# SUN CHEONG CREATIVE DEVELOPMENT HOLDINGS LIMITED
# 新昌創展控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*
*(Provisional Liquidators Appointed)*
*(For Restructuring Purposes)*
**(Stock code: 1781)**

# ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

The board (the "**Board**") of directors (the "**Directors**") of Sun Cheong Creative Development Holdings Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2020 (the "**Reporting Period**") and together with the comparative figures for the previous year.

In this announcement "we", "us" and "our" refer to the Company (as defined above) and where the context otherwise requires, the Group (as defined above).

## FINANCIAL PERFORMANCE HIGHLIGHTS

| | *Notes* | **2020** | 2019 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| Revenue | *4* | **21,468** | 260,389 |
| Gross profit/(loss) | | **2,436** | (2,120) |
| Loss for the year | | **(75,921)** | (297,443) |
| Loss for the year attributable to owners of the Company | | **(75,921)** | (297,440) |
| Loss per share ("**LPS**") (HK cents per share) | | | |
| – basic | *11* | **(14.06)** | (55.08) |

## BUSINESS REVIEW AND OUTLOOK

### Overall Business and Financial Performance of the Group

During the year ended 31 December 2020, we manufacture and sell plastic and other household products to various customers.

The Year 2020 was full of challenges as the Company continued to experience an extraordinarily difficult business and operating environment, both through the continued internal impairments from 2019, and through the global economy being severely impacted by lockdowns, supply chain disruptions, and spread of the COVID-19 pandemic.

During the year, the Group's revenue amounted to approximately HK$21.5 million for the year ended 31 December 2020 ("**Current Year**"), representing a decrease of approximately 91.7% compared with the year ended 31 December 2019 ("**Last Year**"). The Group's overall gross profit margin increased from a gross loss margin of around 0.8% to a gross profit margin of around 11.3% in the Current Year. Net loss for the year was recorded at approximately HK$75.9 million (2019: loss of approximately HK$297.4 million). The significant loss during the year was mainly attributable to continued assets impairment due to the Company's internal restructuring, the de-consolidation of certain subsidiaries, as well as the global impact of COVID-19 on sales and manufacturing across all industries.

As stated in our 2019 report, Mr. Tong who at the material time was the principal shareholder, Chairman of the Company, and the legal representative of the Company's onshore subsidiaries, left the Company abruptly, and without a transition plan; this departure and failure on the part of Mr. Tong had put the Company into a financial crisis, the effects of which continue to significantly impact the Company today.

Further to Mr. Tong's actions at the material time, he was unable to supply the books and records due in large part to employee disputes (among other factors) and therefore the new management was not able to act swiftly to mitigate the impact of Mr. Tong's actions and those of litigants such as employees and creditors. Taking into account the inability of the Group's access the factory due to litigation from employee disputes in 2020, and the aforementioned departure of Mr. Tong, and the professional advice received at the material time (as disclosed in our 2019 report), the Directors were compelled to decide to de-consolidate the subsidiaries, Shenzhen Xincang Plastic Article Co., Ltd. and Foshan Haichang New Materials Technology Co., Ltd.

In 2020, Joint Provisional Liquidators have been appointed for financial restructuring. The Group has maintained its business operation with limited resources.

Even though the U.S. market only accounts for less than 25.5% of the group's total revenue, the continued decline of the exchange rate of the Australian dollar against the US dollar has created unprecedented difficulties for the Group, the consequence of the trade war between the U.S. and China heavily burdened the Group's income.

In addition to the impact of internal financial and structural issues that have continued from 2019, the COVID-19 pandemic has significantly impacted the Company and entire industry's operations. Large scale lockdowns and border control measures in China from early 2020 created obstacles for manufacturers. As the pandemic swept through the rest of the world, clients were also impacted through lockdowns and other movement restrictions.

Whilst some of the restrictions have eased in 2021, cascading effects of logistics and supply chain bottlenecks, recent energy crisis in China, scarcity of raw materials and the inability to deliver goods in a cost effective or timely manner continues to affect not only the Company but the manufacturing sector at large. Management is optimistic that these constraints will gradually disappear in 2022, coinciding with our planned sales and production growth as it ramps up through the year.

