position was a manager. Mr. Chow was the financial controller and company secretary of Link Holdings Limited from March 2015 to January 2016, a company listed on GEM of the Stock Exchange of stock code: 8237. He was the financial controller and company secretary of Kin Shing Holdings Limited from February 2016 to August 2018, a company listed on the Stock Exchange of stock code: 1630. Afterwards, he joined a private company, HY Technology Holding Limited as its financial controller from August 2018 to December 2019 and was re-designated to Hua Yu (S) Pte. Ltd. since January 2020 till December 2020. He has been appointed as the financial controller and company secretary of Rich River Holdings Limited since July 2020 and September 2020, respectively. He has also been an independent non-executive director of Deyun Holding Ltd., a company listed on the Main Board of the Stock Exchange (Stock Code: 1440), since December 2020. He has extensive experience in accounting, corporate finance, compliance and company secretarial works.

## COMPANY SECRETARY

**Ms. Jian Xuegen (簡雪艮)**, aged 35, was appointed as the company secretary of our Company on 1 January 2020 and also is the financial controller of our Company since 5 December 2016 when she joined our Group.

Ms. jian is a consultant of Wisdom Professional Limited, a professional services provider specialising in corporate and investor services, and is responsible for providing professional corporate secretarial services to companies listed on the Stock Exchange.

## SENIOR MANAGEMENT

**Ms. Jian Xue Gen (簡雪艮)**, aged 35, is the company secretary of our Company since 1 January 2020 and the financial controller of our Company since 5 December 2016 when she joined our Group, She is mainly responsible for financial reporting, financial planning, treasury and financial control and secretarial affairs of our Group. Ms. Jian obtained a Bachelor's Degree in Accounting from South China University of Technology in July 2008. She is a member of the Chinese Institute of Certified Public Accountants. She has also been a member of the Hong Kong Institute of Certified Public Accountants since January 2019. Prior to joining our Company, from November 2008 to December 2016, Ms. Jian worked at the Guangzhou branch of Ernst & Young LLP, and her last position was an audit manager. Since February 2019 and September 2019, Ms. Jian is also the company secretary of Confidence Intelligence Holdings Limited (a company listed on the Main Board of the Stock Exchange with Stock Code: 1967) and Sprocomm Intelligence Limited (a company listed on the Main Board of the Stock Exchange with Stock Code: 1401), respectively.

* For identification purpose only

## CORPORATE GOVERNANCE PRACTICES

The Company recognises the value and importance of achieving high corporate governance standards to enhance corporate performance, transparency and accountability, earning the trust of shareholders and the public. The Board strives to adhere to the principles of corporate governance and adopt sound corporate governance codes to meet the legal and commercial standards by focusing on areas such as internal control, adequate disclosure and accountability to all shareholders.

The Company has adopted and complied with the code provisions set out in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") during the Reporting Period except the following deviation:

Pursuant to CG Code provision A.2.1, the role(s) of chairman and chief executive should be separated and should not be performed by the same individual. As the duties of chairman and chief executive of the Company are performed by Mr. Ma, the Company has deviated from the CG Code. The Board believes that it is necessary to vest the roles of chairman and chief executive in the same person due to its unique role, Mr. Ma's experience and established market reputation in the industry, and the importance of Mr. Ma in the strategic development of the Company. The dual role arrangement provides strong and consistent market leadership and is critical for efficient business planning and decision making of the Company. As all major decisions are made in consultation with the members of the Board, and there are three Independent Non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code during the Reporting Period.

## CORPORATE GOVERNANCE DUTIES

The Board is responsible for performing the corporate governance duties as set out in code provision D.3.1 of the CG Code. During the Reporting Period, the Board had reviewed and discussed the corporate governance policy of the Group and was satisfied with the effectiveness of the corporate governance policy of the Group.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

CG Code provisions A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not segregate the roles of chairman and chief executive officer and Mr. Ma currently holds both of the chairman and chief executive officer positions, as explained in the paragraph headed "Corporate Governance Practices" above in the Corporate Governance Report.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The Independent Non-executive Directors are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance and business. Their skills, expertise and number in the Board ensure that strong independent views and judgement are brought in the Board's deliberations and that such views and judgement carry weight in the Board's decision-making process. Their presence and participation also enable the Board to maintain high standards of compliance in financial and other mandatory reporting requirements and provide adequate checks and balances to safeguard the interests of shareholders of the Company and the Company.

The Company annually assesses the independence of each Independent Non-executive Director during their terms of appointment. The Company has received from each of the Independent Non- executive Directors a written confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the Independent Non-executive Directors are independent during the year.

## THE BOARD

The Board currently comprises three Executive Directors, namely Mr. Ma Fujun (chairman and chief executive officer), Ms. Chen Xiaoyuan and Mr. Cheng Bin; and three Independent Non-executive Directors, namely Mr. Chan Chung Kik Lewis, Mr. Wu Chi-luen and Mr. Chow Kit Ting. The number of Independent Non-executive Directors represents more than one third of the Board. The biographical details of and relationships among the members of the Board are disclosed under the section headed "Biographical Details of Directors and Senior Management" on pages 13 to 15 of this annual report.

The Directors believe that the composition of the Board reflects the necessary balance of skills and experience appropriate for the requirements of the business development of the Group and for effective leadership as all the Executive Directors possess extensive experience in management, sales and marketing and professional knowledge in business, while the three Independent Non-executive Directors possess professional knowledge and broad experience in accounting, finance and business. The Directors are of the opinion that the present structure of the Board can ensure the independence and objectivity of the Board and provide a system of checks and balances to safeguard the interests of the shareholders of the Company and the Company.

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2020. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on page 55 to 61. The Board is responsible for leadership and control of the Company and oversees the Group's business, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board shall take decisions objectively in the interests of the Company. In addition, the Board has also delegated various responsibilities to the Board committees and directed and monitored senior management of the Group in pursuit of the Group's strategic decision. Board meetings are structured so as to encourage open discussion, frank debate and active participation by Directors in meetings. The Company provides the Board with information and explanations that are necessary to enable Directors to make an informed assessment of the financial and other information put before the Board.

## APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

All Directors are appointed for a specific term. Each of the Directors of the Company is under a service contract with the Company for a period of three years commencing from the Listing Date.

According to Article 84(1) of the Articles of Association of the Company (the "**Articles**"), At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Article 83(3) of the Articles of Association provides that the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Pursuant to Articles 83(3) and 84(1) of the Articles of Association, Ms. Chen Xiaoyuan and Mr. Chan Chung Kik Lewis will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting ("**AGM**").

## BOARD DIVERSITY POLICY

The Board has adopted a Board Diversity Policy which sets out the approach to achieve diversity on the Board. The Company recognises and embraces the benefits of a diverse Board with a balance of skills, experience and diversity of perspectives to enhance the quality of its performance. All Board appointments will be considered against selection criteria.

The Company seeks to achieve board diversity through the consideration of a range of diversity perspectives in the Board members' selection process, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Board currently consists of one female Director. It will take opportunity to increase the proportion of female members over time when selecting and making recommendation on suitable candidates for Board appointments. The Board would ensure that appropriate balance of gender diversity is achieved with reference to stakeholders' expectation and international and local recommended best practices, with the ultimate goal of bringing the Board to gender parity.

The Nomination Committee will review and monitor the implementation of the Board Diversity Policy, to ensure the effectiveness of the Board Diversity Policy and discuss any revisions that may be required and recommend any such revisions to the Board for consideration and approval.

## PROCEEDINGS OF BOARD MEETINGS AND BOARD COMMITTEE MEETINGS

The Board may meet for the dispatch of business, adjourn and otherwise regulate its meeting and proceedings as it thinks fit and may determine the quorum necessary for the transaction of business and, unless so fixed at any other number, shall be two. A meeting of the Board or any committee of the Board may be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting.

When a Director and the enterprise(s) involved in a proposal of a Board meeting have connected relations, such Director shall not exercise his/her voting rights on such proposal.

Set out below are details of the attendance record of each Director at the Board, committee and general meetings of the Company during the Reporting Period:

| | Attendance/Number of Meetings Held | | | | |
|---|---|---|---|---|---|
| **Name of Directors** | **Board Meeting** | **Audit Committee Meeting** | **Nomination Committee Meeting** | **Remuneration Committee Meeting** | **General Meeting** |
| **Executive Directors** | | | | | |
| Mr. Ma Fujun | 12* | – | 1* | – | 1* |
| Ms. Chen Xiaoyuan | 12 | – | – | – | 1 |
| Mr. Cheng Bin | 12 | – | – | – | 1 |
| **Independent Non-Executive Directors** | | | | | |
| Mr. Chan Chung Kik Lewis | 12 | 2 | 1 | 1 | 1 |
| Mr. Wu Chi-luen | 12 | 2* | 1 | 1* | 1 |
| Mr. Chow Kit Ting | 12 | 2 | – | 1 | 1 |

* representing chairman of the board, the committees and general meeting

Pursuant to code provision A.2.7 of the CG Code, the Chairman should hold meetings with Independent Non-executive Directors without the presence of other Directors at least annually. The Company held one meeting on 13 March 2020 in accordance with the CG Code.

The Board has established three committees, namely, the audit committee ("**Audit Committee**"), the remuneration committee ("**Remuneration Committee**") and the nomination committee ("**Nomination Committee**"), for overseeing aspects of the Company's affairs. All Committees have been established with defined written terms of reference, which were posted on the Stock Exchange (www.hkex.com.hk) and the Company website (www.szeternity.com). All committees should report to the Board on their decisions or recommendations made.

All Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

## AUDIT COMMITTEE

The Audit Committee was established on 25 July 2018 with Terms of Reference in compliance with the CG Code for the purpose of making recommendations to the Board on the appointment and removal of the external auditor, to review the financial statements and related materials and provide advice in respect of the financial reporting process, and to oversee the risk management and internal control systems of the Group. The Audit Committee comprises three members, all being Independent Non-executive Directors, namely, Mr. Wu Chi-luen (Chairman), Mr. Chan Chung Kik Lewis and Mr. Chow Kit Ting. The Group's accounting principles and policies, financial statements and related materials for the year had been reviewed by the Audit Committee.

During the year ended 31 December 2020 the Audit Committee has held two meetings for discussion on the audit and financial reporting related matters. At the meetings, the Audit Committee had reviewed the final results for the year ended 31 December 2019, the interim results for the six months ended 30 June 2020 and the Group's internal controls for the year ended 31 December 2019. Full minutes of the Audit Committee meetings are kept by the Company Secretary. Draft and final versions of the minutes of the Audit Committee meetings are circulated to all members of the Audit Committee for comments and approval and all decisions of the Audit Committee are reported to the Board subject to applicable restriction.

The Terms of Reference of the Audit Committee are available on the website of the Company and of the Stock Exchange.

The external auditor has been invited to attend the Audit Committee meetings held during the year to discuss with the Audit Committee members on the audit and financial reporting related matters. The Chairman of the Audit Committee provided the Board with a briefing on the significant issues after each Audit Committee meeting.

The Group's final results for the Reporting Period had been reviewed by the Audit Committee before submission to the Board for approval. The Audit Committee had also reviewed this annual report, and confirmed that this annual report is completed and accurate, and has complied with the Listing Rules. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors.

## REMUNERATION COMMITTEE

The Remuneration Committee was established on 25 July 2018 with Terms of Reference in compliance with the CG Code for the purpose of making recommendations to the Board on the overall remuneration policy and structure relating to the Directors and senior management of the Group, to review and evaluate their performance in order to make recommendations on the remuneration package of each of the Directors and senior management as well as other employee benefit arrangements. The Remuneration Committee comprises three members, all being Independent Non-executive Directors, namely, Mr. Wu Chi-luen (Chairman), Mr. Chan Chung Kik Lewis and Mr. Chow Kit Ting.

During the year ended 31 December 2020, the Remuneration Committee has held one meeting. Full minutes of the Remuneration Committee meetings are kept by the company secretary. At the meeting, the Remuneration Committee had reviewed and made recommendation to the Board on the remuneration policies of the Directors and the senior management as well as the remuneration packages for the years ended 2019 and 2020 and the performance of the Directors. Draft and final versions of the minutes of the Remuneration Committee meetings are circulated to all members of the Remuneration Committee for comments and approval and all decisions of the Remuneration Committee are reported to the Board subject to applicable restriction. The Terms of Reference of the Remuneration Committee are available on the website of the Company and of the Stock Exchange.

## NOMINATION COMMITTEE

The Nomination Committee was established on 25 July 2018 with Terms of Reference in compliance with the CG Code for the purpose of making recommendations to the Board on the appointment of Directors and the management of the Board succession. The Nomination Committee consists of an Executive Director, namely Mr. Ma Fujun (Chairman), and two Independent Non-executive Directors, namely Mr. Wu Chi-luen and Mr. Chan Chung Kik, Lewis.

During the year ended 31 December 2020, the Nomination Committee has held one meeting. At the meeting, the Nomination Committee had reviewed the structure, size and composition of the Board, assessing the independence of independence non-executive Directors, reviewed the Board Diversity Policy made recommendation to the Board on retirement and re-election of directors and other matters of the Company. Full minutes of the Nomination Committee meetings are kept by the company secretary. Draft and final versions of the minutes of the Nomination Committee meetings are circulated to all members of the Nomination Committee for comments and approval and all decisions of the Nomination Committee are reported to the Board subject to applicable restriction. The Terms of Reference of the Nomination Committee are available on the website of the Company and of the Stock Exchange.

## Nomination Policy

The Company has adopted a Nomination Policy for the Nomination Committee to consider and make recommendations to Shareholders for election as Directors at general meetings or appoint as Directors to fill casual vacancies.

### *Selection Criteria*

The factors listed below would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate:

(1) reputation for integrity;

(2) accomplishment and experience in the business in which the Group is engaged in;

(3) commitment in respect of available time and relevant interest;

(4) diversity in all its aspects, including but not limited to race, gender, age (18 years or above), educational background, professional experience, skills and length of service;

(5) qualifications which include professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;

(6) the number of existing directorships and other commitments that may demand the attention of the candidate;

(7) requirement for the Board to have Independent Non-executive Directors in accordance with the Listing Rules and whether the candidates would be considered independent with reference to the independence guidelines set out in Rules 3.08, 3.09 and 3.13 of the Listing Rules;

(8) Board Diversity Policy of the Company and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board; and

(9) such other perspectives appropriate to the Company's business.

### *Director Nomination Procedure*

Subject to the provisions in the Articles of Association of the Company and the Listing Rules, if the Board recognises the need for an additional Director or a member of senior management, the following procedure will be followed:

(1) The Nomination Committee and/or Board will identify potential candidates based on the criteria as set out in the selection criteria, possibly with assistance from external agencies and/or advisors;

(2) The Nomination Committee and/or the Company Secretary of the Company will then provide the Board with the biographical details and details of the relationship between the candidate and the Company and/or Directors, directorships held, skills and experience, other positions which involve significant time commitment and any other particulars required by the Listing Rules, the Companies Law of the Cayman Islands and other regulatory requirements for any candidate for appointment to the Board;

(3) The Nomination Committee would then make recommendation to the Board on the proposed candidate(s) and the terms and conditions of the appointment;

(4) The Nomination Committee should ensure that the proposed candidate(s) will enhance the diversity of the Board, being particularly mindful of gender balance;

(5) In the case of the appointment of an Independent Non-executive Director, the Nomination Committee and/or the Board should obtain all information in relation to the proposed Director to allow the Board to adequately assess the independence of the Director in accordance with the factors set out in Rules 3.08, 3.09 and 3.13 of the Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time; and

(6) The Board will then deliberate and decide on the appointment based upon the recommendation of the Nomination Committee.

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Group has paid and accrued the amounts of approximately RMB0.7 million, RMB0.7 million, RMB0.6 million, RMB0.1 million, RMB0.1 million and RMB0.1 million to Mr. Ma Fujun, Mr. Cheng Bin, Ms. Chen Xiaoyuan, Mr. Chan Chung Kik Lewis, Mr. Chow Kit Ting and Mr. Wu Chi-luen, respectively, as Directors' remuneration, for the year ended 31 December 2020.

Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each Director. As at 31 December 2020, there was no arrangement in which the Directors waived their remuneration.

Senior management's remuneration payment of the Group for the year ended 31 December 2020 falls within the following bands:

| | **2020** | 2019 |
|---|---|---|
| Nil to RMB1,000,000 | **1** | 1 |

## CORPORATE GOVERNANCE FUNCTION

The Board does not have a Corporate Governance Committee. The functions that would be carried out by a Corporate Governance Committee are performed by the Board as a whole and are as follows:

1. to develop and review the Company's policies and practices on corporate governance;
2. to review and monitor the training and continuous professional development of Directors and senior management;
3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
5. to review the Company's compliance with the CG code and disclosure in the Corporate Governance Report.

The Corporate Governance Policy is formulated with an emphasis on the Board's quality, effective internal control, stringent disclosure practices and transparency and accountability to all shareholders of the Company. The Board strives to comply with the code provisions and reviews its Corporate Governance Policy regularly in order to maintain high standards of business ethics and corporate governance, and to ensure the full compliance of the Group's operations with applicable laws and regulations.

## CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to the CG Code provision A.6.5, all directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, functions and duties of the Directors. During the year ended 31 December 2020, the Company had arranged to provide trainings to all the Directors.

For the year ended 31 December 2020, the Directors participated in the following continuous professional development:

| Name of Directors | Training on corporate governance, director's duties, environment, social and governance, and/or regulatory update |
|---|---|
| **Executive Directors** | |
| Mr. Ma Fujun | √ |
| Ms. Chen Xiaoyuan | √ |
| Mr. Cheng Bin | √ |
| **Independent Non-Executive Directors** | |
| Mr. Wu Chi-luen | √ |
| Mr. Chan Chung Kik Lewis | √ |
| Mr. Chow Kit Ting | √ |

## EXTERNAL AUDITOR'S REMUNERATION

The Company engaged PricewaterhouseCoopers, as its external auditor for the year ended 31 December 2020. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor. During the year ended 31 December 2020, the remuneration for the audit service provided by the Company's external auditor, PricewaterhouseCoopers was approximately RMB1.7 million. During the year ended 31 December 2020, the Company's external auditor, PricewaterhouseCoopers, did not provide any non-audit service to the Group.

## INTERNAL CONTROL

The Company does not have an internal audit department and is currently of the view that there is no immediate need to set up an internal audit department within the Group in light of the size, nature and complexity of the Group's business and structure. The Board is responsible for maintaining an adequate internal control system to safeguard the investments of the shareholders and Group's assets and reviewing the effectiveness of such through Audit Committee on an annual basis. The Audit Committee oversees the internal control system of the Group, reports to the Board on any material issues and makes recommendations. An annual review of the effectiveness of the system of internal controls of the Group will be conducted.

The Company has engaged an independent internal control adviser to carry out an annual review on the internal control system and risk management system of the Group for the year ended 31 December 2020. The review involves all material monitoring aspects, including but not limited to finance, operation, compliance and risk management. The adviser has conducted analysis and independent assessment on the adequacy and the effectiveness of the internal control system and risk management of the Group, and has submitted the findings and recommendations to the Audit Committee and the Board. The Board is of the view that the internal control measures in place are adequate and effective to safeguard the interest of shareholders and the Group's assets.