## Future Plan & Prospect

As of the date of this announcement, the management of the Company is actively working on a debt restructuring plan including but not limited to, liaising actively with the creditors, engaging independent financial advisors and soliciting investors to obtain adequate funding support. To that end, the Company has entered into a funding agreement and restructuring agreement with One Oak Tree Limited on 17 September 2021 and 8 November 2021, respectively, and has been granted leave by the Hong Kong and Cayman courts to propose a scheme of arrangement to its creditors. For details, please refer to the Company's announcement date 17 September 2021 and 8 November 2021, respectively.

With a core focus on household products made from plastic, the Company has leveraged (i) its skills and experience in plastic household products manufacturing; and (ii) the resources of its newly recruited management personnel in the industries and expanded its product offerings to cover household products in the home appliances and wellness sectors. It is important for the Company to reduce its financial risk by expanding its product offerings to capture the ever-changing demand of the global household goods market.

We continue to foresee that the global economy is constrained by supply chain and logistics bottlenecks, as well as the volatile demand resulting from the COVID-19 pandemic. However, with the increased time spent at home by the average consumer, the demand for our products has strengthened through 2021, and this is a trend we expect to capitalise on in 2022.

Throughout 2020 and 2021, the management has conducted numerous conversations with customers and have successfully entered into memoranda of understanding and obtained indicative orders from them. Our customers are particularly keen to expand their production base to build their in-house brands, and the Company has decided to take this opportunity to rebuild its export business and significantly boost its revenue.

While we will continue to develop and expand our customer base, more importantly the Company has learned a number of risk management lessons from previous management and ownership, that being to avoid an over investment outside of the firms core competencies of new product development, strong client engagement, and high quality manufacturing. This strategy has already started to bear fruit in late 2021, and we believe that this new approach will lead to a turnaround of the Company's operation and financial performance. The Company remains confident that with the continued support of its employees, clients, business partners, and shareholders, it will be able to deliver promising results to its shareholders again.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview

For the year ended 31 December 2020, loss of the Group and loss for the year attributable to owners of the Company amounted to approximately HK$75.9 million, representing decrease of approximately HK$221.5 million as compared with approximately HK$297.4 million in 2019.

### Revenue

For the Current Year, revenue of the Group amounted to approximately HK$21.5 million, representing a decrease of approximately HK$238.9 million or 91.7% as compared with approximately HK$260.4 million in 2019.

### Cost of Sales

Cost of sales for the Current Year was approximately HK$19.0 million, representing a decrease of approximately HK$243.5 million or 92.8% from approximately HK$262.5 million for the Last Year.

### Gross Profit/(Loss)

Gross Profit for the Current Year was approximately HK$2.4 million, representing a net increase of approximately HK$4.5 million from gross loss of approximately HK$2.1 million compared with the figures in 2019.

**Other Gains and Losses**

We recorded other net gain of approximately HK$0.4 million for the Current Year, representing an increase of approximately HK$1.1 million as compared to 2019. Please refer to the consolidated statement of profit and loss and other comprehensive income 2020, note 6, for the reasons of the net loss.

**Selling Expenses**

Selling expenses for the Current Year is HK$2.4 million, representing a decrease of approximately HK$22.1 million or 90.2% from approximately HK$24.5 million in 2019.

**De-consolidation**

For the year ended 31 December 2020, the Group had a loss on the de-consolidation of subsidiaries of approximately HK$1.8 million. For details, please refer to note 3 to the consolidated financial statements.

**Impairment losses on amounts due from deconsolidated subsidiaries**

No impairment loss was recorded on the amounts due from deconsolidated subsidiaries of the Group for the year ended 31 December 2020. For details, please refer to Independent Auditor's report, note 3 and consolidated statement of profit and loss and other comprehensive income.