## DELEGATION BY THE BOARD

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management.

## COMPANY SECRETARY

Ms. Jian Xuegen (簡雪艮), aged 35, has been appointed as the company secretary of our Company since 1 January 2020 and also is the financial controller of our Company since 5 December 2016 when she joined our Group. In the opinion of the Board, Ms. Jian possesses the necessary qualification and experience, and is capable of performing the functions of the company secretary. During the year ended 31 December 2020, Ms. Jian confirmed that she has taken no less than 15 hours of relevant professional training. The Company will provide fund for Ms. Jian to take no less than 15 hours of appropriate professional training in each financial year as required under Rule 3.29 of the Listing Rules.

## SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An AGM of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an AGM, shall be called an extraordinary general meeting.

### Shareholders to Convene an Extraordinary General Meeting

Pursuant to article 58 of the Articles, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### Putting Enquiries by Shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the company secretary at the Company's principal place of business in Hong Kong.

### Procedures for Putting Forward Proposals by Shareholders at Shareholders' Meetings

Shareholders of the Company are requested to follow article 58 of the Articles for including a resolution at an extraordinary general meeting. The requirements and procedures are set out above in the paragraph headed "Shareholders to convene an extraordinary general meeting".

Pursuant to article 85 of the Articles, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by that person (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Hong Kong branch share registrar and transfer office of the Company provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven days and that (if then notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgement of such notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

The procedures for shareholders of the Company to propose a person for election as a Director is posted on the website of the Company. Shareholders or the Company may refer to the above procedures for putting forward any other proposals at general meetings.

## INVESTORS RELATIONS

The Company believes that effective communication with the investors is essential for enhancing investors' relations and understanding of the Group's business operations, performances and strategies. Information of the Company is disseminated to the shareholders in the following manner:

- Delivery of annual and interim results and reports to all shareholders;
- Publication of announcements on the annual and interim results on the websites of the Company and Stock Exchange, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and
- The general meeting of the Company is also an effective communication channel between the Board and shareholders.

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Enquiries to the Board or the Company may be sent by post to the Company's head office. The Company also maintains a website at www.szeternity.com where up-to-date information and updates of the Company's operations, performances and strategies are available to public access.

## Dividend Policy

The Company has adopted a Dividend Policy that aims to provide the guidelines for the Board to determine whether dividends are to be declared and paid to the Shareholders and the level of dividend to be paid. Under the Dividend Policy, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, among others,

(1) the Group's actual and expected financial performance;

(2) the Group's expected working capital requirements, capital expenditure requirements and future expansion plans;

(3) retained earnings and distributable reserves of the Company and each of the members of the Group;

(4) the Group's liquidity position;

(5) interest of shareholder;

(6) Taxation consideration;

(7) potential effect on creditworthiness;

(8) the general economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and

(9) any other factors that the Board deems appropriate.

The declaration and payment of dividends by the Company shall remain to be determined at the sole discretion of the Board and is also subject to any restrictions under the Companies Law of the Cayman Islands, the Listing Rules, the laws of Hong Kong and the Company's Memorandum and Articles of Association and any other applicable laws and regulations. The Company does not have any pre-determined dividend distribution ratio. The Company's dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Company in the future.

The Company will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time, and the Dividend Policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

## Constitutional Documents

On 25 July 2018, the Company has adopted an amended and restated memorandum and articles of association which had been uploaded to the websites of the Company and the Stock Exchange. Save as disclosed above, there had been no changes in the constitutional documents of the Company during the year ended 31 December 2020.

## SCOPE AND REPORTING PERIOD

Eternity Technology Holdings Limited and its subsidiaries (collectively the "**Group**") presents its Environmental, Social and Governance ("**ESG**") report, which highlights its ESG performance from 1 January 2020 to 31 December 2020.

This ESG report was prepared with reference to the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**") as described in Appendix 27 of the Listing Rules and Guidance set out by the Stock Exchange.

The Group is principally engaged in the business of electronics manufacturing services, which includes provision of design enhancement and verification, offering of technical advice and engineering solutions, raw materials selection and procurement, quality control, logistic and delivery and after-sale services to customers in respect of assembling and production of printed circuit board assemblies and fully-assembled electronic products.

The Group applied the principles of materiality, measurability and consistency in the preparation of this ESG report. The scope of this ESG report covers the Group's business in the PRC, where the Group's principal operations are located and its major revenue is derived. The Group's operations outside the PRC are not included in the scope as they do not have significant environmental and social impacts. The effectiveness of the Group's ESG policies was assessed by comparing the Group's performance for the year ended 31 December 2020 with prior year comparative figures. Further, the information in this ESG was presented in a consistent manner. In the event there are any changes in methods or key performance indicators used or other factors affecting a meaningful comparison, these changes would be disclosed in this ESG report.

## ESG RESPONSIBILITIES

The board of directors (the "**Board**") holds the overall responsibility for the Group's ESG strategy and reporting by overseeing the overall governance and progress of the Group's ESG management system, policies, commitments, strategies and objectives.

Management of the Group is responsible for the collection and analysis of ESG data, implementation of appropriate measures to improve the Group's ESG performance, assessment of whether current ESG policies and improvement measures are effective, compliance with relevant ESG laws and regulations and the reporting of major issues to the Board. To assess the effectiveness of the Group's ESG policies, management sets key performance indicators and compares the indicators of current year with those of prior year.

The data and information in this ESG report are sourced from the relevant documents, reports, statistical data, management and operation information collected by the Group. The Board has reviewed the contents of this ESG report.

## STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

The Group maintains regular communications with its stakeholders to collect their views on the ESG aspects that they regard as relevant and important. Its key stakeholders include its employees, shareholders, customers, suppliers, professional institutions, governmental organisations and authorities. The Group maintains an open and transparent dialogue with its stakeholders through various channels including meetings, surveys, seminars and workshops.

The following table summarises the main expectations and concerns of the key stakeholders identified by the Group, and the corresponding management responses.

| Stakeholders | Expectations | Management responses/ Communication channels |
|---|---|---|
| Governments and regulatory bodies | • Compliance with laws and regulations<br>• Tax payment in accordance with laws | • Compliance operation<br>• Tax payment in full and on time |
| Shareholders | • Financial results<br>• Corporate transparency<br>• Sound risk control | • To improve profitability<br>• Regular information disclosure<br>• To optimise risk management and internal control |
| Employees | • Career development platform<br>• Salary and benefits<br>• Safe working environment | • Promotion mechanism<br>• Competitive salary and employee benefits<br>• To provide trainings for employees and strengthen their safety awareness |
| Customers | • Logistics and delivery service standards<br>• Customer information security<br>• Customer rights and interests protection | • To get delivery status through product tracking system<br>• Customer privacy protection<br>• Compliance marketing |
| Suppliers | • Integrity cooperation<br>• Business ethics and credibility | • To build a responsible supply chain<br>• To perform the contract according to law |
| Society and the public | • Environmental protection<br>• Employment opportunities | • To reduce environmental pollutions<br>• To provide equal employment opportunities |

## MATERIALITY ASSESSMENT

With reference to the scopes as required under the ESG Reporting Guide and taking into consideration of the Group's business operations, the Group identified the following environmental, social and operating issues that are material and relevant to the Group's business operations during the year ended 31 December 2020. If the Group does not implement effective strategies to monitor and solve these issues, these issues may affect the Group's financial condition or operating performance. Further, the Group made a materiality assessment on these environmental, social and operating issues by conducting interviews with its stakeholders.

| Environmental issues | Social issues | Operating issues |
|---|---|---|
| 1. Greenhouse gas emissions | 8. Local community engagement | 15. Economic value generated |
| 2. Energy consumption | 9. Community investment | 16. Corporate governance |
| 3. Water consumption | 10. Occupational health and safety | 17. Anti-corruption |
| 4. Waste | 11. Labour standards in supply chain | 18. Supply chain management |
| 5. Saving energy measures | 12. Training and development | 19. Customer satisfaction |
| 6. Use of raw materials and packaging materials | 13. Employee welfare | 20. Customer privacy |
| 7. Compliance with laws and regulations relating to environmental protection | 14. Inclusion and equal opportunities | |

The Group prioritised the above-mentioned environmental, social and operating issues in terms of their importance to the Group's stakeholders and business operations.

| Importance to the Group's stakeholders and business operations | ESG issues |
|---|---|
| High | **1, 2, 3, 5, 6, 7, 10, 14, 15, 16, 17, 18, 19, 20** |
| Medium | **11, 12, 13** |
| Low | **4, 8, 9** |

Based on the results of the Group's materiality assessment, the Group would formulate and implement appropriate strategies to monitor and solve the identified issues and to achieve sustainable business development.

## A. ENVIRONMENT

The Group acknowledges its responsibility to protect the environment and it has implemented policies to reduce emissions and improve the efficiency in the use of resources.

The Group's operations are subject to certain environmental requirements pursuant to the laws in the PRC, such as the Environmental Protection Law of the PRC (中華人民共和國環境保護法), the Law of the PRC on Environmental Impact Assessment (中華人民共和國環境影響評價法), the Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), the Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), the Law of the PRC on the Prevention and Control of Pollution from Environmental Noise (中華人民共和國環境噪聲污染防治法) and the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法).

These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge. The Group's business operations in the PRC should comply with laws and regulations concerning the environment protection.

The Group is accredited with the certification of "ISO14001:2004 Environmental management system" for the processing of PCB (SMT, test and assembly), production of the wireless data termination products (GPRS/CDMA module). During the year ended 31 December 2020, the Group did not record any material non-compliance with applicable environmental requirements that resulted in prosecution, penalty, administrative fine or sanction being imposed against the Group.

### Emissions

In order to comply with the applicable environmental protection laws, the Group has implemented environmental protection policies, reducing air and water pollution and electricity consumption. Sources of emissions the Group mainly involved during the year ended 31 December 2020 included consumption of petrol, electricity, paper and water in its business operations and business trips.

#### *(i) Air pollutant emissions*

During the year ended 31 December 2020, air pollutant emissions mainly arose from petrol consumption for the use of the Group's self-owned vehicles, which contributed to the emission of 246.2kg (2019: 426.5kg) of nitrogen oxides (NOx), 0.5kg (2019: 0.5kg) of sulphur oxides (SOx) and 17.1kg (2019: 32.8kg) of respiratory suspended particles (PM).

*(ii) Greenhouse gas emissions*

| Scope of greenhouse gas emissions | **For the year ended 31 December 2020** Emission (in $tCO_2e$) | Percentage to total emission | For the year ended 31 December 2019 Emission (in $tCO_2e$) | Percentage to total emission |
|---|---|---|---|---|
| **Scope 1 Direct emission** | | | | |
| Combustion of petrol for mobile vehicles | **87.59** | **1.6%** | 86.24 | 1.6% |
| **Scope 2 Indirect emission** | | | | |
| Purchased electricity | **5,197.00** | **97.8%** | 5,142.00 | 97.5% |
| **Scope 3 Other indirect emission** | | | | |
| Paper waste disposal | **0.03** | **0.6%** | 0.02 | 0.9% |
| Water consumption | **25.76** | | 36.15 | |
| Business air travel | **2.86** | | 10.07 | |
| **Total** | **5,313.24** | **100%** | 5,274.48 | 100% |

*Notes:*

1) Emission factors were made by reference to Appendix 27 of the Main Board Listing Rules and their referred documentation as set out by the Stock Exchange, unless stated otherwise.

2) The above emission data does not include the removal of $CO_2$ contributed by recycling of paper.

During the year ended 31 December 2020, the Group's activities contributed to 5,313.24 tonnes (0.32 $tCO_2/m^2$) (2019: 5,274.48 tonnes (0.39 $tCO_2/m^2$)) of carbon dioxide equivalent (carbon dioxide, methane, nitrous oxide and hydrofluorocarbons) emission. Details of the Group's measures to reduce the consumption of resources and the related emissions are set out below. As a result of these measures, the employees' awareness of reducing the consumption of resources and the related emissions has been increased. Same as the previous two years, the Group did not receive any complaints or warnings on greenhouse gas emissions during the year ended 31 December 2020, and targets to achieve the same performance in 2021.

*Petrol consumption*

During the year ended 31 December 2020, the Group's motor vehicles travelled approximately 166,374 km, which consumed 35,228 litres of petrol (64.52 litres of petrol per employee) and contributed to 87.59 tonnes (2019: 86.24 tonnes) of carbon dioxide equivalent emissions. To reduce the emissions arising from petrol consumption, the Group encourages its employees to use public transport when they attend business activities. For business activities that take place within walking distance, the Group encourages its employees to walk or cycle to the destination. The Group targets that its petrol consumption in 2021 will not exceed the level consumed during the year ended 31 December 2020.

*Electricity consumption*

During the year ended 31 December 2020, the Group consumed 6,210,983 kWh of electricity (11,375 kWh per employee) in connection with its daily business operations, which contributed to 5,197 tonnes (2019: 5,142 tonnes) of carbon dioxide equivalent emissions. To reduce the emissions arising from electricity consumption, the Group encourages its employees to switch off the lights and other electricity appliances when they leave office and production premises. The Group targets that its electricity consumption in 2021 will not exceed the level consumed during the year ended 31 December 2020.

*Paper consumption*

During the year ended 31 December 2020, the Group consumed 5.9 tonnes of paper (0.01 tonnes per employee) in connection with its daily business operations, which contributed to 0.03 tonnes (2019: 0.02 tonnes) of carbon dioxide equivalent emissions. To reduce the emissions arising from paper usage, the Group encourages its employees to conserve paper, review documents on computers, send messages to customers via emails, use recycled paper and adopt double-sided printing. The Group targets that its paper consumption in 2021 will not exceed the level consumed during the year ended 31 December 2020.

*Water consumption*

During the year ended 31 December 2020, the Group consumed 28.6 tonnes of water (0.05 tonnes per employee) in connection with its daily business operations, which contributed to 25.76 tonnes (2019: 36.15 tonnes) of carbon dioxide equivalent emissions. To reduce the emissions arising from water usage, the Group encourages its employees to conserve water and remember to turn off the water tap. As a result, the employees have increased their awareness to reduce water consumption. During the year ended 31 December 2020, the Group did not encounter any problems in sourcing water that is fit for purpose. Further, the Group did not consume a significant amount of water that was and disproportional to the scale of its business operations. The Group targets that its water consumption in 2021 will not exceed the level consumed during the year ended 31 December 2020.

*Business air travel*

The Group's employees occasionally travel by air to other cities/countries for meetings with customers and suppliers. They would only travel by air when necessary and the Group keeps track of their business air travels. During the year ended 31 December 2020, business air travels of the Group's employees had contributed a total of 2.86 tonnes (2019: 10.07 tonnes) of carbon dioxide equivalent emission.

### *(iii) Hazardous waste*

During the year ended 31 December 2020, the Group generated minimal amount of hazardous waste. The major hazardous waste generated by the Group was waste light tube. To minimise the impact on environment, the Group has engaged a waste collector to handle and collect the hazardous waste produced. The Group will strive to reduce hazardous waste through upgrading technologies whenever possible. Same as the previous two years, the Group did not receive any complaints or warnings on disposal of its hazardous waste during the year ended 31 December 2020, and targets to achieve the same performance in 2021.

### *(iv) Non-hazardous waste*

During the year ended 31 December 2020, the Group generated minimal amount of non-hazardous waste. The major non-hazardous waste generated by the Group were packaging materials generated from the production process and domestic waste generated in staff quarters and offices. Most of the non-hazardous waste are recycled or sold to recycling company. The Group regularly reminds its employees to use resources efficiently and try to avoid the generation of waste. As a result, the employees' awareness of waste management has been increased. Same as the previous two years, the Group did not receive any complaints or warnings on disposal of its non-hazardous waste during the year ended 31 December 2020, and targets to achieve the same performance in 2021.

### Use of resources

To minimise adverse impact on the environment and natural resources arising from its business operations, the Group understands the importance to reduce unnecessary resource consumption and to enhance utilisation efficiency, and accordingly it has adopted a set of guidelines to achieve efficient use of energy, water and other resources for long-term sustainability.

The Group's total consumption of resources during the year ended 31 December 2020 together with the relevant conservation measures adopted by the Group are detailed in the section headed "Emissions" above.

### The environment and natural resources

During the year ended 31 December 2020, the Group's business activities did not cause significant adverse impact on the environment and natural resources.

To further improve the use of resources, the Group takes the following actions on an ongoing basis:

- keep track of its consumption level of resources;
- review the effectiveness of its conservation measures; and
- design improvement measures

As a result, the Group's employees are more aware of the importance of using resources efficiently.

### Climate change

Management of the Group regularly monitors and identifies climate change risk that is relevant to the Group's business operations.

Climate change is mainly caused by the release of carbon dioxide into the atmosphere, resulting from the use of fossil fuels for electricity generation and for transportation. As mentioned above, the Group has implemented appropriate strategies to use resources more efficiently and reduce emissions to combat climate change and reduce potential costs in the future.

During the year ended 31 December 2020, management was not aware of any significant climate-related issues that had/might have significant adverse impact on the Group's business operations.

Going forward, if there are any significant climate related issues and transitional risks posed from climate change that will have significant adverse impact on the Group's business operations, management will implement appropriate strategies to mitigate such issues or risks in a timely manner.

## B. SOCIAL

### Employment and labour practices

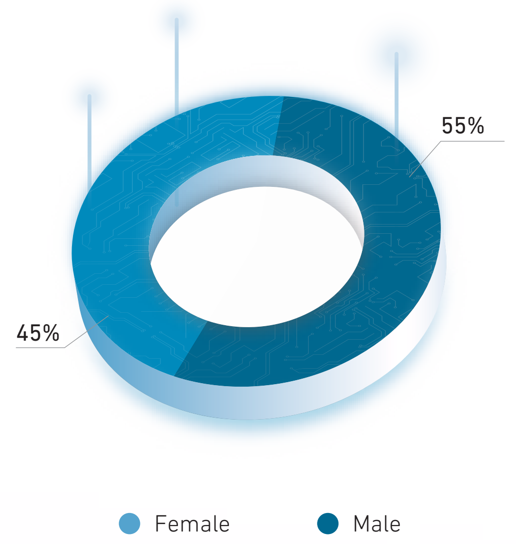
*(i) Employment*

***Total employees and turnover***

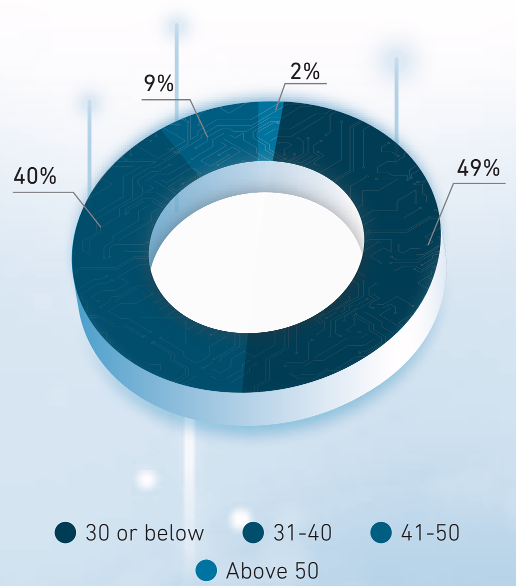
As at 31 December 2020, the Group had a total number of 546 full-time employees, of which 544 employees were located in the PRC and the remaining were located overseas. During the year ended 31 December 2020, the Group had a low staff turnover rate.

Set forth below are the distribution of the Group's employees as at 31 December 2020 by gender and age group:

**Distribution of Employees by Gender**




**Distribution of Employees by Age Group**



***Employee benefits and welfare***

The Group enters into employment contracts with its employees and the employment contract terms were stipulated under the principles of fairness, voluntarism, mutual consent, integrity and credibility. The remuneration package offered to employees includes salary, bonuses and other subsidies. In general, the remuneration package is based on each employee's qualifications, position, seniority and work performance. The Group carries out an annual review system to assess the performance of its employees, which forms the basis of decisions with respect to salary raises, bonuses and promotions.

During the year ended 31 December 2020, the Group maintains social insurance for its employees pursuant to the applicable PRC laws and regulations by making contributions to the mandatory social insurance and housing provident funds which provide basic retirement, medical, work-related injury, maternity and unemployment benefits.

During the year ended 31 December 2020, the Group complies with the Labour Law of the PRC and did not experience any significant disputes with its employees or any disruption to business operations due to labour disputes. In addition, the Group did not experience any difficulties in the recruitment and retention of experienced core staff or skilled personnel.

***Labour standards***

During the year ended 31 December 2020, there was no child labour nor forced labour working in the Group. The job application requirement specifies that job applicants must be at least 18 years old. To ensure that job applicants can meet the age requirement, identities of job applicants are verified against their valid identity documents, relevant permits and certificates.

The Group's human resources department is required to carry out background checks to authenticate information provided by job applicants and is required to fill in forms that confirm hired employees have met the age requirement. If child labour or forced labour is discovered, such matter will be reported to the human resources department and the senior management and the Group will enhance the internal controls immediately. No material non-compliance in relation to laws and regulations regarding prevention of child and forced labour was recorded during the year ended 31 December 2020.

***Equal opportunity***

The Group provides equal opportunities for employees in respect of recruitment, job advancement, training and development, etc. Employees are not discriminated against or deprived of such opportunities on the basis of race, nationality, religion, physical condition, disability, gender, pregnancy, sexual orientation, political status, age and any other discrimination prohibited by applicable law. Employees shall not act in discriminatory manner or they can be subject to disciplinary actions.

### *(ii) Employee relations*

The Directors consider that it is important to maintain good relationship with employees. The Group maintains regular communications with its employees by arranging gatherings, celebration activities and trainings. Through these activities, the Group would collect feedback from its employees on job satisfactions and their expectations on the Group and would implement appropriate strategies to improve the work environment and its relationship with the employees.

### *(iii) Employee health and safety*

The Group places emphasis on occupational health and work safety. It has implemented measures in its production premise to promote occupational health and safety and to ensure compliance with applicable laws and regulations. The Group also published booklets with occupational health and safety for circulation to its employees to raise awareness of occupational health and safety among its employees. It had established a series of safety guidelines, rules and procedures for different aspects of its production activities, including fire safety, warehouse safety, work-related injuries and emergency and evacuation procedures.

During the year ended 31 December 2020, the Group had not experienced any material safety accidents or been penalised for any non-compliance relating to work safety laws and regulations.

| **Occupational health and safety data for the three years ended 31 December 2020** | |
|---|---|
| Work related fatality | – |
| Work injury cases >3 days | – |
| Work injury cases <=3 days | – |
| Lost days due to work injury | – |

### *(iv) Development and training*

The Group provides comprehensive training and development opportunities to its employees on a regular basis. The trainings are arranged according to needs of employees, which were identified annually by individual departments:

a. Orientation training – To familiarise employees with the Group's objectives, culture, rules and regulations, safety and product-related knowledge on the first day of work;

b. Pre-job training – To familiarise new employees or transferred employees with their new duties;

c. On-the-job training – To ensure that the employees are familiar with the Group's products, to sharpen the sales technique and customer service standard of sales and marketing personnel and to ensure the production and quality control personnel perform proper quality control procedures.

## Operating practices

### (i) *Supply chain management*

The Group purchases raw materials and equipment based on its own needs, specifications, quality and safety performance of equipment, reputation, after-sales service and delivery time of the supplier. The Group compares different suppliers to select qualified suppliers (based on their product specifications, product compliances, production management, quality management and also ESG performances) before the Group enters into contract with the qualified suppliers.

When selecting equipment, the Group would also consider whether the equipment is energy efficient and environmental friendly. During the year ended 31 December 2020, the geographical locations of the Group's suppliers of raw materials and equipment were as follows:

| Geographical locations of the Group's suppliers | Number of suppliers |
|---|---|
| The PRC | 1,451 |
| Hong Kong | 101 |
| Others | 29 |
| Total | 1,581 |

The Group expects its suppliers to uphold the environmental, social and governance principles that the Group has adopted into the management of its business operations. In order to ensure that the components and raw materials meet the requisite safety and quality standards, the Group adopts stringent criteria in supplier selection (including but not limited to whether they provide high quality raw materials, whether they maintain a high standard on environmental protection and comply with relevant laws on environmental issues, whether price is comparable to market rate and location of their factories) and continuously monitors existing suppliers on an annual basis, based on criteria such as product quality, product defect ratio, delivery punctuality ratio and responsiveness.

Whether the supplier will continue to be included in the Group's list of approved suppliers depends on the marks it achieved under annual evaluation. The awareness of environmental protection is one of the key criteria for the Group to evaluate the suppliers.

### (ii) *Product responsibility*

***Product assurance and recall***

Product quality is crucial to the Group's continued success. The Group places strong emphasis on achieving a consistently high quality for its products. To achieve such purpose, stringent quality control measures throughout the production process were implemented to ensure the quality and safety of our products. The Group's quality control department performs regular inspections to evaluate the effectiveness of the quality control measures and further enhance these measures when necessary.

As a result of stringent quality control procedures, the Group is accredited with the certification of "ISO 9001:2008 Quality Management System" and the Group did not experience any claims, litigations and arbitrations or material adverse findings in inspection by government authorities with respect to the quality of its products during the year ended 31 December 2020.

The Group offers a warranty ranging from nil to 24 months from the date of the delivery of its products. It provides after-sale services such as replacing defective products for its customers during the warranty period. It also endeavours to respond to all customer support inquiries within 24 hours to ensure that it is able to address its customers' needs efficiently. During the warranty period, the Group normally allows the return and replacement of products mainly due to quality reasons. During the year ended 31 December 2020, the Group did not experience any product recall, material non-compliance with laws and regulations in relation to product health and safety or receive any material complaints from consumers.

***Intellectual property rights and information security***

The Group registered various patents and copyrights for our products and software in the PRC to protect its intellectual property rights. The Group relies on the relevant laws and regulations to protect its intellectual property rights.

During the year ended 31 December 2020, the Group was not aware of any material infringement (i) by the Group of any intellectual property rights owned by any third parties; or (ii) by any third party of any intellectual property rights owned by the Group. Further, there were no pending or threatened material claims made against the Group, nor had there been any material claims made by the Group against third parties, with respect to the infringement of intellectual property rights owned by the Group.

### *(iii) Anti-corruption*

According to the Group's anti-corruption policy, all employees shall abide by the laws and regulations of the PRC and shall not engage in any illegal activities. Employees shall uphold the code of ethics, advocate fair competition and act against bribery. Any bribery, fraud, money laundering and embezzlement are prohibited.

Employees must not accept or request any improper benefits including banquets, gifts, securities, valuables and high-expenditure entertainment activities from business partners, suppliers and merchants, etc. When there is any alleged case in violation of laws, regulations, code of conduct or the Group's policies, the Group will investigate and impose disciplinary actions upon offenders after verification. The Group also provides trainings to directors and employees from time to time to ensure that they comply and familiar with the anti-corruption guides, policies and procedures of the Group.

During the year ended 31 December 2020, the Group complied with all applicable laws on prohibiting corruption and bribery of the PRC and there was no concluded legal case regarding corrupt practices brought against the Group or its employees.

### *(iv) Data protection and privacy policy*

The Group is committed to protecting the privacy of its customers, employees, business partners and suppliers by maintaining a safe and secure data environment. The Group has implemented appropriate policies to ensure that all personal and business data collected during the Group's business activities are organised and secured properly. Computers and servers are protected from access passwords, Employees are instructed of their responsibility to follow the confidentiality code on the access to information and to ensure the safekeeping of all personal, customer and business data, trade secrets and proprietary information. Employees are prohibited from disclosing the information to unauthorised parties.

## Community investment

The Group acknowledges corporate social responsibility and allocates resources to satisfy the needs of the community. During the year ended 31 December 2020, the Group spent reasonable amount of resources on environmental protection as well as cultural and sport promotion. The Group encouraged its employees to participate charitable events. Going forward, the Group will continue to focus on community needs and increase its investment in community.

## THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED

| Subject areas, aspects, general disclosures and KPIs | Description | Relevant section in the ESG report/Declaration |
|---|---|---|
| **Aspect A1: Emissions** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and nonhazardous waste. | A. ENVIRONMENT |
| KPI A1.1 | The types of emissions and respective emissions data. | Emissions |
| KPI A1.2 | Greenhouse gas emissions in total (in tonnes) and intensity. | Emissions – (ii) Greenhouse gas emissions |
| KPI A1.3 | Total hazardous waste produced (in tonnes) and intensity. | Emissions – (iii) Hazardous waste<br>(Not applicable – Explained) |
| KPI A1.4 | Total non-hazardous waste produced (in tonnes) and intensity. | Emissions – (iv) Non-hazardous waste<br>(Not applicable – Explained) |
| KPI A1.5 | Description of reduction initiatives and results achieved. | Emissions |
| KPI A1.6 | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved. | Emissions – (iii) Hazardous waste<br>Emissions – (iv) Non-hazardous waste |
| **Aspect A2: Use of Resources** | | |
| General Disclosure | Policies on the efficient use of resources, including energy, water and other raw materials. | Use of resources |
| KPI A2.1 | Direct and/or indirect energy consumption by type in total and intensity. | Emissions |
| KPI A2.2 | Water consumption in total and intensity | Emissions – (ii) Greenhouse gas emissions – Water consumption |

| Subject areas, aspects, general disclosures and KPIs | Description | Relevant section in the ESG report/Declaration |
|---|---|---|
| KPI A2.3 | Description of energy use efficiency initiatives and results achieved. | Emissions |
| KPI A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved. | Emissions – (ii) Greenhouse gas emissions – Water consumption |
| KPI A2.5 | Total packaging material used for finished products (in tonnes) and with reference to per unit produced. | Emissions – (iii) Non-hazardous waste (Not applicable – Explained) |
| **Aspect A3: The Environment and Natural Resources** | | |
| General Disclosure | Policies on minimising the issuer's significant impact on the environment and natural resources. | The environment and natural Resources |
| KPI A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | The environment and natural Resources |
| **Aspect A4: Climate Change** | | |
| General Disclosure | Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer. | Climate change |
| KPI A4.1 | Description of significant climate-related issues which have impacted and/or may impact the issuer and the actions taken to manage them. | Climate change |
| **Aspect B1: Employment** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | Employment and labour practices |
| KPI B1.1 | Total workforce by gender, employment type, age group and geographical region. | Employment and labour practices – (i) Employment – Total employees and turnover |

| Subject areas, aspects, general disclosures and KPIs | Description | Relevant section in the ESG report/Declaration |
|---|---|---|
| KPI B1.2 | Employee turnover rate by gender, age group and geographical region. | Employment and labour practices – (i) Employment<br>– Total employees and turnover |
| **Aspect B2: Health and Safety** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards. | Employment and labour practices – (iii) Employee health and safety |
| KPI B2.1 | Number and rate of work-related fatalities. | Employment and labour practices – (iii) Employee health and safety |
| KPI B2.2 | Lost days due to work injury | Employment and labour practices – (iii) Employee health and safety |
| KPI B2.3 | Description of occupational health and safety measures adopted, and how they are implemented and monitored | Employment and labour practices – (iii) Employee health and safety |
| **Aspect B3: Development and Training** | | |
| General Disclosure | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | Employment and labour practices – (iv) Development and training |
| KPI B3.1 | Percentage of employees trained by gender and employee category | The Group provides comprehensive training and development opportunities to its employees on a regular basis. The Group does not use this KPI as it creates time cost and financial burden on the Group to prepare such analysis. |
| KPI B3.2 | Average training hours completed by gender and employee category | The Group provides comprehensive training and development opportunities to its employees on a regular basis. The Group does not use this KPI as it creates time cost and financial burden on the Group to prepare such analysis. |

| Subject areas, aspects, general disclosures and KPIs | Description | Relevant section in the ESG report/Declaration |
|---|---|---|
| **Aspect B4: Labour Standards** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour. | Employment and labour practices – (i) Employment |
| KPI B4.1 | Description of measures to review employment practices to avoid child and forced labour. | Employment and labour practices – (i) Employment |
| KPI B4.2 | Description of steps taken to eliminate such practices when discovered | Employment and labour practices – (i) Employment |
| **Aspect B5: Supply Chain Management** | | |
| General Disclosure | Policies on managing environmental and social risks of the supply chain. | Operating practices – (i) Supply chain management |
| KPI B5.1 | Geographical locations of major suppliers | Operating practices – (i) Supply chain management |
| KPI B5.2 | Description of practices relating to engaging suppliers | Operating practices – (i) Supply chain management |
| KPI B5.3 | Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored | Operating practices - (i) Supply chain management |
| KPI B5.4 | Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored | Operating practices - (i) Supply chain management |

| Subject areas, aspects, general disclosures and KPIs | Description | Relevant section in the ESG report/Declaration |
|---|---|---|
| **Aspect B6: Product Responsibility** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | Operating practices – (ii) Product responsibility |
| KPI B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | Operating practices – (ii) Product responsibility |
| KPI B6.2 | Number of products and service related complaints received and how they are dealt with. | Operating practices – (ii) Product responsibility |
| KPI B6.3 | Description of practices relating to observing and protecting intellectual property rights. | Operating practices – (ii) Product responsibility |
| KPI B6.4 | Description of quality assurance process and recall procedures. | Operating practices – (ii) Product responsibility |
| KPI B6.5 | Description of consumer data protection and privacy policies, and how they are implemented and monitored | Operating practices – (iv) Data protection and privacy policy |

| Subject areas, aspects, general disclosures and KPIs | Description | Relevant section in the ESG report/Declaration |
|---|---|---|
| **Aspect B7: Anti-corruption** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering. | Operating practices – (iii) Anti-corruption |
| KPI B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | Operating practices – (iii) Anti-corruption |
| KPI B7.2 | Description of preventive measures and how they are implemented and monitored | Operating practices - (iii) Anti-corruption |
| KPI B7.3 | Description of anti-corruption training provided to directors and staff | Operating practices - (iii) Anti-corruption |
| **Aspect B8: Community Investment** | | |
| General Disclosure | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | Community investment |
| KPI B8.1 | Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport). | Community investment |
| KPI B8.2 | Resources contributed (e.g. money or time) to the focus area | Community investment |

# REPORT OF DIRECTORS

The Directors are pleased to present to the Shareholders the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2020.

## PRINCIPAL ACTIVITIES

The Group is principally engaged in the business of EMS which includes provision of design enhancement and verification, offering of technical advice and engineering solutions, raw materials selection and procurement, quality control, logistic and delivery and after-sale services to our customers in respect of our assembling and production of PCBA and fully-assembled electronic products. Details of the principal activities of the Company's subsidiaries are set out in notes 1 and 28 to the consolidated financial statements.

## BUSINESS REVIEW

The business review of the Group for the year is set out in the sections of Chairman's Statement, Management Discussion and Analysis, Environmental, Social and Governance Report, Financial Summary and the paragraphs below. The Group complies with the requirements under the Hong Kong Companies Ordinance, the Listing Rules and the Securities and Futures Ordinance (the "**SFO**") for the disclosure of information and corporate governance. The Group also complies with the requirements of Employment Ordinance and ordinances relating to occupational safety for the interest of employees of the Group. No important event affecting the Group has occurred since the end of the year.

## KEY RISK FACTORS

The following lists out the key risks and uncertainties facing the Group.

### Concentration of customers

The Group has a concentration of customers and any decrease or loss of business from these major customers could adversely and substantially affect our operations and financial conditions.

### Fluctuations in the price of raw materials

Fluctuations in the price of raw materials may affect our cost of sales and adversely affect our business operations and profitability.

### Financial Risks

The financial risks of the Group exposed to are shown in note 3 to the consolidated financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2020 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 62 to 65.

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

## SUBSIDIARIES

Details of our subsidiaries as at 31 December 2020 are set out in note 28 to the consolidated financial statements.

## PROPERTIES, PLANT AND EQUIPMENT

Details of movements in the properties, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 22 to the consolidated financial statements.

## CLOSURE OF THE REGISTER OF MEMBERS

For the purposes of determining the shareholders' eligibility to attend and vote at the forthcoming annual general meeting to be held on 2 June 2021 (Wednesday), the register of members of the Company will be closed from 28 May 2021 (Friday) to 2 June 2021 (Wednesday), both days inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 27 May 2021 (Thursday). During the above closure period, no transfer of shares will be registered. To be eligible to attend and vote at the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Thursday, 27 May 2021.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's article of association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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

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

## RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in the consolidated statement of changes in equity.

## CHARITABLE DONATIONS

The Group did not have any donation during the Reporting Period (2019: Nil).

## MANAGEMENT CONTRACTS

During the Reporting Period, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or existed during the year.

## MAJOR SUPPLIERS AND CUSTOMERS

During the Reporting Period, sales to the single largest customer of the Group and the five largest customers of the Group accounted for approximately 43.7% and 75.5% (2019: approximately 49.5% and approximately 73.9%) of the total sales of the year, respectively. During the Reporting Period, purchases from the single largest supplier of the Group and the five largest suppliers of the Group in aggregate accounted for approximately 8.9% and 26.8% (2019: 10.3% and 31.2%) of the total purchases of the year, respectively. None of the Directors of the Company or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

## DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

### EXECUTIVE DIRECTORS

Mr. Ma Fujun *(Chairman and Chief Executive Officer)*
Ms. Chen Xiaoyuan
Mr. Cheng Bin

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wu Chi-luen
Mr. Chan Chung Kik Lewis
Mr. Chow Kit Ting

Article 84(1) of the Article of Association provide that every Director shall retire from office once every three years and for this purpose, at each AGM one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third but not less than one-third shall retire from office by rotation. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. Subject to the Articles, a retiring Director shall be eligible for re-election at the meeting at which he or she retires. For avoidance of doubt, each Director shall retire at least once every three years.

Article 83(3) of the Articles of Association provides that the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Pursuant to Articles 83(3) and 84(1) of the Articles of Association, Ms. Chen Xiaoyuan, and Mr. Chan Chung Kik Lewis will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting ("**AGM**").