**Impairment losses on property, plant and equipment**

The moulds of the Group were specifically used for production of certain plastic household products of the Group. During the year ended 31 December 2020, since the Group is coming up with new plastic products, it ceased to produce certain plastic household products of the Group. Due to obsolescence, full impairment loss of approximately HK$54.3 million was recognised in respect of the moulds.

**Finance Costs**

Our finance costs decreased from approximately HK$15.1 million for the Last Year to approximately HK$10.5 million for the Current Year, representing a decrease of approximately HK$4.6 million or 30.5%. Such decrease was primarily due to the decrease in interest expenses on banks and other borrowings and overdrafts.

**Income Tax Expenses**

The Group did not incur income tax expense for the Current Year and our income tax expenses decreased by approximately HK$0.2 million or 100% from approximately HK$0.2 million for the Last Year.

**Loss for the Year Attributable to Owners of the Company for the Reporting Period**

For the Current Year, loss for the year attributable to owners of the Company amounted to approximately HK$75.9 million, representing a decrease of net loss of approximately HK$221.5 million as compared to a loss of approximately HK$297.4 million for the Last Year. The loss was primarily due to a decrease in revenue, high finance cost and high administrative expenses. For details, please refer to the consolidated statement of profit and loss and other comprehensive income 2020.

**Dividend**

The Directors do not recommend the payment of a dividend and resolve not to declare any final dividend and special dividend in respect of the year ended 31 December 2020. (2019: Nil).

**Liquidity and Source of Funding**

As of 31 December 2020, the current assets of the Group amounted to approximately HK$0.85 million, which mainly comprised cash and bank balances, and other receivables, in the amount of approximately HK$0.04 million and approximately HK$0.81 million, respectively. Current liabilities of the Group amounted to approximately HK$201.3 million, of which approximately HK$168.4 million was bank and other borrowing and bank overdrafts, approximately HK$32.9 million was trade and other payables. The Group does not have any tax payable for the Current Year.

As of 31 December 2020, the current ratio (the current assets to current liabilities ratio) of the Group was approximately 0.004 times, as compared with approximately 0.08 times as of 31 December 2019. The change in the current ratio was primarily due to high ratio of bank loans and a decrease in trade and other receivables.

The Group does not have other debt financing obligations as of 31 December 2020. The Group has breach of financial covenants, please refer to “Loan Covenants”.

**Capital Expenditure**

For the Current Year, the Group did not incur capital expenditure representing a decrease of approximately HK$174.0 million compared with approximately HK$174.0 million in 2019.

## Cash Position and Fund Available

During the year, the Group maintained a liquidity position, with working capital being financed by our operating cash flows and borrowings. As at 31 December 2020, our cash and cash equivalents were approximately HK$0.04 million (31 December 2019: approximately HK$0.3 million). The Group also had no pledged bank deposits (31 December 2019: Nil) for the Group's banking facilities. As at 31 December 2020 the current ratio of the Group was approximately 0.004 times (31 December 2019: approximately 0.08 times).

## Bank and Other Borrowings

As at 31 December 2020, the Group had total bank and other borrowings of approximately HK$168.4 million (31 December 2019: approximately HK$168.4 million).

## Net Gearing Ratio

As at 31 December 2020, the Group had a negative equity of approximately HK$192.9 million, as compared to the negative equity of approximately HK$117.0 million as at 31 December 2019.

## Material Investments

For the Current Year, the Group did not acquire plant and equipment (2019: approximately HK$174.0 million).

## Net Current Liabilities

As at 31 December 2020, the Group had net current liabilities of approximately HK$200.4 million (Current assets 31 December 2020: approximately HK$0.9 million, current liabilities 31 December 2020: approximately HK$201.3 million) as compared to net current liabilities as at 31 December 2019 of approximately HK$180.5 million. The increase of net current liability was due to decrease of revenue, de-consolidation of subsidiaries and impairment on amounts due from deconsolidated subsidiaries.

## Administrative Expenses

During the Current Year, administrative expenses amounted to approximately HK$9.8 million, representing a decrease of approximately HK$43.7 million or 81.7% from HK$53.5 million in 2019. Majority of the administrative expenses are due to (i) professional service fee (ii) staff costs and (iii) the rental expenses.