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 13 to 15 of this annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date and will continue thereafter (subject to retirement by rotation and re-election at an AGM at least once every three years in accordance with the Article of Association) and each of the Independent Non-executive Directors has enter into a service agreement with the Company for an initial term of three years commencing from the Listing Date (subject to retirement by rotation and re-election at an AGM at least once every three years in accordance with the Article of Association). All the service agreements may be terminated by either party by giving to the other party not less than three months' prior notice in writing.

Apart from the foregoing, no Directors proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment or compensation, other than statutory compensation.

## INDEMNITY OF DIRECTORS

The Company has maintained appropriate directors and officers liability insurance and such permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance to which the company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company or his or her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2020, interests or short positions in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) held by the Directors and chief executive of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers (the "**Model Code**") are as follows:

### (i) Interests in our Company

| Name of Director | Nature of interest | Number of Shares(1) | Percentage of shareholding (%) |
|---|---|---|---|
| Mr. Ma Fujun ("**Mr. Ma**") | Interest of a controlled corporation(2) | 191,250,000(L) | 63.75 |

*Notes:*

(1) The letter "L" denotes the person's long position in the Shares.

(2) These Shares are held by Rich Blessing Group Limited ("**Rich Blessing**"). Rich Blessing is owned as to 62.91% by Mr. Ma, 20.00% by Ms. Chen Xiaoyuan ("**Ms. Chen**"), 14.89% by Ms. Cheng Lihong ("**Ms. Cheng**") and 2.20% by Mr. Cheng Bin ("**Mr. Cheng**"). Mr. Ma, Ms. Chen and Mr. Cheng are our Executive Directors. Mr. Ma is also the sole director of Rich Blessing. Therefore, Mr. Ma is deemed or taken to be interested in the Shares held by Rich Blessing under the SFO.

### (ii) Interests in the ordinary shares of associated corporation

| Name of Director | Name of associated corporation | Nature of interest | Number of shares[1] | Percentage of shareholding (%) |
|---|---|---|---|---|
| Mr. Ma[2] | Rich Blessing | Beneficial owner; interest of spouse | 7,780[L] | 77.80 |
| Ms. Chen | Rich Blessing | Beneficial owner | 2,000[L] | 20.00 |
| Mr. Cheng | Rich Blessing | Beneficial owner | 220[L] | 2.20 |

*Notes:*

(1) The letter "L" denotes the person's long position in the shares of the relevant associated corporation.

(2) Ms. Cheng is the spouse of Mr. Ma. Therefore, Mr. Ma is deemed or taken to be interested in the shares in Rich Blessing held by Ms. Cheng under the SFO.

Save as disclosed above, none of the Directors or chief executive of the Company and/or any of their respective associates had registered any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporations as at the date of this report, as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Saved as disclosed in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures", at no time during the year was the Group, or the Company's holding company or any subsidiary of its holding company a party to any arrangements to enable the Directors, or any of their spouses or children under the age of 18 to acquire by means of acquisition of shares in, or debt securities, and including debentures, of the Group or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' AND OTHERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as the Directors are aware, as at the date of this report, the following corporations/persons (other than our Directors and chief executives of the Company) had interests of 5% or more in the issued Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept by the Company under section 336 of the SFO:

| Name of Shareholder | Nature of interest | Number of Shares held/interested[(1)] | Percentage (%) |
|---|---|---|---|
| Rich Blessing | Beneficial owner | 191,250,000(L) | 63.75 |
| Ms. Cheng | Interest of spouse[(2)] | 191,250,000(L) | 63.75 |
| Elite Foster International Investment Limited ("**Elite Foster**") | Beneficial owner[(3)] | 33,750,000(L) | 11.25 |
| Mr. Lu Wan Ching | Interest of a controlled corporation[(3)] | 33,750,000(L) | 11.25 |
| Ms. Wong Yuk Ting | Interest of spouse[(4)] | 33,750,000(L) | 11.25 |

*Notes:*

(1) The letter "L" denotes the person's long position in the Shares.

(2) Ms. Cheng is the spouse of Mr. Ma. Therefore, Ms. Cheng is deemed or taken to be interested in the Shares held by Mr. Ma under the SFO.

(3) The Shares are held by Elite Foster, which is wholly owned by Mr. Lu Wan Ching. Therefore, Mr. Lu Wan Ching is deemed or taken to be interested in the Shares held by Elite Foster under the SFO.

(4) Ms. Wong Yuk Ting is the spouse of Mr. Lu Wan Ching. Therefore, Ms. Wong Yuk Ting is deemed or taken to be interested in the Shares in which Mr. Lu Wan Ching is interested under the SFO.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company, other than the Directors and chief executive of the Company, as at the date of this report which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## DIRECTORS' INTEREST IN A COMPETING BUSINESS

None of the Directors or any of their respective associates has engaged in or has any interest in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group during the Reporting Period and up to the date of this report.

Each of Mr. Ma, Ms. Chen, Ms. Cheng, Mr. Cheng and Rich Blessing (together the "**Controlling Shareholders**"), had entered into a non-competition deed dated 25 July 2018 (the "**Non-competition Deed**") in favour of the Company (for itself and on behalf of all members of the Group), pursuant to which, each of the Controlling Shareholders would not, and would procure his/her/its associates not to (other than through the Group or in respect of each covenanter (together with his/her/its associates), as a holder of not more than 5% of the issued shares or stock of any class or debentures of any company listed on any recognized stock exchange) directly or indirectly carry on, engage or otherwise be interested (in each case whether as shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) in any business which may be in competition with the business carried on by the Group from time to time, except where the Company's approval is obtained.

In order to ensure the Controlling Shareholders have complied with the Deed of Non-competition, each of the Controlling Shareholders has provided to the Company a written confirmation (i) in respect of his/her/its compliance with the Non-competition Deed for the Reporting Period; (ii) no personal interests were ever declared by any Controlling Shareholders who are also Directors at the Directors' meetings; and (iii) stating that they have not entered into any business which may be in competition with the business carried on by the Group from time to time. As there was no change in terms of the undertaking since the Company's listing on the Stock Exchange, the Independent Non-executive Directors of the Company are of the view that the Controlling Shareholders have complied with the Non-competition Deed and no matters are required to bring to the attention of the public.

## SHARE OPTION SCHEME

A share option scheme was conditionally adopted on 25 July 2018 (the "**Share Option Scheme**"), which became effective on the Listing Date. The share option scheme will provide the eligible participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives: (i) motivate the eligible participants to optimise their performance efficiency for the benefit of our Group; and (ii) attract and retain or otherwise maintain an on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group.

Eligible participants of the Scheme may include any employee (full-time or part-time), executives, officers, or directors (including non-executive directors and independent non-executive directors) of the Group, and any advisors, consultants, suppliers, customers, distributers and such other persons who in the sole opinion of the Board, will contribute or have contributed to the Group (together, the "Eligible Participants" or each "Eligible Participant").

Unless approved by shareholders of the Company in general meeting in the manner stipulated in the Listing Rules, the maximum entitlement for each Participant (including both exercised and outstanding options) under the Share Option Scheme or any other share option schemes of the Company in any 12-month period shall not exceed 1% of the total number of shares in issue.

The exercise price for any Share under the Share Option Scheme shall be a price determined by the Board and notified to each grantee and shall not be less than the highest of: (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from the date of adoption of the Share Option Scheme. There is no minimum period for which an option must be held before it can be exercised.

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptances of the options duly signed by the grantee, together with a remittance in favour of our Company of HK$1.00 by way of consideration for the grant thereof, is received by our Company on or before the relevant acceptance date.

As at the date of this report, the total number of shares available for issue under the Scheme was 30,000,000, representing 10% of the issued share capital of the Company as at the Listing Date. The aggregate number of shares which may be issued upon exercise of all outstanding options granted and to be exercised under the Scheme and any other share options schemes of the Company, must not in aggregate exceed 10% of the Company's shares in issue. The 10% limit may be refreshed at any time by obtaining approval of the Company's shareholders in general meeting provided that the total number of the Company's shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company, must not exceed 10% of the Company's shares in issue as at the date of approval of the refreshed limit. Unless terminated by the Company by resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of ten years from the date of adoption.

Subject to earlier termination by our Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption and the remaining life of the Share Option Scheme is approximately 8 years.

No share option has been granted exercised, cancelled or lapsed under the Share Option Scheme during the year ended 31 December 2020 and up to the date of this report.

## RELATED PARTY TRANSACTIONS

Details of material related party transactions entered into by the Group during the Reporting Period are set out in note 32 to the consolidated financial statements. For the year ended 31 December 2020, none of these related party transactions are connected transaction which are subject to the reporting, disclosure and independent shareholders' approval requirements of Chapter 14A of the Listing Rules in respect of such transactions.

## CONNECTED TRANSACTIONS

The connected transactions or continuing connected transactions of the Group under Chapter 14A of the Listing Rules entered by the Group with Shenzhen Qianhai Yufa Technology Company Limited* (深圳市前海宇發科技有限公司) in the year of 2018 with a term of three years, which was renewed during the Reporting Period, were exempted from reporting, disclosure and independent shareholders' approval requirements under the Listing Rules. Details were disclosed in Note 32 to the consolidated financial statements.

## FUTURE PROSPECT AND DEVELOPMENT

With reference to the Business Strategy section of the Chairman's Statement, the Group will continue to strive to system long term growth in our current business, strengthen our production capacity and enhance production efficiency to secure more business opportunities. We will continue to strive a balance among the interests of shareholders, employees and customers, and pursue long-term and sustainable development for the Group.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## AUDIT COMMITTEE

The Company established the Audit Committee on 25 July 2018 with terms of reference in compliance with the CG Code to the Listing Rules for the purpose of to making recommendations to the Board on the appointment and removal of the external auditor, to review the financial statements and related materials and provide advice in respect of the financial reporting process, and to oversee the internal control procedures of our Group. The Audit Committee now comprises three members, all being Independent Non-executive Directors, namely, Mr. Wu Chi-luen (Chairman), Mr. Chan Chung Kik Lewis and Mr. Chow Kit Ting.

The Audit Committee had reviewed the audited annual results of the Group for the year ended 31 December 2020.

## AUDITOR

PricewaterhouseCoopers, the auditor of the Company, will retire at the conclusion of the forthcoming AGM of the Company and be eligible to offer themselves for re-appointment. A resolution will be submitted to the AGM to be held on 2 June 2021 (Wednesday) to seek Shareholders' approval on the appointment of PricewaterhouseCoopers as the Company's auditor until the conclusion of the next AGM and to authorize the Board to fix their remuneration.

## REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 25 July 2018 with terms of reference in compliance with the CG Code for the purpose of making recommendations to the Board on the overall remuneration policy and structure relating to the Directors and senior management of our Group, to review and evaluate their performance in order to make recommendations on the remuneration package of each of the Directors and senior management personnel as well as other employee benefit arrangements. The Remuneration Committee comprises three Independent Non-executive Directors, namely, Mr. Wu Chi-luen (Chairman), Mr. Chan Chung Kik Lewis and Mr. Chow Kit Ting.

## NOMINATION COMMITTEE

The Company established the Nomination Committee on 25 July 2018 with terms of reference in compliance with the CG Code for the purpose of making recommendations to the Board on the appointment of Directors and the management of the Board succession. The Nomination Committee comprises one executive Director, Mr. Ma (Chairman) and two Independent Non-executive Directors, namely Mr. Chan Chung Kik Lewis and Mr. Wu Chi-luen.

## CORPORATE GOVERNANCE PRACTICES

Corporate governance practices adopted by the Company are set out in the Corporate Governance Report of this report.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief, the Company had maintained sufficient public float of not less than 25% of its total issued shares as required under the Listing Rules during the Reporting Period.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. All Directors of the Company have confirmed that, following specific enquiry by the Company, they have compiled with the required standard set out in the Model Code during the Reporting Period.

## USE OF PROCEEDS

Details of the use of the proceeds from the Listing are set out on page 11 of this annual report.

## COMPLIANCE WITH LAWS AND REGULATIONS

During the year, to the best knowledge of the Directors, the Group has complied with all the relevant laws and regulations that have a significant impact on the Group.

## RELATIONSHIPS WITH STAKEHOLDERS

Employees are the assets of the Group. The Group provides competitive remuneration package and a pleasant workplace environment to attract and motivate the employees. An annual performance evaluation will be conducted annually based on individual's contributions and achievements throughout the year and the Group will make necessary adjustments based on the result of the performance evaluation. The Group provides periodical trainings for staff to keep them abreast of the latest developments in the market and industry, in the form of both internal trainings and trainings provided by experts from external organisations.

The Group understands the importance of maintaining a good relationship with our business partners, including the customers, suppliers, bankers and other financial institutions. The Group believes that a healthy relationship can be build up by providing enhanced services to the customers, maintaining an effective communication channel to the employees and our business partners.

## ENVIRONMENTAL POLICY AND SOCIAL RESPONSIBILITY

The Group understands the importance of environmental sustainability and protection and has adopted policies on pollution prevention, preservation of natural resources and adherence to environmental laws and regulations. Please refer to the ESG Report on pages 27 to 44 for details of our ESG performance.

By order of the Board

**Ma Fujun**
*Chairman & Executive Director*

Hong Kong

pwc

羅兵咸永道

**To the Shareholders of Eternity Technology Holdings Limited**
(incorporated in the Cayman Islands with limited liability)

## OPINION

### What we have audited

The consolidated financial statements of Eternity Technology Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 62 to 125, which comprise:

- the consolidated balance sheet as at 31 December 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

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

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

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

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong*
*T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition for the sales of goods and the provision of manufacturing services
- Impairment of contract assets, trade and bills receivables

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Revenue recognition for the sales of goods and the provision of manufacturing services**<br><br>Refer to Notes 2.22 and 5 to the consolidated financial statements.<br><br>During the year ended 31 December 2020, revenue of approximately RMB547,825,000 was recognised in the Group's consolidated statement of comprehensive income.<br><br>Revenue from the sales of goods transferred at a point in time is recognised when the control of goods has transferred, being when the Group has delivered the products to the customers and the customers have accepted the products; revenue from the provision of manufacturing services transferred over time is recognised over the period of the contract using the input method with reference to the total actual costs incurred and the total estimated costs on completion for the services.<br><br>We focused on this area due to the magnitude of revenue transactions occurred. Hence significant audit resources were allocated to audit this area. | Our audit procedures performed on revenue recognition for the sale of goods and provision of manufacturing services included:<br><br>• We understood, evaluated and validated the key controls in respect of revenue recognition for the sales of goods and the provision of manufacturing services and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors;<br><br>• We reviewed, on a sample basis, the sales contracts with customers and identified the terms and conditions relating to the timing of transfer of controls of goods or services, to assess the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards;<br><br>• We compared, on a sample basis, revenue transactions recognised during the year with delivery documents, customers' acknowledgement of sales and underlying sales invoices to determine whether revenue from the sales of goods and the provision of manufacturing services had been recognised in accordance with the Group's revenue recognition policies; |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| | • We tested, on a sample basis, revenue transactions from the sales of goods recognised before and after the financial year-end to delivery documents, customers' acknowledgement of sales and underlying sales invoices to determine whether revenue from the sales of goods had been recognised in the appropriate financial period;<br>• We tested, on a sample basis, the actual costs incurred from the provision of manufacturing services during the year;<br>• We assessed the total estimated costs on completion from the provision of manufacturing services by comparing with historical data of transactions under similar contracts;<br>• We recalculated, on a sample basis, the revenue recognised from the provision of manufacturing services based on the actual costs incurred and the estimated costs on completion;<br>• We assessed the adequacy of the disclosures related to revenue recognition in the context of the applicable financial reporting framework; and<br>• We also considered whether the judgements made in the selection of significant assumptions and data in determination of revenue recognition would give rise to indicators of possible management bias.<br><br>Based upon the above procedures performed, we considered that the recognition of revenue from the sales of goods and the provision of manufacturing services was supported by the available evidence. |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Impairment of contract assets, trade and bills receivables**<br><br>Refer to Notes 2.10, 2.11, 3.1 and 20 to the consolidated financial statements.<br><br>As at 31 December 2020, the Group had gross contract assets and trade and bills receivables of approximately RMB117,803,000, against which allowance for impairment of approximately RMB5,680,000 was recorded.<br><br>Management applied judgement and estimates to measure the expected credit losses allowance. The contract assets, trade and bills receivables were grouped based on similar credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the geographical locations that the customers are operating in, their ageing category and past collection history. The expected credit loss rates were determined based on historical default rates and were adjusted to reflect forward-looking information in the macroeconomic environment that may affect the ability of the customers to repay.<br><br>We focused on auditing the impairment of contract assets, trade and bills receivables including the related disclosures because of the magnitude of the impairment of contract assets, trade and bills receivables and the high degree of estimation uncertainty subject to. The inherent risk in relation to the impairment assessment of contract assets, trade and bills receivables is considered significant due to the subjectivity of significant assumptions used and significant judgements involved in data selection for above estimation. | Our audit procedures performed on impairment of contract assets, trade and bills receivables included:<br><br>• We obtained an understanding of the management's internal control and assessment process of impairment of contract assets, trade and bills receivables and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors;<br><br>• We performed retrospective review by comparing previous estimates to actual outcome. We evaluated the outcome of prior period assessment of impairment of contract assets, trade and bills receivables to assess the effectiveness of management's estimation process;<br><br>• We evaluated and validated the key controls over impairment of contract assets, trade and bills receivables, such as credit control and debt collection;<br><br>• We assessed the appropriateness of the expected credit loss methodology adopted by management with reference to historical payment records, ageing analysis and default rates;<br><br>• We tested, on a sample basis, the accuracy of key historical data inputs; |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| | • We evaluated the reasonableness of the forward-looking information including relevant macroeconomic variables and assessed the sensitivity;<br>• We assessed the adequacy of the disclosures related to impairment of contract assets, trade and bills receivables in the context of the applicable financial reporting framework; and<br>• We also considered whether the judgements made in the grouping of contract assets, trade and bills receivables and the selection of significant assumptions and data in the determination of expected credit loss rates would give rise to indicators of possible management bias.<br><br>Based upon the above procedures performed, we considered that management's judgement and assumptions applied in respect of the impairment of contract assets, trade and bills receivables were supportable by the evidence obtained and procedures performed. |

## OTHER INFORMATION

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

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

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

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

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

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

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 19 March 2021

# CONSOLIDATED INCOME STATEMENT

For The Year Ended 31 December 2020

| | Note | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| Revenue | 5 | **547,825** | 546,325 |
| Cost of sales | 6 | **(498,231)** | (485,846) |
| **Gross profit** | | **49,594** | 60,479 |
| Other income | 7 | **12,555** | 3,797 |
| Other (losses)/gains, net | 8 | **(394)** | 166 |
| Selling and distribution expenses | 6 | **(13,228)** | (15,024) |
| Administrative expenses | 6 | **(22,960)** | (18,568) |
| Net impairment losses on financial assets | 6 | **(5,122)** | (595) |
| **Operating profit** | | **20,445** | 30,255 |
| Finance income | | **560** | 374 |
| Finance costs | | **(678)** | (1,442) |
| Finance costs, net | 10 | **(118)** | (1,068) |
| **Profit before income tax** | | **20,327** | 29,187 |
| Income tax expense | 11 | **(3,004)** | (3,730) |
| **Profit for the year attributable to equity holders of the Company** | | **17,323** | 25,457 |
| **Earnings per share attributable to equity holders of the Company** | | | |
| Basic and diluted | 12 | **RMB5.77 cents** | RMB8.49 cents |

The above consolidated income statement should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 31 December 2020

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| **Profit for the year** | **17,323** | 25,457 |
| **Other comprehensive (loss)/income:** | | |
| *Item that will not be reclassified to profit or loss* | | |
| Currency translation differences | **(3,646)** | 1,323 |
| *Item that may be reclassified to profit or loss* | | |
| Exchange differences on translation of foreign operations | **432** | 316 |
| **Total comprehensive income for the year attributable to equity holders of the Company** | **14,109** | 27,096 |

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

# CONSOLIDATED BALANCE SHEET

As at 31 December 2020

| | Note | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Properties, plant and equipment | 13(a) | **121,780** | 78,571 |
| Intangible assets | 14 | **1,283** | 1,735 |
| Prepayments and deposits | 17 | **15,845** | 1,329 |
| Restricted cash | 19 | **–** | 2,683 |
| Deferred income tax assets | 23 | **1,392** | 591 |
| | | **140,300** | 84,909 |
| **Current assets** | | | |
| Inventories | 18 | **80,528** | 52,527 |
| Contract assets | 20 | **5,517** | 7,559 |
| Trade and bills receivables | 20 | **106,606** | 153,801 |
| Prepayments, deposits and other receivables | 17 | **29,718** | 21,031 |
| Derivative financial instruments | 16 | **399** | – |
| Restricted cash | 19 | **–** | 182 |
| Pledged bank deposits | 19 | **33,699** | 7,500 |
| Short-term bank deposits | 19 | **92** | 9,184 |
| Cash and cash equivalents | 19 | **178,904** | 107,856 |
| | | **435,463** | 359,640 |
| **Total assets** | | **575,763** | 444,549 |
| **Equity** | | | |
| **Equity attributable to equity holders of the company** | | | |
| Share capital | 22 | **2,619** | 2,619 |
| Share premium | 22 | **110,868** | 110,868 |
| Retained earnings | | **110,497** | 96,010 |
| Reserves | | **26,306** | 26,684 |
| **Total equity** | | **250,290** | 236,181 |

# CONSOLIDATED BALANCE SHEET

As at 31 December 2020

| | Note | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Deferred government grants | 21 | **10,980** | 1,285 |
| Lease liabilities | 13(b) | **107** | 593 |
| Bank borrowings | 26 | **20,943** | — |
| | | **32,030** | 1,878 |
| **Current liabilities** | | | |
| Trade and bills payables | 24 | **196,412** | 127,501 |
| Other payables and accruals | 25 | **45,664** | 30,892 |
| Lease liabilities | 13(b) | **5,855** | 10,051 |
| Contract liabilities | 25 | **33,248** | 15,679 |
| Bank borrowings | 26 | **5,799** | 16,422 |
| Current income tax liabilities | | **6,465** | 5,945 |
| | | **293,443** | 206,490 |
| **Total liabilities** | | **325,473** | 208,368 |
| **Total equity and liabilities** | | **575,763** | 444,549 |

The consolidated financial statements on pages 62 to 125 were approved by the Board of Director on 19 March 2021 and were signed on its behalf.

Ma Fujun
Director

Chen Xiaoyuan
Director

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2020

| | Attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Statutory reserve RMB'000 | Other reserve RMB'000 | Exchange reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
| **Balance at 1 January 2020** | 2,619 | 110,868 | 11,755 | 12,662 | 2,267 | 96,010 | 236,181 |
| **Comprehensive income** | | | | | | | |
| Profit for the year | – | – | – | – | – | 17,323 | 17,323 |
| **Other comprehensive (loss)/ income** | | | | | | | |
| Currency translation differences | – | – | – | – | (3,646) | – | (3,646) |
| Exchange differences on translation of foreign operations | – | – | – | – | 432 | – | 432 |
| **Total comprehensive income** | – | – | – | – | (3,214) | 17,323 | 14,109 |
| **Transaction with owners** | | | | | | | |
| Appropriation (Note) | – | – | 2,836 | – | – | (2,836) | – |
| Total transaction with owners | – | – | 2,836 | – | – | (2,836) | – |
| **Balance at 31 December 2020** | 2,619 | 110,868 | 14,591 | 12,662 | (947) | 110,497 | 250,290 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2020

| | Attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Statutory reserve RMB'000 | Other reserve RMB'000 | Exchange reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
| Balance at 1 January 2019 | 2,619 | 110,868 | 8,858 | 12,662 | 628 | 73,450 | 209,085 |
| **Comprehensive income** | | | | | | | |
| Profit for the year | – | – | – | – | – | 25,457 | 25,457 |
| **Other comprehensive income** | | | | | | | |
| Currency translation differences | – | – | – | – | 1,323 | – | 1,323 |
| Exchange differences on translation of foreign operations | – | – | – | – | 316 | – | 316 |
| **Total comprehensive income** | – | – | – | – | 1,639 | 25,457 | 27,096 |
| **Transaction with owners** | | | | | | | |
| Appropriation (Note) | – | – | 2,897 | – | – | (2,897) | – |
| Total transaction with owners | – | – | 2,897 | – | – | (2,897) | – |
| **Balance at 31 December 2019** | 2,619 | 110,868 | 11,755 | 12,662 | 2,267 | 96,010 | 236,181 |

Note: The People's Republic of China (the "PRC") laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the profit after income tax (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to equity holders. All statutory reserves are created for specific purposes. A PRC company is required to appropriate an amount of not less than 10% of statutory profits after income tax to statutory surplus reserves, prior to distribution of its post-tax profits of the current period. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the company, to expand the company's operations, or to increase the capital of the company. In addition, a company may make further contribution to the discretional surplus reserve using its post-tax profits in accordance with resolutions of the board of directors.

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For The Year Ended 31 December 2020

| | Note | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 27(a) | **96,022** | 13,218 |
| Income tax paid | | **(3,098)** | (3,767) |
| Interest received | | **560** | 374 |
| Net cash generated from operating activities | | **93,484** | 9,825 |
| **Cash flows from investing activities** | | | |
| Purchase of properties, plant and equipment | | **(42,457)** | (4,706) |
| Purchase of land-use rights | | **–** | (27,648) |
| Proceeds from disposal of properties, plant and equipment | 27(b) | **468** | 329 |
| Purchase of intangible assets | | **(129)** | (652) |
| Redemption/(placement) of short-term bank deposits | | **9,129** | (9,129) |
| Receipt of government grants | | **10,700** | 1,827 |
| Net cash used in investing activities | | **(22,289)** | (39,979) |
| **Cash flows from financing activities** | | | |
| Proceeds from bank borrowings | 27(c) | **23,942** | 28,026 |
| Repayment of bank borrowings | 27(c) | **(13,149)** | (13,901) |
| Payment of bank charges and interests on bank borrowings | | **(805)** | (812) |
| Payment of principal element of lease liabilities | 27(c) | **(9,236)** | (6,369) |
| Payment of interest element of lease liabilities | 27(c) | **(433)** | (630) |
| Change in restricted cash | | **2,865** | (2,865) |
| Change in pledged bank deposits | | **–** | (4,200) |
| Change in short-term bank deposits | | **(37)** | (55) |
| Net cash generated from/(used in) financing activities | | **3,147** | (806) |
| **Net increase/(decrease) in cash and cash equivalents** | | **74,342** | (30,960) |
| Cash and cash equivalents at beginning of the year | | **107,856** | 137,678 |
| Currency translation differences | | **(3,294)** | 1,138 |
| Cash and cash equivalents at end of the year | 19 | **178,904** | 107,856 |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

## 1 GENERAL INFORMATION

Eternity Technology Holdings Limited (the "Company") was incorporated in the Cayman Islands on 15 March 2017 as an exempted company with limited liability under the Companies Law Cap. 22, Law 3 of 1961 as consolidated and revised of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries (together, the "Group") are principally engaged in the business of electronics manufacturing services (the "Listing Business"). The ultimate holding company of the Company is Rich Blessing Group Limited ("Rich Blessing"), a company incorporated in the British Virgin Islands ("BVI"). The ultimate controlling shareholder of the Group is Mr. Ma Fujun ("Mr. Ma").

The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Listing") on 16 August 2018.

These consolidated financial statements are presented in unit of Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'000"), unless otherwise stated. These consolidated financial statements were approved for issue by the board of directors ("Directors") on 19 March 2021.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the group consisting of Eternity Technology Holdings Limited and its subsidiaries.

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared on a historical cost convention as modified by the revaluation of derivative financial instruments.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

#### *(a) Amended standards and adopted by the Group*

The Group has adopted the following amended standards for the first time for their annual reporting period commencing 1 January 2020:

| | |
|---|---|
| Amendments to HKAS 1 and HKAS 8 | Definition of Material |
| Amendments to HKFRS 3 | Definition of a Business |
| Amendments to HKAS 39, HKFRS 7 and HKFRS 9 | Hedge Accounting |
| Conceptual Framework for Financial Reporting 2018 | Revised Conceptual Framework for Financial Reporting |

The adoption of these amended standards did not have any significant impact on the Group's accounting policies and did not require retrospective adjustments.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (Continued)

*(b) New and amended standards issued but not yet adopted by the Group*

The following new and amended standards have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group.

| | | Effective for accounting periods beginning on or after |
|---|---|---|
| Amendments to HKFRS 3, HKAS 16 and HKAS 37 | Narrow-scope amendments | 1 January 2022 |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current | 1 January 2023 |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined |
| Amendments to HKFRS 16 | COVID-19-Related Rent Concessions | 1 June 2020 |
| HKFRS 17 | Insurance Contracts | 1 January 2023 |
| Annual Improvements Project | Annual Improvements to HKFRSs 2018-2020 Cycle | 1 January 2022 |

The Group will adopt the above new or revised standards or amendments to existing standards as and when they become effective. Management has performed preliminary assessment and does not anticipate any significant impact on the Group's financial position and results of operations upon adopting these standards and amendments to existing HKFRSs.

### 2.2 Subsidiaries

*2.2.1 Consolidation*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combination

Except for the reorganisation upon listing, the Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition- by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the acquired entity's identifiable net assets.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Subsidiaries (Continued)

#### *2.2.1 Consolidation (Continued)*

(a) Business combination (Continued)

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date. Any gains or losses arising from such re-measurement are recognised in the profit or loss.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financer under comparable terms and conditions.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognised in accordance with HKFRS 9 in the consolidated income statement. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions - that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposal to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Subsidiaries (Continued)

*2.2.2 Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.3 Segment reporting

Operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the directors who make strategic decisions.

### 2.4 Foreign currency translation

*(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Group's presentation currency. The Company's functional currency is Hong Kong Dollar ("HK$").

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are generally recognised in the consolidated income statement.

All other foreign exchange gains and losses are presented in the consolidated income statement on a net basis within 'other (losses)/gains, net'.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in the consolidated income statement as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.4 Foreign currency translation (Continued)

*(c) Group companies*

The results and financial positions of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign operations are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to the consolidated income statement, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### 2.5 Properties, plant and equipment

Properties, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation of properties, plant and equipment is calculated using the straight-line method to allocate their costs, net of their residual value, over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 20 years |
| Furniture and fixtures | 5 years |
| Office equipment | 3 to 5 years |
| Plant and machinery | 3 to 10 years |
| Motor vehicles | 3 to 5 years |

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.5 Properties, plant and equipment (Continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gain or loss on disposal are determined by comparing proceeds with carrying amount and are recognised in the consolidated income statement.

Construction-in-progress (the "CIP") represents properties and plant under construction and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the cost are transferred to relevant categories of properties, plant and equipment and depreciated in accordance with the policy as stated above.

### 2.6 Intangible assets

*System software*

Acquired system software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using straight-line method over their estimated useful lives of three to five years.

*Membership right*

Membership right represent the initial payment to club for right to use its services or facilities with specific useful lives. Membership right is carried at cost less impairment for indefinite life assets and cost less amortisation over its specific useful life of 15 years.

### 2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.8 Financial assets

#### *2.8.1 Classification*

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in consolidated income statement or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

#### *2.8.2 Recognition and measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated income statement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the consolidated income statement and presented in 'other (losses)/gains, net' together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statement.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.8 Financial assets (Continued)

#### *2.8.2 Recognition and measurement (Continued)*

Debt instruments (Continued)

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in the consolidated income statement. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the consolidated income statement and recognised in 'other (losses)/gains, net'. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in 'other (losses)/gains, net' and impairment expenses are presented as separate line item in the consolidated income statement.
- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss is recognised in consolidated income statement and presented net within 'other (losses)/gains, net' in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to consolidated income statement following the derecognition of the investment.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within 'other (losses)/gains, net' in the period in which they arise. Dividend income from financial assets at fair value through consolidated income statement is recognised within 'other income' when the Group's right to receive payments is established.

#### *2.8.3 Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and reward of ownership.

### 2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.10 Impairment of financial assets

The Group's financial assets measured at amortised cost are subject to HKFRS 9's expected credit loss model. The Group assesses on a forward-looking basis the expected credit losses associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(c) sets out the details on how the Group determines whether there has been a significant increase in credit risk.

For contract assets, trade and bills receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the contract assets and receivables. The provision matrix is determined based on historical observed default rates over the expected life of the contract assets, trade and bills receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

For other receivables, the Group measures the impairment as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of the other receivables has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

### 2.11 Trade, bills and other receivables

Trade and bills receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade, bills and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade, bills and other receivables are recognised initially of fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

### 2.12 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

The Group does not designate any derivatives as hedging instruments. Subsequent changes in fair value of any derivative instrument are recognised immediately in profit or loss and are included in 'other (losses)/gains, net'.

### 2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.14 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash at bank and on hand.

### 2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### 2.16 Trade, bills and other payables

Trade and bills payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and bills payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade, bills and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.17 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in interest expense over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the year-end date.

### 2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All borrowing costs are recognised in consolidated income statement in the period in which they are incurred.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 2.20 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

#### *(a) Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### *(b) Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.21 Employee benefits

*(a) Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated balance sheet.

*(b) Other long-term employee benefit obligations*

The liabilities for annual leave are not expected to be settled wholly within twelve months after the end of the period in which the employees render the related service.

The obligations are presented as current liabilities in the consolidated balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

*(c) Defined contribution plans*

The Group pays contributions to state-managed pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

*(d) Bonus plans*

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

### 2.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amount for the sale of goods and the services rendered in the ordinary course of the Group's activity. Revenue is shown net of returns and after eliminating sales within the Group.

The Group does not expect to have any contracts where the period between the transfer of the promised goods to the customers and the payment by the customers exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

When either party to a contract has performed, the Group presents the contract in the consolidated balance sheet as a contract asset or a contract liability, depending on the relationship between the Group's performance and the customer's payment.

A contract asset is the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer. Incremental costs incurred to obtain a contact, if recoverable, are capitalised and presented as assets and subsequently amortised when the related revenue is recognised.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.22 Revenue recognition (Continued)

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers the promised goods or services to the customer, the Group presents the contract as a contract liability when the payment is received or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer the promised goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Revenue is recognised when specific criteria have been met for the Group's activity as described below:

*(a) Sales of goods*

Sales of goods transferred at a point in time are recognised when control of the goods has transferred, being when the Group has delivered the products to the customers and the customers have accepted the products. The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

*(b) Provision of manufacturing services*

Rendering of manufacturing services is recognised when or as the control of the services is transferred to the customer.

Depending on the terms of the contract and the laws that apply to the contract, control of the services may transfer over time or at a point in time. Control of the services is transferred over time if the Group's performance:

(i) provides all of the benefits received and consumed simultaneously by the customer; or

(ii) creates and enhances an asset that the customer controls as the Group performs; or

(iii) does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the services is transferred over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

Revenue from manufacturing service contracts is recognised over time using the input method with reference to the actual costs incurred and the estimated costs on completion for the manufacturing services.

### 2.23 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.24 Dividend income

Dividends are received from financial assets measured at fair value through profit or loss and at fair value through other comprehensive income. Dividends are recognised as other income in consolidated income statement when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in other comprehensive income if it relates to an investment measured at fair value through other comprehensive income. However, the investment may need to be tested for impairment as a consequence.

### 2.25 Lease

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the Group under residual value guarantees,
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.25 Lease (Continued)

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The useful life used for the assets' depreciation purpose are:

| | |
|---|---|
| Properties | Over the lease term |
| Plant and machinery | 10 years |
| Land | Over the lease term |

Payments associated with short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise equipment and small items of office furniture.

### 2.26 Dividend distribution

Dividend distribution to the shareholders is recognised as a liability in the years in which the dividend are approved by the Company's shareholders or directors, where appropriate.

### 2.27 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to expenses are deferred and recognised in the consolidated income statement over the period necessary to match them with the expenses that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to consolidated income statement on a straight-line basis over the expected lives of the related assets.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.28 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

## 3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

### 3.1 Market risk

*(a) Foreign exchange risk*

The Group operates in Hong Kong and the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar ("USD") and RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations, which are denominated in these currencies.

Management has a policy to require group companies to manage their foreign exchange risk against functional currency. It mainly includes managing the exposures arise from sales and purchases made by the relevant group companies in currencies other than their own functional currencies. The Group also manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and has entered into certain foreign exchange contracts to manage foreign exchange risks. As at 31 December 2020, the Group had certain outstanding forward foreign currency contracts to sell USD (2019: Nil), details of which have been disclosed in Note 16. Certain of the Group's cash and cash equivalents, trade, bills and other receivables, trade and other payables, bank borrowings and lease liabilities were also denominated in foreign currencies, details of which have been disclosed in accompanying notes to the consolidated financial statements.

There are certain USD financial assets and liabilities held by subsidiaries with RMB functional currency. Since the net positions of USD denominated financial assets and liabilities are not significant, management considers the foreign exchange risk of USD financial assets and liabilities to the Group is not significant. Hence, the Directors of the Company consider the Group does not have any material foreign exchange risk exposure. No sensitivity analysis is presented.

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Market risk (Continued)

*(b) Interest rate risk*

The Group's interest rate risk is mainly attributable to its restricted cash, pledged bank deposits, short-term bank deposits, cash at banks and bank borrowings with floating interest rates. Details of the Group's restricted cash, pledged bank deposits, short-term bank deposits, cash and cash equivalents, and borrowings have been disclosed in Notes 19 and 26 to the consolidated financial statements respectively.

Other than restricted cash, pledged bank deposits, short-term bank deposits, cash at banks and bank borrowings, the Group does not have significant interest-bearing assets or liabilities.

As at 31 December 2020, if interest rates on restricted cash, pledged bank deposits, short-term bank deposits, cash at banks and bank borrowings had been 100 basis points higher/lower with all variables held constant, profit before income tax for the year then ended would have been approximately RMB1,860,000 (2019: RMB1,109,000) higher/lower, mainly as a result of higher/lower of interest income on the restricted cash, pledged bank deposits, short-term bank deposits and cash at banks netted with interest expenses on the bank borrowings respectively.

*(c) Credit risk*

The credit risk of the Group mainly arises from restricted cash, pledged bank deposits, short-term bank deposits, cash at banks, contract assets and trade, bills and other receivables.