**Pledge of Assets**

As at 31 December 2020, the Group's borrowings are unsecured by assets of the Group.

As at 31 December 2019, certain of the Group's borrowings are secured by assets of the Group.

In addition, certain of the Group's bank and other borrowings are secured by assets held by the management of the Group and/or their family members and the related companies which are controlled by the management of the Group and/or their family members and a key management personnel of the Group. In addition, certain of the Group's bank and other borrowings are personally guaranteed by the management of the Group and their family members and a key management personnel of the Group.

**Loan Covenants**

As at 31 December 2020, the Group had a breach of financial covenants, see note 15 to the consolidated financial statements.

**Contingent Liabilities**

As at 31 December 2020, the Group did not issue financial guarantees to banks in respect of banking facilities granted to related parties (2019: HK$4.0 million).

**Litigations**

Please refer to consolidated financial statement note 19.

**Winding-up Petitions**

Please refer to the consolidated financial statement note 20.

**Treasury Policy**

The Group remains committed to a high degree of financial control, a prudent risk management and the best utilisation of financial resources.

**Foreign Exchange Exposure**

The Group's sales and purchases are mainly denominated in US dollars and Renminbi. The sales of our Group are mainly denominated in US dollars or Hong Kong dollars. Some of our polypropylene resins are sourced from overseas and settled in US dollars. As our production base is in the PRC, the rental payment and the related staff costs are paid in Renminbi.

Since Hong Kong Dollar remains pegged to US Dollar, the Group does not foresee a substantial foreign currency risk exposure in this area and will closely monitor the trend of Renminbi to see if any action is required.

As at 31 December 2020, the Group had not entered any financial instrument for the hedging of foreign currency.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2020*

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| Revenue | 4 | **21,468** | 260,389 |
| Cost of sales | | **(19,032)** | (262,509) |
| **Gross profit/(loss)** | | **2,436** | (2,120) |
| Other income | 5 | **–** | 711 |
| Other gains and losses | 6 | **424** | (645) |
| Impairment losses, net | 7 | **(54,315)** | (683) |
| Loss on Deconsolidation of Subsidiaries | 3 | **(1,829)** | (54,330) |
| Impairment loss on amounts due from Deconsolidated Subsidiaries | 3 | **–** | (147,053) |
| Selling expenses | | **(2,400)** | (24,476) |
| Administrative expenses | | **(9,768)** | (53,528) |
| Finance costs | 8 | **(10,469)** | (15,098) |
| **Loss before tax** | | **(75,921)** | (297,222) |
| Income tax expense | 9 | **–** | (221) |
| **Loss for the year** | 10 | **(75,921)** | (297,443) |
| Other comprehensive loss — items that will be reclassified subsequently to profit or loss: | | | |
| Exchange reserve released upon Deconsolidation of Subsidiaries | | **–** | (3,609) |
| Exchange differences arising on translation of foreign operations | | **–** | 4,160 |
| **Total comprehensive loss for the year** | | **(75,921)** | (296,892) |
| Loss for the year attributable to: | | | |
| Owners of the Company | | **(75,921)** | (297,440) |
| Non-controlling interests | | **–** | (3) |
| **Loss for the year** | | **(75,921)** | (297,443) |
| Total comprehensive loss attributable to: | | | |
| Owners of the Company | | **(75,921)** | (296,797) |
| Non-controlling interests | | **–** | (95) |
| **Total comprehensive loss** | | **(75,921)** | (296,892) |
| LOSS PER SHARE | | | |
| Basic (HK cents) | 11 | **(14.06)** | (55.08) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2020*