The carrying amounts of each financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

(i) Risk management

The Group has policies in place to ensure that credit terms are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers.

The Group's restricted cash, pledged bank deposits, short-term bank deposits and cash and cash equivalents were deposited with high quality financial institutions. Therefore, the Group does not expect any significant losses arising from non-performance by these counterparties.

For the years ended 31 December 2020 and 2019, 76% and 78% of the Group's revenue was derived from its top five customers respectively. As at 31 December 2020 and 2019, 92% and 91% of the total contract assets and 77% and 90% of the total trade and bills receivables were due from the Group's top five customers respectively.

The credit risk on restricted cash, pledged bank deposits, short-term bank deposits and cash at banks are limited because deposits are in banks with sound credit ratings and management does not expect any loss from non-performance by these counterparties.

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Market risk (Continued)

*(c) Credit risk (Continued)*

(ii) Impairment of financial assets

The Group has two types of financial asset that is subject to the expected credit loss models:

- Contract assets, trade and bills receivables
- Other financial assets carried at amortised cost

*Contract assets, trade and bills receivables*

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all contract assets, trade and bills receivables. The Group measures the expected credit losses on a combination of both individual and collective basis.

To measure the expected credit losses, contract assets, trade and bills receivables have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled services and have substantially the same risk characteristics as the trade receivables for same type of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

*Measurement of expected credit loss on individual basis*

Contract assets, trade and bills receivables with known insolvencies are assessed individually for impairment allowances and are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a prepayment plan with the Group, and a failure to make contractual payments. As at 31 December 2020, the balance of loss allowance in respect of these individually assessed receivables was RMB4,914,000 (2019: RMB595,000).

*Measurement of expected credit loss on collective basis*

Expected credit losses are also estimated by grouping the remaining receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer, its geographical location and its ageing category, and applying the expected credit loss rates to the respective gross carrying amounts of the receivables.

The expected credit loss rates are estimated on the basis of historical credit losses experienced, adjusted to reflect the effects of existing market conditions as well as forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivable.

As at 31 December 2020, the balance of loss allowance in respect of these collectively assessed receivables was approximately RMB766,000 (2019: Nil).

Impairment losses on contract assets, trade and bills receivables are presented as 'net impairment losses on financial assets' in the consolidated income statement. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against the same line item.

# 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.1 Market risk (Continued)

### *(c) Credit risk (Continued)*

(ii) Impairment of financial assets (Continued)

*Other financial assets carried at amortised cost*

The Group's other financial assets carried at amortised cost include deposits and other receivables in the consolidated balance sheet. The impairment loss of other financial assets carried at amortised cost is measured based on the 12-month expected credit loss. The 12-month expected credit loss is the portion of lifetime expected credit loss that results from default events on a financial instrument that are possible within twelve months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit loss.

As at 31 December 2020 and 2019, management considered the credit risk of deposits and other receivables to be low as counterparties have a strong capacity to meet their contractual cash flow obligations in the near term. The Group has assessed that the expected credit losses for these deposits and other receivables were immaterial under 12-month expected losses method. Therefore, the loss allowance provision for these balances was close to zero and no provision was recognised.

### *(d) Liquidity risk*

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the shorter and longer term.

As at 31 December 2020, the Group held cash and cash equivalents of approximately RMB178,904,000 (2019: RMB107,856,000), that are expected to be readily available for to generate cash inflow for managing liquidity risk.

The Group maintains liquidity by a number of sources including orderly realisation of short-term financial assets, receivables and certain assets that the Group considers appropriate and long-term financing including long-term borrowings and lease liabilities are also considered by the Group in its capital structuring. The Group aims to maintain flexibility in funding by keeping sufficient bank balances, committed credit lines available and interest-bearing borrowings which enable the Group to continue its business for the foreseeable future.

As at 31 December 2020, the Group's total undrawn banking facilities amounted to approximately RMB235,602,000 (2019: RMB9,121,000), and the Group's total drawn banking facilities amounted to approximately RMB54,398,000 (2019: RMB15,879,000).

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Market risk (Continued)

*(d) Liquidity risk (Continued)*

The table below analyses the non-derivative financial liabilities of the Group into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

The amounts disclosed in the table were the contractual undiscounted cash flows and the earliest date the Group can be required to pay. Balances due within twelve months equal their carrying balances as impact from discounting is not significant.

Specifically, for bank borrowings and lease liabilities which contain a repayment on demand clause which can be exercised at the banks' sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the lender were to invoke their unconditional rights to call the loans with immediate effect.

| | Repayable on demand RMB'000 | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | More than 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **At 31 December 2020** | | | | | | |
| Trade and bills payables | – | 196,412 | – | – | – | 196,412 |
| Other payables and accruals | – | 29,339 | – | – | – | 29,339 |
| Bank borrowings - principal portion | 5,799 | – | – | 14,032 | 6,911 | 26,742 |
| Lease liabilities | 3,155 | 2,700 | 80 | 27 | – | 5,962 |
| | 8,954 | 228,451 | 80 | 14,059 | 6,911 | 258,455 |

| | Repayable on demand RMB'000 | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **At 31 December 2019** | | | | |
| Trade and bills payables | – | 127,501 | – | 127,501 |
| Other payables and accruals | – | 9,231 | – | 9,231 |
| Bank borrowings | | | | |
| – principal portion | 16,422 | – | – | 16,422 |
| Lease liabilities | 7,348 | 2,703 | 593 | 10,644 |
| | 23,770 | 139,435 | 593 | 163,798 |

# 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.1 Market risk (Continued)

### *(d) Liquidity risk (Continued)*

The table below analyses the bank borrowings and lease liabilities of the Group into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date without taking into consideration the effect of repayment on demand clause.

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | More than 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **At 31 December 2020** | | | | | |
| Bank borrowings | | | | | |
| – Principal portion | **4,963** | **836** | **14,032** | **6,911** | **26,742** |
| – Interest portion | **1,102** | **1,042** | **2,288** | **254** | **4,686** |
| Lease liabilities | **5,930** | **81** | **27** | **–** | **6,038** |
| | **11,995** | **1,959** | **16,347** | **7,165** | **37,466** |
| **At 31 December 2019** | | | | | |
| Bank borrowings | | | | | |
| – Principal portion | 10,180 | 5,335 | 907 | – | 16,422 |
| – Interest portion | 343 | 127 | 4 | – | 474 |
| Lease liabilities | 6,989 | 4,073 | – | – | 11,062 |
| | 17,512 | 9,535 | 911 | – | 27,958 |

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Less than 1 year RMB'000 |
|---|---|
| **At 31 December 2020** | |
| Forward exchange contracts: | |
| Outflow | **(95,841)** |
| Inflow | **96,240** |
| | **399** |

# 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders or sell assets to reduce debt.

The Group monitors capital on the basis of the total debt to total capital ratio. Total debt and total capital represent total borrowings and total equity, as shown in the consolidated balance sheet. The total debt to total capital ratios at 31 December 2020 and 2019 were as follows:

| | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| Total borrowings (bank borrowings and lease liabilities) | **32,704** | 27,066 |
| Total equity | **250,290** | 236,181 |
| Total debt to total capital ratio | **13%** | 11% |

The increase in total debt to total capital ratio from approximately 11% as at 31 December 2019 to 13% as at 31 December 2020 was mainly due to additional drawdown of bank borrowing.

## 3.3 Fair value estimation

The carrying amounts of the Group's financial assets and liabilities include cash and cash equivalents, short-term bank deposits, pledged bank deposits, restricted cash, trade and bills receivables, deposit and other receivables, trade and bills payables, other payables and accruals, bank borrowings and lease liabilities approximate their fair values due to their short maturities. The carrying amounts of non-current deposits, bank borrowings and lease liabilities approximate their fair values which are estimated based on the discounted cash flows.

The carrying values of financial instruments measured at fair value at the balance sheet date are categorised among the three levels of the fair value hierarchy defined in HKFRS 13, "Fair value Measurement", with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

(i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

(ii) Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices).

(iii) Level 3: inputs for the asset or liability that are not based on observable market data.

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.3 Fair value estimation (Continued)

The following table presents the Group's financial assets that are measured at fair values at 31 December 2020 (2019: Nil):

| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **At 31 December 2020** | | | | |
| **Assets** | | | | |
| Derivative financial instruments | – | 399 | – | 399 |

There were no transfers among level 1, 2 and 3 during the year ended 31 December 2020 (2019: Nil).

*(a) Financial instruments in level 1*

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

*(b) Financial instruments in level 2*

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

*(c) Financial instruments in level 3*

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

## 4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

### 4.1 Net realisable value of inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Management reassesses the estimation at the end of each reporting period.

### 4.2 Income taxes

The Group is subject to income taxes mainly in Hong Kong, the PRC and Germany. Significant judgement is required in determining provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the periods in which such determination are made.

Deferred income tax assets relating to certain temporary differences are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and tax expense in the periods in which such estimate is changed.

### 4.3 Impairment of receivables and contract assets

The Group makes provision for impairment of receivables and contract assets based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's historical default rates, existing market conditions as well as forward looking estimates at the end of each reporting period. The identification of impairment of receivables and contract assets requires the use of judgment and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of receivables and contract assets and loss for the impairment of receivables and contract assets recognised in the periods in which such estimates have been changed.

## 5 REVENUE AND SEGMENT INFORMATION

The Company is an investment holding company and the Group is principally engaged in the manufacturing of electronic components.

The CODM has been identified as the Directors of the Company. The Directors review the Group's internal reporting in order to assess performance and allocate resources. The Directors have determined the operating segment based on these reports.

The Directors consider the Group's operation from a business perspective and determine that the Group has one reportable operating segment being electronics manufacturing.

The Directors assess the performance of the operating segment based on a measure of revenue and gross profit.

### (a) Disaggregation of revenue from contracts with customers

The Group derived revenue from the sales of goods at a point in time and provision of services over time as follow:

| | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| Timing of revenue recognition | | |
| At a point in time - sales of goods | **489,469** | 458,942 |
| Over time - provision of services | **58,356** | 87,383 |
| | **547,825** | 546,325 |

### (b) Segment revenue by customers' geographical location

The Group is domiciled in the PRC. The Group's revenue by geographical location, which is determined by the location of customers, is as follows:

| | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| Mainland, the PRC | **439,782** | 452,170 |
| USA | **26,997** | 10 |
| India | **25,075** | 14,313 |
| South Korea | **22,698** | 15,513 |
| Austria | **14,810** | 12,422 |
| Hong Kong | **8,655** | 11,648 |
| Brazil | **517** | 23,316 |
| Others (Note) | **9,291** | 16,933 |
| | **547,825** | 546,325 |

Note: Others include Taiwan, United Kingdom, Mexico and Australia.

## 5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

### (c) Details of contract liabilities

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Contract liabilities (Note 25) | **33,248** | 15,679 |

Notes:

(i) Contract liabilities represent advanced payments received from the customers for goods that have not yet been transferred to the customers. The balances of contract liabilities fluctuated during the years ended 31 December 2020 and 2019 due to fluctuation in sales order with advanced payments.

(ii) The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Revenue recognised that was included in the contract liabilities balance at the beginning of the year | **11,328** | 18,614 |

### (d) Major customers

Revenue from customers individually contributing over 10% of the total revenue of the Group is as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Customer A | **239,508** | 270,367 |
| Customer B | **62,345** | N/A* |
| Customer C | **54,987** | 84,838 |

* The corresponding customers did not contribute over 10% of the total revenue of the Group for the year ended 31 December 2019.

The five largest customers accounted for approximately 76% (2019: 78%) of revenue for the year ended 31 December 2020.

### (e) Unsatisfied performance obligations

As at 31 December 2020 and 2019, all performance obligations not yet satisfied by the Group were from contracts with original expected duration of less than one year. Therefore, as permitted by the relevant practical expedient under HKFRS 15, the transaction price allocated to these unsatisfied performance obligations were not disclosed.

## 5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

### (f) Non-current assets by geographical location

The total amounts of non-current assets, other than financial instruments and deferred tax assets of the Group as at 31 December 2020 and 2019 are located in the following regions:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| The PRC | **130,424** | 83,797 |
| Germany | **201** | — |
| | **130,625** | 83,797 |

## 6 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses, administrative expenses and net impairment losses on financial assets are analysed as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Cost of raw materials used | **384,746** | 397,873 |
| Consumables | **3,887** | 1,871 |
| Subcontracting charges | **47,222** | 26,553 |
| Employee benefit expenses and manpower services expenses, including Directors' emoluments (Notes 9 and 34) | **48,527** | 52,690 |
| Rental expenses of short-term leases in respect of machinery and properties (Note 13 (b)) | **8,095** | 5,497 |
| Utilities | **3,816** | 3,950 |
| Amortisation (Note 14) | **581** | 535 |
| Depreciation | **12,308** | 9,479 |
| Auditor's remuneration | | |
| – Audit services | **1,707** | 1,555 |
| – Non-audit services | **—** | — |
| Professional fees | **5,242** | 2,854 |
| Reversal of provision for inventories (Note 18) | **(174)** | (339) |
| Transportation | **3,691** | 4,581 |
| Service fees for product development | **3,711** | 2,094 |
| Commission expenses | **895** | 1,216 |
| Repairs and maintenance | **810** | 1,068 |
| Provision for impairment of financial assets (Note 20) | **5,242** | 595 |
| Reversal of provision for impairment of financial assets (Note 20) | **(120)** | — |
| Others | **9,355** | 7,961 |
| Total cost of sales, selling and distribution, administrative expenses and net impairment losses on financial assets | **539,541** | 520,033 |

## 7 OTHER INCOME

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Government grants | **12,555** | 3,797 |

## 8 OTHER (LOSSES)/GAINS, NET

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Exchange differences | **(1,214)** | (152) |
| Gain on disposal of properties, plant and equipment | **421** | 318 |
| Unrealised gains from derivative financial instruments | **399** | — |
| | **(394)** | 166 |

## 9 EMPLOYEE BENEFIT EXPENSES AND MANPOWER SERVICES EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Salaries, wages and bonus | **45,800** | 43,304 |
| (Reversal of provision for pension costs)/pension costs | | |
| – defined contribution plans (Note (a)) | **(14)** | 4,788 |
| Other staff welfares | **1,674** | 789 |
| Total employee benefit expenses (including Directors' remunerations) | **47,460** | 48,881 |
| Manpower services expenses (Note (b)) | **1,067** | 3,809 |
| | **48,527** | 52,690 |

### (a) Pension costs - defined contribution plans

*The PRC*

As stipulated under the relevant rules and regulations in the PRC, the subsidiary operating in the PRC contributes to state-sponsored retirement plans for its employees. For the years ended 31 December 2020 and 2019, depending on the provinces of the employees' registered residences and their current region of work, the subsidiary contributed certain percentages of the basic salaries of its employees and had no further obligations for the actual payment of pensions or postretirement benefits beyond the contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to the retired employees.

During the year ended 31 December 2020, the Human Resources and Social Security Bureau of Shenzhen Municipality has announced that all micro, small and medium size enterprises in Shenzhen were exempt from making employer contributions to pension, unemployment and work-related injury insurance schemes from the period between February and December 2020.

## 9 EMPLOYEE BENEFIT EXPENSES AND MANPOWER SERVICES EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

### (b) Manpower services expenses

During the years ended 31 December 2020 and 2019, the Group entered into certain manpower service arrangements with several external manpower service organisations in the PRC. Under these arrangements, certain of the Group's manpower requirements were fulfilled by these organisations at agreed service fees whereas the human resources provided were directly employed by the relevant service organisations. The individuals providing services to the Group do not have any employment relationship with the Group.

### (c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include three directors for the year ended 31 December 2020 (2019: three), whose emoluments are reflected in the analysis presented in Note 34. The emoluments payable to the remaining two individuals for the year ended 31 December 2020 (2019: two) are as follows:

| | **2020**<br>**RMB'000** | 2019<br>RMB'000 |
|---|---|---|
| Salaries, wages and bonus | **984** | 1,064 |
| Pension costs - defined contribution plans | **65** | 133 |
| | **1,049** | 1,197 |

The emoluments fell within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2020** | 2019 |
| Emolument bands | | |
| HK$500,001 - HK$1,000,000 | **2** | 2 |
| | **2** | 2 |

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

## 10 FINANCE COSTS, NET

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| **Finance income** | | |
| Interest income on cash at bank | **560** | 374 |
| **Finance costs** | | |
| Interest expense on bank borrowings | **(560)** | (617) |
| Interest expense on leases (Note 13 (b)) | **(433)** | (630) |
| Bank charges | **(245)** | (195) |
| Less: Capitalised on qualifying assets (Note) | **560** | — |
| | **(678)** | (1,442) |
| Finance costs, net | **(118)** | (1,068) |

Note:

During the year ended 31 December 2020, interest expenses on bank borrowings were capitalised at the weighted average rate of its general borrowings of approximately 3.43% (2019: Nil).

## 11 INCOME TAX EXPENSE

During the year ended 31 December 2020, no provision for Hong Kong profits tax has been made in the consolidated financial statements as the Group had no assessable profits in Hong Kong. During the year ended 31 December 2019, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit.

During the years ended 31 December 2020 and 2019, Shenzhen Hengchang Sheng Technology Company Limited* ("Shenzhen Hengchang Sheng"), the Group's major subsidiary in the PRC has qualified for high and new technology enterprises status and is therefore subject to a preferential income tax rate of 15%.

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| **Current income tax** | | |
| – PRC corporate income tax ("CIT") | **3,805** | 3,335 |
| – Hong Kong profits tax | **–** | 449 |
| **Total current income tax** | **3,805** | 3,784 |
| **Deferred income tax (Note 23)** | **(801)** | (54) |
| **Income tax expense** | **3,004** | 3,730 |

* For identification purpose only

## 11 INCOME TAX EXPENSE (CONTINUED)

The taxation on the Group's profit before income tax differed from the theoretical amount that would arise using the weighted average tax rate applicable to profits of subsidiaries of the Group as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Profit before income tax | **20,327** | 29,187 |
| Tax calculated at tax rates applicable to profits of the respective subsidiaries | **2,887** | 4,317 |
| Tax effect of: | | |
| Income not subject to tax | **(209)** | (164) |
| Expenses not deductible for tax purpose | **1,410** | 1,256 |
| Tax loss for which no deferred income tax asset was recognised | **663** | 49 |
| Withholding tax | **101** | 104 |
| Super deductions from research and development expenditures (Note) | **(1,848)** | (1,687) |
| Tax concession | **–** | (145) |
| Income tax expense | **3,004** | 3,730 |

The changes in the weighted average applicable tax rates were mainly due to the changes in the proportion of the taxable profits under Hong Kong profits tax and PRC CIT which were subject to different applicable tax rates.

Pursuant to the enactment of two-tiered profit tax rates by the Inland Revenue Department of Hong Kong ("IRD") from the year of assessment 2019/20 onwards, the Group's first HK$2 million of assessable profits under Hong Kong profits tax during the year ended 31 December 2019 is subject to a tax rate of 8.25%. The Group's remaining assessable profits above HK$2 million will continue to be subject to a tax rate of 16.5%.

Note:

According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC, enterprises engaging in research and development activities are entitled to claim 150% to 175% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year.