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **7,576** | 61,931 |
| Right-of-use assets | | **–** | 5,284 |
| | | **7,576** | 67,215 |
| **CURRENT ASSETS** | | | |
| Trade and other receivables | *13* | **808** | 14,670 |
| Bank balances and cash | | **42** | 328 |
| | | **850** | 14,998 |
| **CURRENT LIABILITIES** | | | |
| Other payables | *14* | **32,860** | 18,793 |
| Contract liabilities | | **–** | 311 |
| Tax payable | | **–** | 5,522 |
| Bank and other borrowings | *15* | **165,898** | 165,898 |
| Bank overdrafts | *15* | **2,529** | 2,529 |
| Lease liabilities | | **–** | 2,454 |
| | | **201,287** | 195,507 |
| **NET CURRENT LIABILITIES** | | **(200,437)** | (180,509) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **(192,861)** | (113,294) |
| **NON-CURRENT LIABILITIES** | | | |
| Lease liabilities | | **–** | 3,642 |
| | | **–** | 3,642 |
| **NET LIABILITIES** | | **(192,861)** | (116,936) |
| **CAPITAL AND RESERVES** | | | |
| Share capital | *16* | **5,400** | 5,400 |
| Reserves | | **(198,261)** | (122,340) |
| Equity attributable to owners of the Company | | **(192,861)** | (116,940) |
| Non-controlling interests | | **–** | 4 |
| **CAPITAL DEFICIENCY** | | **(192,861)** | (116,936) |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 22 March 2016 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on the Stock Exchange on 4 October 2018. On 9 June 2020, Mr. Cheung Hok Hin, Alan of Wing United CPA Limited was appointed to be receiver over the shares of the Company (collectively the "**Charged Shares**") which were registered under the name of Uni-Pro Limited and Mr. Chan Kam Hon Ivan respectively (the "**Receivership**"). The Receivership may result in the sale of the Charged Shares to other third-party purchasers. In the opinion of the directors of the Company (the "**Directors**"), as at 31 December 2020, its parent was Uni-Pro Limited ("**Uni-Pro**") (incorporated in the British Virgin Islands) and its ultimate parent was Sun Cheong Creative Development Limited (incorporated in Hong Kong under compulsory winding up) ("**Sun Cheong**"). Its ultimate controlling party was Mr. Tong Ying Chiu ("**Mr. Tong**") and Ms. Ng Siu Kuen Sylvia ("**Ms. Ng**"), spouse of Mr. Tong. Mr. Tong is the former Chairman and one of the former executive directors of the Company while Ms. Ng is also a former executive director of the Company (together referred to as the "**Former Controlling Shareholders**").

The Company is an investment holding company. The principal activities of its subsidiaries (together with the Company referred to as the "**Group**"; the Group excluding the Deconsolidated Subsidiaries referred to as the "**Remaining Group**") are designing, developing, manufacturing and selling in plastic household products.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is also the functional currency of the Company. The Directors consider HK$ is the appropriate presentation currency for the users of the Group's financial statements.

The Group incurred a loss of approximately HK$75,921,000 for the year ended 31 December 2020 and as at 31 December 2020 the Group had net current liabilities and net liabilities of approximately HK$200,437,000 and HK$192,861,000 respectively, and there are pending litigations and winding up petitions against the Company. The Group also had late payment issues with financial institutions and other creditors. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

In order to improve the Group's financial position, the Directors have been implementing various measures as follows:

(1) David Martin Griffin of FTI Consulting (Cayman) Limited and Fok Hei Yu of FTI Consulting (Hong Kong) Limited were appointed as joint and several provisional liquidators (the "**JPLs**") of the Company on 30 July 2020 for restructuring purposes. On 8 November 2021, the Company and the JPLs entered into the restructuring agreement with One Oak Tree Limited (the "**Lender**"), pursuant to which the Company will implement the restructuring which involves the restructuring of business, debts and liabilities, capital structure and share capital of the Company including, among others, (i) the share consolidation and increase in authorised share capital in the Company; (ii) the subscription of new shares of the Company for HK$80,000,000 and proposed scheme of arrangement (the "**Creditors Scheme**") involving possible grant of the share options and put option, as set out in the announcement of the Company dated 8 November 2021.

    The Directors believe that the Creditors Scheme will be successfully effective in around June 2022.