## 12 EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2020 and 2019.

| | **2020** | 2019 |
|---|---|---|
| Profit attributable to equity holders of the Company (RMB'000) | **17,323** | 25,457 |
| Weighted average number of ordinary shares in issue (thousands of shares) | **300,000** | 300,000 |
| Basic and diluted earnings per share (RMB cents) | **5.77** | 8.49 |

There were no differences between the basic and diluted earnings per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2020 and 2019.

## 13(a) PROPERTIES, PLANT AND EQUIPMENT

| | Right of-use assets RMB'000 | Buildings RMB'000 | Furniture and fixtures RMB'000 | Office equipment RMB'000 | Plant and machinery RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **At 1 January 2019** | | | | | | | |
| Cost | 22,082 | 6,015 | 484 | 2,859 | 80,498 | 3,130 | 115,068 |
| Accumulated depreciation | (3,921) | (1,585) | (474) | (1,494) | (49,252) | (1,633) | (58,359) |
| Net book amount | 18,161 | 4,430 | 10 | 1,365 | 31,246 | 1,497 | 56,709 |
| **Year ended 31 December 2019** | | | | | | | |
| Opening net book amount | 18,161 | 4,430 | 10 | 1,365 | 31,246 | 1,497 | 56,709 |
| Additions | 27,861 | — | — | 295 | 3,065 | 120 | 31,341 |
| Depreciation | (4,050) | (299) | (10) | (545) | (4,223) | (352) | (9,479) |
| Disposals | — | — | — | — | (11) | — | (11) |
| Exchange difference | — | — | — | — | — | 11 | 11 |
| Closing net book amount | 41,972 | 4,131 | — | 1,115 | 30,077 | 1,276 | 78,571 |
| **At 31 December 2019** | | | | | | | |
| Cost | 49,943 | 6,015 | 484 | 3,123 | 79,082 | 3,053 | 141,700 |
| Accumulated depreciation | (7,971) | (1,884) | (484) | (2,008) | (49,005) | (1,777) | (63,129) |
| Net book amount | 41,972 | 4,131 | — | 1,115 | 30,077 | 1,276 | 78,571 |

## 13(a) PROPERTIES, PLANT AND EQUIPMENT (CONTINUED)

| | Right of-use assets RMB'000 | Buildings RMB'000 | Furniture and fixtures RMB'000 | Office equipment RMB'000 | Plant and machinery RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2020** | | | | | | | | |
| Opening net book amount | 41,972 | 4,131 | – | 1,115 | 30,077 | 1,276 | – | 78,571 |
| Additions | 4,853 | – | – | 507 | 3,942 | – | 46,841 | 56,143 |
| Depreciation | (7,054) | (301) | – | (545) | (4,588) | (375) | – | (12,863) |
| Disposals | – | – | – | – | (47) | – | – | (47) |
| Exchange difference | – | – | – | – | – | (24) | – | (24) |
| Closing net book amount | 39,771 | 3,830 | – | 1,077 | 29,384 | 877 | 46,841 | 121,780 |
| **At 31 December 2020** | | | | | | | | |
| Cost | 53,792 | 6,015 | 484 | 3,630 | 79,908 | 3,012 | 46,841 | 193,682 |
| Accumulated depreciation | (14,021) | (2,185) | (484) | (2,553) | (50,524) | (2,135) | – | (71,902) |
| Net book amount | 39,771 | 3,830 | – | 1,077 | 29,384 | 877 | 46,841 | 121,780 |

During the year ended 31 December 2020, depreciation expenses of approximately RMB1,450,000 (2019: RMB1,437,000) were charged in administrative expenses; approximately RMB854,000 (2019: RMB832,000) were charged in selling and distribution expenses; approximately RMB10,004,000 (2019: RMB7,210,000) were charged in cost of sales; and approximately RMB555,000 (2019: Nil) were included in construction in progress.

### (i) Non-current assets pledged as security

Refer to Note 31 for information on non-current assets pledged as security by the Group.

## 13(b) LEASES

### (i) Amounts recognised in the consolidated balance sheet

The consolidated balance sheet shows the following amounts relating to leases:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| **Right-of-use assets*** | | |
| Land-use rights** | **26,909** | 27,463 |
| Properties | **725** | 3,080 |
| Plant and machinery | **12,137** | 11,429 |
| | **39,771** | 41,972 |

* The balances were included in Note 13 (a) "Properties, plant and equipment".

** The Group has land lease arrangement with Mainland China government.

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| **Lease liabilities** | | |
| Current portion | **5,855** | 10,051 |
| Non-current portion | **107** | 593 |
| | **5,962** | 10,644 |

Additions to the right-of-use assets amounted to approximately RMB4,853,000 (2019: RMB27,861,000) during the year ended 31 December 2020.

On 31 December 2018, the Group entered into a sales and finance lease back arrangement with a bank in respect of various equipment that the Group purchased on the same day. The lease also has a repayable on demand clause which can be exercised at the lender's sole discretion. Accordingly, the corresponding lease liability is classified as current liability.

As at 31 December 2020, the relevant lease liabilities were secured by leased plant and machinery of RMB10,159,000 (2019: RMB11,429,000).

## 13(b) LEASES (CONTINUED)

### (i) Amounts recognised in the consolidated balance sheet (Continued)

The carrying amounts of the Group's lease liabilities were denominated in the following currencies:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| RMB | 2,621 | 3,296 |
| USD | 3,155 | 7,348 |
| Euro ("EUR") | 186 | – |
| | 5,962 | 10,644 |

### (ii) Amounts recognised in the consolidated income statement

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| **Depreciation charge of right-of-use assets** | | |
| Land-use rights* | – | 185 |
| Properties | 2,593 | 2,595 |
| Plant and machinery | 3,906 | 1,270 |
| | 6,499 | 4,050 |
| Interest expense on leases (Note 10) | 433 | 630 |
| Rental expenses of short-term leases in respect of machinery and properties (Note 6) | 8,095 | 5,497 |

* During the year ended 31 December 2020, depreciation charges of land-use rights amounting to approximately RMB555,000 (2019: Nil) were included in construction in progress.

## 13(b) LEASES (CONTINUED)

### (iii) Amounts recognised in the consolidated statement of cash flows

During the year ended 31 December 2020, the total cash outflows for leases were analysed as below:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| **Cash flows from operating activities*** | | |
| Payments for short-term leases in respect of machinery and properties | 8,095 | 5,497 |
| **Cash flows from financing activities** | | |
| Payments of principal element of lease liabilities | 9,236 | 6,369 |
| Payments of interest element of lease liabilities | 433 | 630 |
| The total cash outflow of leases | 17,764 | 12,496 |

* Payments for short-term leases were not shown separately, but included in the line of 'profit before income tax' in respect of the net cash generated from operations using the indirect method.

### (iv) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses, production plant and equipment. Rental contracts are typically made for fixed periods of 1 to 4 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

### (v) Termination options

Termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of termination options are exercisable only by the Group as lessee and not by the respective lessor.

## 14 INTANGIBLE ASSETS

| | Membership right RMB'000 | System software RMB'000 | Total RMB'000 |
|---|---|---|---|
| **At 1 January 2019** | | | |
| Cost | – | 2,480 | 2,480 |
| Accumulated amortisation | – | (862) | (862) |
| Net book amount | – | 1,618 | 1,618 |
| **Year ended 31 December 2019** | | | |
| Opening net book amount | – | 1,618 | 1,618 |
| Additions | 610 | 42 | 652 |
| Amortisation | (20) | (515) | (535) |
| Closing net book amount | 590 | 1,145 | 1,735 |
| **At 31 December 2019** | | | |
| Cost | 610 | 2,522 | 3,132 |
| Accumulated amortisation | (20) | (1,377) | (1,397) |
| Net book amount | 590 | 1,145 | 1,735 |
| **Year ended 31 December 2020** | | | |
| Opening net book amount | **590** | **1,145** | **1,735** |
| Additions | **–** | **129** | **129** |
| Amortisation | **(41)** | **(540)** | **(581)** |
| Closing net book amount | **549** | **734** | **1,283** |
| **At 31 December 2020** | | | |
| Cost | **610** | **2,651** | **3,261** |
| Accumulated amortisation | **(61)** | **(1,917)** | **(1,978)** |
| Net book amount | **549** | **734** | **1,283** |

During the year ended 31 December 2020, amortisation expenses of approximately RMB184,000 (2019: RMB124,000) were charged in administrative expenses; approximately RMB14,000 (2019: RMB23,000) were charged in selling and distribution expenses and approximately RMB383,000 (2019: RMB388,000) were charged in cost of sales.

## 15 FINANCIAL INSTRUMENTS BY CATEGORY

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| **Assets as per consolidated balance sheet** | | |
| **Financial assets at amortised cost** | | |
| Trade and bills receivables (Note 20) | **106,606** | 153,801 |
| Deposits and other receivables (Note 17) | **7,881** | 7,785 |
| Restricted cash (Note 19) | **–** | 2,865 |
| Pledged bank deposits (Note 19) | **33,699** | 7,500 |
| Short-term bank deposits (Note 19) | **92** | 9,184 |
| Cash and cash equivalents (Note 19) | **178,904** | 107,856 |
| | **327,182** | 288,991 |
| **Financial assets at fair value through profit or loss** | | |
| Derivative financial instruments (Note 16) | **399** | – |
| | **327,581** | 288,991 |
| **Liabilities as per consolidated balance sheet** | | |
| **Financial liabilities at amortised cost** | | |
| Trade and bills payables (Note 24) | **196,412** | 127,501 |
| Other payables and accruals (Note 25) | **29,339** | 9,231 |
| Bank borrowings (Note 26) | **26,742** | 16,422 |
| Lease liabilities (Note 13(b)) | **5,962** | 10,644 |
| | **258,455** | 163,798 |

## 16 DERIVATIVE FINANCIAL INSTRUMENTS

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Assets RMB'000 | Liabilities RMB'000 | Assets RMB'000 | Liabilities RMB'000 |
| **Forward exchange contracts** | | | | |
| – non-hedge instruments | **399** | **–** | – | – |

Derivatives held for trading purpose are classified as a current asset or liability. As at 31 December 2020, the Group had outstanding gross-settled foreign currency forward contracts to sell USD14,500,000 for RMB96,240,000 (2019: Nil).

Derivative financial instruments are presented within operating activities as part of changes in working capital in the consolidated statement of cash flows.

Fair value gains and losses on derivative financial instruments are recognised in 'other (losses)/gains, net' in the consolidated income statement.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the consolidated balance sheet.

## 17 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| **Current portion** | | |
| Prepayments | 16,543 | 13,767 |
| Deposits (Note (a)) | 7,237 | 6,778 |
| Value-added tax receivables | 5,322 | — |
| Other receivables (Notes (a) and (b)) | 616 | 486 |
| | 29,718 | 21,031 |
| **Non-current portion** | | |
| Prepayments for the acquisition of land-use rights | 8,000 | — |
| Prepayments for construction works | 7,654 | — |
| Prepayments for the acquisition of properties, plant and equipment | 163 | 808 |
| Deposits (Note (a)) | 28 | 521 |
| | 15,845 | 1,329 |
| | 45,563 | 22,360 |

Notes:

(a) As at 31 December 2020 and 2019, the carrying amounts of deposits and other receivables approximated their fair values.

(b) The amounts were unsecured, interest-free and repayable on demand.

The carrying amounts of the Group's deposits and other receivables were denominated in the following currencies:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| RMB | 7,847 | 7,785 |
| EUR | 28 | — |
| HK$ | 6 | — |
| | 7,881 | 7,785 |

## 18 INVENTORIES

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Raw materials | **60,343** | 33,413 |
| Work in progress | **3,683** | 4,344 |
| Finished goods | **16,502** | 14,770 |
| | **80,528** | 52,527 |

The cost of inventories recognised as expense and included in cost of sales during the year ended 31 December 2020 amounted to approximately RMB497,269,000 (2019: RMB484,950,000) which included reversal of inventory provision amounting to approximately RMB174,000 (2019: RMB339,000).

## 19 CASH AND CASH EQUIVALENTS, PLEDGED BANK DEPOSITS, SHORT-TERM BANK DEPOSITS AND RESTRICTED CASH

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| **Current portion** | | |
| Cash at banks | **178,816** | 107,749 |
| Cash on hand | **88** | 107 |
| Cash and cash equivalents (Note (a)) | **178,904** | 107,856 |
| Restricted cash | **–** | 182 |
| Pledged bank deposits (Note (b)) | **33,699** | 7,500 |
| Structured bank deposits (Note (c)) | **–** | 9,129 |
| Other short-term bank deposits (Note (d)) | **92** | 55 |
| **Non-current portion** | | |
| Restricted cash (Note (e)) | **–** | 2,683 |
| Total cash and bank balances | **212,695** | 127,405 |
| Maximum exposure to credit risk | **212,607** | 127,298 |

## 19 CASH AND CASH EQUIVALENTS, PLEDGED BANK DEPOSITS, SHORT-TERM BANK DEPOSITS AND RESTRICTED CASH (CONTINUED)

The carrying amounts of the Group's cash and cash equivalents, pledged bank deposits, short-term bank deposits and restricted cash were denominated in the following currencies:

| | **2020** **RMB'000** | 2019 RMB'000 |
|---|---|---|
| RMB | **131,787** | 52,962 |
| USD | **40,400** | 27,572 |
| HK$ | **39,699** | 46,871 |
| EUR | **809** | — |
| | **212,695** | 127,405 |

As at 31 December 2020 and 2019, the carrying amounts of cash and cash equivalents, pledged bank deposits, short-term bank deposits and restricted cash approximated their fair values.

As at 31 December 2020, cash and cash equivalents of the Group amounting to approximately RMB153,311,000 (2019: RMB79,826,000) were deposited with the banks in the PRC where the remittance of funds out of the PRC was subject to the rules and regulations of foreign exchange control promulgated by the Government of the PRC.

Notes:

(a) Cash at banks earned interest at floating rates based on daily bank deposits rate.

(b) As at 31 December 2020, bank deposits amounted to approximately RMB33,699,000 (2019: RMB7,500,000) were pledged for the facilities granted by banks to the Group, details of which are set out in Note 26, a performance bond provided for a new contract, and guaranteed deposits for a foreign exchange contract.

As at 31 December 2020, the weighted average interest rate of the pledged bank deposits was 1.40% (2019: 1.48%) per annum. The pledged bank deposits of the Group have an average maturity of 273 days (2019: 306 days).

(c) As at 31 December 2019, the effective interest rate on structured bank deposits was 0.29% per annum. The structured bank deposits of the Group will mature in 153 days. The structured bank deposits were redeemed during the year ended 31 December 2020.

(d) As at 31 December 2020, the effective interest rate on other short-term bank deposits was 1.53% (2019: 1.58%) per annum. The short-term bank deposits of the Group have an average maturity of 366 days (2019: 365 days).

(e) The Group entered into an agreement with Huizhou City Huicheng District Natural Resources Bureau on 22 July 2019 pursuant to which the Group acquired a land-use right in Huizhou City. The total consideration of the land use right is approximately RMB26,830,000 and the Group is required to develop and utilise the land as its manufacturing plant.

As at 31 December 2019, a bank deposit of RMB2,683,000 was held in a designated bank account as a guarantee for the aforementioned development on project. Such guarantee deposits will be released upon the fulfilment of certain conditions required by this agreement. The effective interest rate on the restricted cash was 1.75% per annum. The bank deposit was released during the year ended 31 December 2020.

## 20 CONTRACT ASSETS, TRADE AND BILLS RECEIVABLES

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Contract assets | **5,517** | 7,559 |
| Trade receivables | **97,370** | 153,796 |
| Bills receivables | **14,916** | 600 |
| Less: provision for impairment of trade and bills receivables | **(5,680)** | (595) |
| Trade and bills receivables | **106,606** | 153,801 |
| Contract assets, trade and bills receivables | **112,123** | 161,360 |

As at 31 December 2020 and 2019, the carrying amounts of contract assets, trade and bills receivables approximated their fair values.

The Group's sales were made on credit terms primarily from 30 to 120 days.

As at 31 December 2020 and 2019, the aging analysis of trade and bills receivables, net of impairment, based on invoice date, was as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Within 3 months | **102,925** | 143,670 |
| Over 3 months | **9,361** | 10,726 |
| | **112,286** | 154,396 |
| Less: provision for impairment of trade and bills receivables | **(5,680)** | (595) |
| | **106,606** | 153,801 |

As at 31 December 2020 and 2019, trade receivables of approximately RMB5,312,000 and RMB35,528,000 were past due respectively.

## 20 CONTRACT ASSETS, TRADE AND BILLS RECEIVABLES (CONTINUED)

Movements of the provision for impairment of trade and bills receivables were as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| At beginning of the year | **595** | — |
| Provision for impairment of trade and bills receivables on individual basis | **4,476** | 595 |
| Reversal for impairment of trade and bills receivables on individual basis | **(120)** | — |
| Provision for impairment of trade and bills receivables on collective basis | **766** | — |
| Exchange difference | **(37)** | — |
| At end of the year | **5,680** | 595 |

The carrying amounts of the Group's contract assets, trade and bills receivables were denominated in the following currencies:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| RMB | **101,857** | 137,398 |
| USD | **10,266** | 23,962 |
| | **112,123** | 161,360 |

The maximum exposure to credit risk as at 31 December 2020 and 2019 was the carrying value of the contract assets and receivables mentioned above. The Group does not hold any collateral as security.

## 21 DEFERRED GOVERNMENT GRANTS

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| At 1 January | **1,285** | — |
| Received during the year | **10,700** | 1,827 |
| Released to the consolidated income statement | **(1,005)** | (542) |
| At end of year | **10,980** | 1,285 |

During the years ended 31 December 2020 and 2019, government grants were received for the purchase of certain equipment. There were no unfulfilled conditions or contingencies attached to these grants.

## 22 SHARE CAPITAL AND SHARE PREMIUM

| | Number of shares | Nominal value HK$ |
|---|---|---|
| Share capital | | |
| Authorised: | | |
| Ordinary shares of HK$0.01 each as at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020 | 8,000,000,000 | 80,000,000 |

| | Number of shares | Nominal value HK$ | Share premium HK$ |
|---|---|---|---|
| Issued and fully paid: | | | |
| At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020 | 300,000,000 | 3,000,000 | 126,960,570 |

## 23 DEFERRED INCOME TAX ASSETS

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority.