(2) The Group will obtain an initial credit facility of the principal amount up to HK$50 million ("**the Initial Funding**") and a further credit facility of the principal amount up to HK$50 million ("**the Further Funding**") subject to fulfilment of the terms and condition of the loan agreement as stated in note 21(iii). On 12 November 2021, the Company, the JPLs and the Lender agreed to extend (i) the Initial Funding long stop date to 11 March 2022; and (ii) the Further Funding long stop date to 15 April 2022, as set out in the announcement of the Company dated 12 November 2021.

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful implementation and outcome of the above measures to be undertaken by the Group. The Directors are of the opinion that, taking into account the above measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from 31 December 2020. The Directors are therefore of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

## 2. APPLICATION OF NEW AND AMENDMENTS to HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

**Amendments to HKFRSs that are mandatorily effective for the current year**

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

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

In addition, the Group has early applied the Amendment to HKFRS 16 Covid-19 Related Rent Concessions.

Except as described below, the application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### 2.1 Impacts on application of Amendments to HKAS 1 and HKAS 8 Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

## 2.2 Impacts on application of Amendments to HKFRS 3 Definition of a Business

The Group has applied the amendments for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group make any acquisition.

## 2.3 Impacts on application of Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform

The Group has applied the amendments for the first time in the current year. The amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reform. The amendments are not relevant to the Group given that it does not apply hedge accounting to its benchmark interest rate exposures.

The amendments had no impact on the consolidated financial statements of the Group.

### 2.4 Impacts on early application of Amendment to HKFRS 16 Covid-19-Related Rent Concessions

The Group has applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 *Leases* if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application of the amendment had no impact to the opening accumulated losses at 1 January 2020.

**New and Amendments to HKFRSs in Issue but not yet Effective**

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

| | |
|---|---|
| HKFRS 17 | Insurance Contracts and the related Amendments[1] |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework[2] |
| Amendments to HKFRS 16 | Covid-19-Related Rent Concessions beyond 30 June 2021[5] |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform — Phase 2[4] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1] |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies[1] |
| Amendments to HKAS 8 | Definition of Accounting Estimates[1] |
| Amendments to HKAS 16 | Property, Plant and Equipment — Proceeds before Intended Use[2] |
| Amendments to HKAS 37 | Onerous Contracts — Cost of Fulfilling a Contract[2] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2018–2020[2] |
| Amendments to HKAS 12 | Deferred tax related to assets and liabilities arising from a single transaction[1] |

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

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

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

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

5 Effective for annual periods beginning on or after 1 April 2021.

Except for the new and amendments to HKFRSs mentioned below, the Directors anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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

The amendments:

- update a reference in HKFRS 3 *Business Combinations so that it refers to the Conceptual Framework for Financial Reporting 2018* issued in June 2018 (the "**Conceptual Framework**") instead of *Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting 2010* issued in October 2010);

- add a requirement that, for transactions and other events within the scope of HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or HK (IFRIC)-Int 21 *Levies*, an acquirer applies HKAS 37 or HK (IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and

- add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform — Phase 2* relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying HKFRS 7 *Financial Instruments: Disclosures* to accompany the amendments regarding modifications and hedge accounting.

- **Modification of financial assets, financial liabilities and lease liabilities.** A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current HKFRSs requirements. A similar practical expedient is proposed for lessee accounting applying HKFRS 16;

- **Hedge accounting requirements.** Under the amendments, hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) are required to be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements; and

- **Disclosures.** The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

**Amendments to HKFRS 10 and HKAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

The amendments to HKFRS 10 *Consolidated Financial Statements* and HKAS 28 *Investments in Associates and Joint Ventures* deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

**Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)***

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group's outstanding liabilities as at 31 December 2020, the application of the amendments will not result in reclassification of the Group's liabilities as at 31 December 2020.

**Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies***

HKAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the "**Practice Statement**") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

**Amendments to HKAS 8 *Definition of Accounting Estimates***

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty — that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements.