The analysis of deferred income tax assets/(liabilities) was as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Deferred tax assets | 3,200 | 1,495 |
| Deferred tax liabilities | (1,808) | (904) |
| | 1,392 | 591 |

The net movement on the deferred income tax assets was as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| At beginning of year | 591 | 537 |
| Credited to consolidated income statement (Note 11) | 801 | 54 |
| At end of year | 1,392 | 591 |

## 23 DEFERRED INCOME TAX ASSETS (CONTINUED)

The movement in deferred income tax (liabilities)/assets during the years ended 31 December 2020 and 2019, without taking into consideration the offsetting of balances within the same tax jurisdiction, was as follows:

| Deferred tax (liabilities)/assets | Tax depreciation RMB'000 | PRC accrued expenses RMB'000 | Contract assets RMB'000 | Right-of-use assets and lease liabilities RMB'000 | Government grants RMB'000 | Provision RMB'000 | Unrealised profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2019 | (3) | 904 | (400) | 36 | – | – | – | 537 |
| (Charged)/credited to the consolidated income statement | (727) | 276 | 226 | (4) | 193 | 90 | – | 54 |
| At 31 December 2019 | (730) | 1,180 | (174) | 32 | 193 | 90 | – | 591 |
| (Charged)/credited to the consolidated income statement | (745) | (237) | (159) | (17) | 1,454 | 386 | 119 | 801 |
| At 31 December 2020 | (1,475) | 943 | (333) | 15 | 1,647 | 476 | 119 | 1,392 |

Deferred tax assets are recognised for tax losses carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of RMB712,000 (2019: RMB49,000) in respect of losses amounting to RMB3,817,000 (2019: RMB198,000) as at 31 December 2020. These tax losses are subject to the agreement with the tax authorities and can be carried forward against future taxable income. Tax losses have no expiry date except for tax losses of the PRC subsidiaries that will expire in 5 years amounting to RMB1,195,000 (2019: RMB198,000).

As at 31 December 2020 and 2019, the expiry dates for the Group's unused tax losses are as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Expiry in | | |
| 2024 | **198** | 198 |
| 2025 | **997** | – |
| No expiry date | **2,622** | – |
| | **3,817** | 198 |

The Group had undistributed earnings of approximately RMB147,630,000 as at 31 December 2020 (2019: RMB119,268,000), which, if paid out as dividends, would be subject to tax in the hands of the recipient. An assessable temporary difference exists, but no deferred tax liability has been recognised as the parent entity is able to control the timing of distributions of dividends from the PRC subsidiary and is not expected to distribute these profits in the foreseeable future.

## 24 TRADE AND BILLS PAYABLES

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Trade payables | 162,957 | 116,642 |
| Bills payables | 33,455 | 10,859 |
| | 196,412 | 127,501 |

As at 31 December 2020 and 2019, the aging analysis of trade and bills payables, based on invoice date, was as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Within 3 months | 151,193 | 119,384 |
| Over 3 months | 45,219 | 8,117 |
| | 196,412 | 127,501 |

The carrying amounts of the Group's trade and bills payables were denominated in the following currencies:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| RMB | 180,857 | 115,285 |
| USD | 15,555 | 12,216 |
| | 196,412 | 127,501 |

As at 31 December 2020 and 2019, the carrying amounts of trade and bills payables approximated their fair values.

## 25 CONTRACT LIABILITIES, OTHER PAYABLES AND ACCRUALS

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Other payables | **8,546** | 6,520 |
| Payables for construction works | **18,628** | — |
| Other tax payables | **1,684** | 7,439 |
| Accruals | **16,806** | 16,933 |
| Contract liabilities (Note 5(c)) | **33,248** | 15,679 |
| | **78,912** | 46,571 |

As at 31 December 2020 and 2019, the carrying amounts of contract liabilities, other payables and accruals approximated their fair values.

The carrying amounts of the Group's contract liabilities, other payables and accruals were denominated in the following currencies:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| RMB | **49,076** | 32,209 |
| USD | **28,503** | 13,097 |
| HK$ | **1,153** | 1,265 |
| EUR | **180** | — |
| | **78,912** | 46,571 |

## 26 BORROWINGS

Borrowings were analysed as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| **Current** | | |
| Bank borrowings – secured | **5,799** | 16,422 |
| **Non-current** | | |
| Bank borrowings – secured | **20,943** | – |
| | **26,742** | 16,422 |

As at 31 December 2020 and 2019, the weighted average interest rate per annum of the Group's bank borrowings was 4.35% and 4.13% respectively.

As at 31 December 2020 and 2019, the carrying amounts of the bank borrowings approximated their fair values.

As at 31 December 2020, the bank borrowings and banking facilities were secured by the following:

(i) Pledged bank deposit with book carrying value of RMB21,327,000;

(ii) Land-use rights with book carrying value of RMB26,909,000;

(iii) Equipment with book carrying value of RMB14,236,000; and

(iv) A corporate guarantee provided by the Company.

As at 31 December 2019, the bank borrowings and banking facilities were secured by the following:

(i) Pledged bank deposit with book carrying value of RMB7,500,000;

(ii) Equipment with book carrying value of RMB16,283,000; and

(iii) A corporate guarantee provided by the Company.

As at 31 December 2020 and 2019, the Group's borrowings were repayable as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Within 1 year or on demand | **5,799** | 16,422 |
| Between 2 and 5 years | **14,032** | – |
| More than 5 years | **6,911** | – |
| | **26,742** | 16,422 |

The carrying amounts of the Group's bank borrowings were denominated in RMB.

## 27 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Cash generated from operations

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Profit before income tax | **20,327** | 29,187 |
| Adjustments for: | | |
| Finance income | **(560)** | (374) |
| Finance costs | **678** | 1,442 |
| Depreciation | **12,308** | 9,479 |
| Amortisation | **581** | 535 |
| Reversal of provision for inventories | **(174)** | (339) |
| Net impairment losses on financial assets | **5,122** | 595 |
| Gain on disposal of properties, plant and equipment | **(421)** | (318) |
| Government grants | **(1,005)** | (542) |
| Unrealised gains from derivative financial instruments | **(399)** | – |
| | **36,457** | 39,665 |
| Changes in working capital: | | |
| – Contract assets, trade and bills receivables | **43,421** | (38,942) |
| – Prepayments, deposits and other receivables | **(14,002)** | (10,004) |
| – Inventories | **(27,827)** | (3,474) |
| – Trade and bills payables | **68,911** | 19,877 |
| – Contract liabilities, other payables and accruals | **15,261** | 6,096 |
| – Pledged bank deposits | **(26,199)** | – |
| Cash generated from operations | **96,022** | 13,218 |

### (b) In the consolidated statement of cash flows, proceeds from disposal of properties, plant and equipment comprised:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Net book amount disposed | **47** | 11 |
| Gain on disposal of properties, plant and equipment | **421** | 318 |
| Proceeds from disposal of properties, plant and equipment | **468** | 329 |

## 27 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

### (c) The reconciliations of liabilities arising from financing activities were as follows:

| | Bank borrowings RMB'000 | Lease liabilities RMB'000 | Total RMB'000 |
|---|---|---|---|
| At 1 January 2019 | 2,200 | 16,670 | 18,870 |
| Cash flows | | | |
| – Proceeds from bank borrowings | 28,026 | – | 28,026 |
| – Repayment of bank borrowings | (13,901) | – | (13,901) |
| – Payment of interests on bank borrowings | (617) | – | (617) |
| – Payment of principal element of lease liabilities | – | (6,369) | (6,369) |
| – Payment of interest element of lease liabilities | – | (630) | (630) |
| Other non-cash movements | | | |
| – Interest expense on bank borrowings and lease liabilities | 617 | 630 | 1,247 |
| – Addition of lease liabilities | – | 213 | 213 |
| – Currency translation differences | 97 | 130 | 227 |
| At 31 December 2019 | 16,422 | 10,644 | 27,066 |
| Cash flows | | | |
| – Proceeds from bank borrowings | 23,942 | – | 23,942 |
| – Repayment of bank borrowings | (13,149) | – | (13,149) |
| – Payment of interests on bank borrowings | (560) | – | (560) |
| – Payment of principal element of lease liabilities | – | (9,236) | (9,236) |
| – Payment of interest element of lease liabilities | – | (433) | (433) |
| Other non-cash movements | | | |
| – Interest expense on bank borrowings and lease liabilities | – | 433 | 433 |
| – Addition of lease liabilities | – | 4,853 | 4,853 |
| – Interest capitalised on qualifying assets | 560 | – | 560 |
| – Currency translation differences | (473) | (299) | (772) |
| At 31 December 2020 | 26,742 | 5,962 | 32,704 |

## 28 SUBSIDIARIES

The Group's principal subsidiaries at 31 December 2020 and 2019 are set out below.

| Name | Place of incorporation and kind of legal entity | Principal activities and place of operation | Paid up capital | Percentage of effective interest held/controlled 2020 Interest held | 2019 Interest held |
|---|---|---|---|---|---|
| Total United Holdings Limited* | BVI, limited liability company | Investment holding in BVI | USD1 | **100%** | 100% |
| Agreeable Company Limited# | Hong Kong, limited liability company | Investment holding in Hong Kong | HK$1 | **100%** | 100% |
| Shenzhen Hengchang Sheng# | The PRC, limited liability company | Electronic services in the PRC | RMB38,692,579 | **100%** | 100% |
| Eternity Technology Development Limited# | Hong Kong, limited liability company | Sales of electronic products in Hong Kong | HK$2 | **100%** | 100% |
| Huizhou City Eternity Technology Company Limited# | The PRC, limited liability company | Electronic services in the PRC | RMB30,000,000 | **100%** | 100% |
| Eternity Electronic Manufacturing Service GmbH# | Germany, limited liability company | Electronic services in Germany | EUR100,000 | **100%** | – |
| Eternity Technology (Huizhou) Company Limited# | The PRC, limited liability company | Electronic services in the PRC | RMB20,730,600 | **100%** | – |
| Eternity Technology (Xiamen) Company Limited# | The PRC, limited liability company | Electronic services in the PRC | RMB12,000,000 | **100%** | – |

* Equity interest directly held by the Company.

# Equity interest indirectly held by the Company.

## 29 CAPITAL COMMITMENTS

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Contracted but not provided for: | | |
| Properties, plant and equipment | **44,558** | 876 |

## 30 DIVIDEND

No dividend has been paid or declared by the Company during the years ended 31 December 2020 and 2019.

## 31 ASSETS PLEDGED AS SECURITIES

The carrying amounts of assets pledged as securities are:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| **Current** | | |
| *Floating charge* | | |
| Pledged bank deposits | 33,699 | 7,500 |
| Total current asset pledged as securities | 33,699 | 7,500 |
| **Non-current** | | |
| *Fixed charge* | | |
| Land-use rights | 26,909 | — |
| Equipment | 24,395 | 27,712 |
| Total non-current assets pledged as securities | 51,304 | 27,712 |
| Total assets pledged as securities | 85,003 | 35,212 |

## 32 RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control, jointly control or exert significant influence over the other party in holding power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns. Parties are also considered to be related if they are subject to common control or joint control. Related parties may be individuals or other entities.

The ultimate holding company and the ultimate controlling shareholder are disclosed in Note 1.

Related party that had transactions with the Group during the years ended 31 December 2020 and 2019 was as follows:

| Related party | Relationship with the Company |
|---|---|
| Shenzhen Qianhai Yufa Technology Company Limited*<br>(深圳市前海宇發科技有限公司) | Controlled by a Director |

* For identification purpose only

## 32 RELATED PARTY TRANSACTIONS (CONTINUED)

### (a) Transactions with related parties

Save as disclosed elsewhere in the consolidated financial statements, the following transactions were carried out with related parties during the years ended 31 December 2020 and 2019, at terms mutually agreed by both parties:

*(i) Office rental and management fees paid to a related company*

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Shenzhen Qianhai Yufa Technology Company Limited*<br>(深圳市前海宇發科技有限公司) (Note) | **785** | 784 |

Note:

Rental and management fees were charged based on terms mutually agreed with the related party and in the ordinary course of business.

* For identification purpose only

### (b) Key management compensation

Compensation paid or payable to key management for employee services is shown below:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Wages and salaries | **2,514** | 2,506 |
| Pension costs - defined contribution plan | **112** | 265 |
| | **2,626** | 2,771 |

### (c) Year-end balance arising from related party transactions

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Rental deposit paid to Shenzhen Qianhai Yufa Technology Company Limited* (深圳市前海宇發科技有限公司) | **119** | 119 |

Balance was unsecured, interest-free and repayable within one year (2019: two years) from the year end. Its carrying amount approximated its fair value.

* For identification purpose only

## 33 BALANCE SHEET AND EQUITY MOVEMENT OF THE COMPANY

### (a) Balance sheet of the Company as at 31 December 2020

| | Note | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current asset** | | | |
| Interests in subsidiaries | (c) | **43,937** | 46,011 |
| **Total non-current asset** | | **43,937** | 46,011 |
| **Current assets** | | | |
| Other receivables, deposits and prepayments | | **119** | 207 |
| Amounts due from subsidiaries | | **30,537** | 38,531 |
| Cash and cash equivalents | | **31,970** | 37,099 |
| **Total current assets** | | **62,626** | 75,837 |
| **Total assets** | | **106,563** | 121,848 |
| **Equity** | | | |
| Equity attributable to equity holders of the Company | | | |
| Share capital | (b) | **2,619** | 2,619 |
| Share premium | (b) | **110,868** | 110,868 |
| Reserves | (b) | **15,600** | 21,320 |
| Accumulated losses | (b) | **(30,090)** | (26,152) |
| **Total equity** | | **98,997** | 108,655 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Amounts due to subsidiaries | | **6,413** | 11,928 |
| Other payables and accruals | | **1,153** | 1,265 |
| **Total liabilities** | | **7,566** | 13,193 |
| **Total equity and liabilities** | | **106,563** | 121,848 |

The balance sheet of the Company was approved by the Board of Directors on 19 March 2021 and was signed on its behalf.

**Ma Fujun**
*Director*

**Chen Xiaoyuan**
*Director*

## 33 BALANCE SHEET AND EQUITY MOVEMENT OF THE COMPANY (CONTINUED)

### (b) Equity movement of the Company

| | Share capital RMB'000 | Share premium RMB'000 | Exchange reserve RMB'000 | Capital reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2019 | 2,619 | 110,868 | 305 | 19,692 | (21,395) | 112,089 |
| **Comprehensive losses:** | | | | | | |
| Loss for the year | – | – | – | – | (4,757) | (4,757) |
| **Other comprehensive income:** | | | | | | |
| Currency translation differences | – | – | 1,323 | – | – | 1,323 |
| **Total comprehensive losses** | – | – | 1,323 | – | (4,757) | (3,434) |
| **At 31 December 2019** | 2,619 | 110,868 | 1,628 | 19,692 | (26,152) | 108,655 |
| At 1 January 2020 | **2,619** | **110,868** | **1,628** | **19,692** | **(26,152)** | **108,655** |
| **Comprehensive losses:** | | | | | | |
| Loss for the year | **–** | **–** | **–** | **–** | **(3,938)** | **(3,938)** |
| **Other comprehensive losses:** | | | | | | |
| Currency translation differences | **–** | **–** | **(5,720)** | **–** | **–** | **(5,720)** |
| **Total comprehensive losses** | **–** | **–** | **(5,720)** | **–** | **(3,938)** | **(9,658)** |
| **At 31 December 2020** | **2,619** | **110,868** | **(4,092)** | **19,692** | **(30,090)** | **98,997** |

### (c) Interests in subsidiaries

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Equity investment at cost (Note (i)) | **–** | – |
| Amounts due from subsidiaries (Note (ii)) | **43,937** | 46,011 |
| | **43,937** | 46,011 |

Notes:

(i) The balance represented the Company's 100% interest amounting to 1 USD in Total United Holdings Limited.

(ii) These amounts were unsecured, interest-free, with no fixed repayment terms. Settlement of these amounts were neither planned nor likely to occur the foreseeable future. As a result, these amounts were considered part of the Company's net investment in Agreeable and Total United.

## 34 BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' emoluments

The remuneration of each director is set out below:

| Name of directors | Fees RMB'000 | Salary RMB'000 | Discretionary bonus RMB'000 | Allowances and benefits in kind RMB'000 | Employer's contribution to pension scheme RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **For the year ended 31 December 2020** | | | | | | |
| Executive directors: | | | | | | |
| – Ma Fujun | 107 | 335 | 228 | – | 39 | 709 |
| – Cheng Bin | 107 | 254 | 348 | – | 28 | 737 |
| – Chen Xiaoyuan | 107 | 250 | 196 | – | 28 | 581 |
| Independent non-executive directors: | | | | | | |
| – Chan Chung Kik Lewis | 107 | – | – | – | – | 107 |
| – Chow Kit Ting | 107 | – | – | – | – | 107 |
| – Wu Chi-luen | 107 | – | – | – | – | 107 |
| | 642 | 839 | 772 | – | 95 | 2,348 |

| Name of directors | Fees RMB'000 | Salary RMB'000 | Discretionary bonus RMB'000 | Allowances and benefits in kind RMB'000 | Employer's contribution to pension scheme RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **For the year ended 31 December 2019** | | | | | | |
| Executive directors: | | | | | | |
| – Ma Fujun | 106 | 363 | 315 | – | 73 | 857 |
| – Cheng Bin | 106 | 253 | 186 | – | 64 | 609 |
| – Chen Xiaoyuan | 106 | 255 | 144 | – | 65 | 570 |
| Independent non-executive directors: | | | | | | |
| – Chan Chung Kik Lewis | 106 | – | – | – | – | 106 |
| – Chow Kit Ting | 106 | – | – | – | – | 106 |
| - Wu Chi-luen | 106 | – | – | – | – | 106 |
| | 636 | 871 | 645 | – | 202 | 2,354 |

## 34 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

### (a) Directors' emoluments (Continued)

During the years ended 31 December 2020 and 2019, none of the directors of the Company waived or has agreed to waive any emolument.

### (b) Directors' retirement benefits and termination benefits

During the years ended 31 December 2020 and 2019, no emoluments, retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor were any payable.

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

During the years ended 31 December 2020 and 2019, no consideration was provided to third parties for making available directors' services.

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

During the years ended 31 December 2020 and 2019, save as disclosed elsewhere, there were no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities.

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

Save as disclosed elsewhere in the consolidated financial statements, no significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

# FINANCIAL SUMMARY

The following is a summary of the consolidated results, assets and liabilities of the Group for the last five financial years, as extracted from the Prospectus and published audit financial statements of the Group. This summary does not form part of the audited financial statements.

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | 2017 | 2016 |
| | **RMB' 000** | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 |
| REVENUE | **547,825** | 546,325 | 546,693 | 370,162 | 267,890 |
| GROSS PROFIT | **49,594** | 60,479 | 65,807 | 60,338 | 47,530 |
| PROFIT BEFORE INCOME TAX | **20,327** | 29,187 | 25,328 | 33,750 | 26,693 |
| INCOME TAX EXPENSE | **(3,004)** | (3,730) | (4,734) | (5,239) | (4,612) |
| PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | **17,323** | 25,457 | 20,594 | 28,511 | 22,081 |

## ASSETS AND LIABILITIES

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | 2017 | 2016 |
| | **RMB' 000** | RMB' 000 | RMB' 000 | RMB' 000 | RMB' 000 |
| NON-CURRENT ASSETS | **140,300** | 84,909 | 53,822 | 16,817 | 14,551 |
| CURRENT ASSETS | **435,463** | 359,640 | 322,812 | 166,098 | 153,058 |
| TOTAL ASSETS | **575,763** | 444,549 | 376,634 | 182,915 | 167,609 |
| CURRENT LIABILITIES | **293,443** | 206,490 | 167,343 | 96,556 | 122,338 |
| NON-CURRENT LIABILITIES | **32,030** | 1,878 | — | — | — |
| TOTAL LIABILITIES | **325,473** | 208,368 | 167,343 | 96,556 | 122,338 |