**Amendments to HKAS 16 *Property, Plant and Equipment — Proceeds before Intended Use***

The amendments specify that the costs of any item that were produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the relevant property, plant and equipment is functioning properly) and the proceeds from selling such items should be recognised and measured in the profit or loss in accordance with applicable standards. The cost of the items are measured in accordance with HKAS 2 *Inventories*.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

**Amendments to HKAS 37 *Onerous Contracts — Cost of Fulfilling a Contract***

The amendments specify that, when an entity assesses whether a contract is onerous in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the unavoidable costs under the contract should reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. Costs of fulfilling the contract include incremental costs and an allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments are applicable to contracts for which the Group has not yet fulfilled all its obligations as at the date of initial application.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

**Amendments to HKFRSs *Annual Improvements to HKFRSs 2018–2020***

The annual improvements make amendments to the following standards.

***HKFRS 9 Financial Instruments***

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the “10 per cent” test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other’s behalf.

***HKFRS 16 Leases***

The amendment to Illustrative Example 13 accompanying HKFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

***HKAS 41 Agriculture***

The amendment ensures consistency with the requirements in HKFRS 13 *Fair Value Measurement* by removing the requirement in paragraph 22 of HKAS 41 to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below.

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

**Basis of consolidation**

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

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

**Deconsolidation of certain subsidiaries of the Group**

**<u>For the year ended 31 December 2020</u>**

Following the winding-up petitions filed by banks under action numbers HCCW 374 of 2019 and HCCW 401 of 2019 in the High Court of the Hong Kong Special Administrative Region (the "**High Court**") against the Group's operating subsidiary in Hong Kong, namely Chase On Development Limited ("**Chase On**"), on 31 March 2020, the High Court ordered that Chase On be wound up. The directors of the Company consider that the Group had lost its control to govern Chase On with effect from 31 March 2020. Accordingly, Chase On was deconsolidated from the Group with effect from 31 March 2020.

The Group had consolidated the assets and liabilities and results of Chase On up to 31 March 2020 in the consolidated financial statements. The deconsolidation of Chase On had resulted in a net loss on deconsolidation of approximately HK$1,829,000 recognised in consolidated profit or loss for the year ended 31 December 2020.

The following is the financial information, before intra-group balances and transactions elimination, of Chase On as at 31 March 2020.

***Statement of financial position of Chase On as at the date of deconsolidation***

| | **2020** |
|---|---|
| | ***HK$'000*** |
| Details of the net assets of Chase On as at 31 March 2020 are set out below: | |
| Trade and other receivables | **14,670** |
| Bank balances and cash | **311** |
| Lease liabilities | **(785)** |
| Trade and other payables | **(6,303)** |
| Tax payables | **(5,522)** |
| Financial guarantee | **(542)** |
| Net assets excluding bank borrowings | **1,829** |
| *Bank borrowings | **(168,417)** |
| Net liabilities | **(166,588)** |
| Loss on Deconsolidation: | |
| Net assets excluding bank borrowings of Chase On | **1,829** |

* The bank borrowings of Chase On were guaranteed by the Company and were assigned to the Company upon the issuance of the winding-up order.

***Results of Chase On and its subsidiaries included in the consolidated statement of profit or loss and other comprehensive income of the Group for the years ended 31 December 2020 and 2019***

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Revenue | – | 194,885 |
| Cost of sales | – | (276,833) |
| Gross loss | – | (81,948) |
| Other income | – | 96,076 |
| Other gains and losses | – | (83) |
| Selling expenses | – | (9,458) |
| Administrative expenses | – | (10,532) |
| Finance costs | – | (1,616) |
| Loss before tax | – | (7,561) |
| Income tax expense | – | (249) |
| Loss for the year | – | (7,810) |

**For the year ended 31 December 2019**

Following the substantial change in the composition of the Board effective from 7 December 2019, despite repeated requests, the Directors have been unable to contact the legal representative and management personnel of the Group's operating subsidiaries in the PRC, namely 深圳新昌塑膠用品有限公司 (Shenzhen Xincang Plastic Article Co., Ltd.) and 佛山市海昌新材料科技有限公司 (Foshan Haichang New Materials Technology Co., Ltd.) (together referred to as the "**Deconsolidated Subsidiaries**"). Due to the claims (including wages) made by several creditors of the Deconsolidated Subsidiaries, the factories of the Deconsolidated Subsidiaries were sealed off by the Shenzhen Longgang District People's Court (深圳市龍崗區人民法院) subsequent to the end of the reporting period. During the preparation of the consolidated financial statements of the Group for the year ended 31 December 2019, the Directors had been unable to have access to and obtain the complete set of books and records together with the supporting documents of the Deconsolidated Subsidiaries for the period from 1 January 2019 to 31 December 2019 due to the inability to contact the management and accounting personnel of the Deconsolidated Subsidiaries.

The Group had consolidated the assets and liabilities of the Deconsolidated Subsidiaries up to 7 December 2019 and their financial performance for the period from 1 January 2019 to 6 December 2019 based on unaudited management information received. However, in the absence of access to complete set of books and records and the non-cooperation of the management and accounting personnel of the deconsolidated Subsidiaries, the Directors considered that the Group had lost control over the Deconsolidated Subsidiaries and had deconsolidated their financial performance, assets and liabilities from the consolidated financial statements of the Group on 7 December 2019 accordingly.

The deconsolidation of the Deconsolidated Subsidiaries had resulted in a net loss on Deconsolidation of subsidiaries of approximately HK$54,330,000 for the year ended 31 December 2019. To the best of the knowledge and belief of the Board, the carrying values of the amounts due from the Deconsolidated Subsidiaries were not recoverable and, accordingly, an impairment loss of approximately HK$147,053,000 had been recognised in consolidated profit or loss upon the deconsolidation.

The following is the financial information, before intra-group balances and transactions elimination, of the Deconsolidated Subsidiaries.

***Consolidated Statement of financial position of the Deconsolidated Subsidiaries as at the date of Deconsolidation***

| | | 2019 |
|---|---|---|
| | | *HK$'000* |
| (a) | Details of the net assets of the Deconsolidated Subsidiaries as at 7 December 2019 are set out below: | |
| | Property, plant and equipment | **173,039** |
| | Deposits paid for acquisition of property, plant and equipment | **42,102** |
| | Right-of-use assets | **27,165** |
| | Inventories | **29,474** |
| | Other receivables, deposits and prepayments | **12,308** |
| | Lease liabilities | **(23,093)** |
| | Trade and other payables | **(46,409)** |
| | Tax payables | **(8,455)** |
| | Bank and other borrowings | **(3,355)** |
| | Deferred tax liabilities | **(327)** |
| | Amounts due to the Group | **(147,053)** |
| | Net assets disposed of | **55,396** |
| | Loss on Deconsolidation: | |
| | Net assets disposed of | **(55,396)** |
| | Non-controlling interests | **5,226** |
| | Release of translation reserve upon Deconsolidation | **(4,160)** |
| | Loss on Deconsolidation | **(54,330)** |
| (b) | Impairment of amounts due from Deconsolidated Subsidiaries: | |
| | Amounts due from Deconsolidated Subsidiaries as at 7 December 2019 | **147,053** |

During the year ended 31 December 2019, impairment loss of approximately HK$147,053,000 has been recognised since the amount due from Deconsolidated Subsidiaries are considered to be highly unrecoverable with reference to the estimation of the cash flows expected to be generated from Deconsolidated Subsidiaries.

***Transactions of the Deconsolidated Subsidiaries included in the consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2019***

| | 2019 |
|---|---|
| | *HK$'000* |
| Revenue | |
| — from the Remaining Group | 194,885 |
| Cost of sales | |
| — to the Remaining Group | (136,306) |
| — to third parties | (140,527) |
| Gross loss | (81,948) |
| Other income | |
| — from the Remaining Group | 95,688 |
| — from third parties | 388 |
| Other gains and losses | (83) |
| Selling expenses | (9,458) |
| Administrative expenses | (10,532) |
| Finance costs | (1,616) |
| Loss before tax | (7,561) |
| Income tax expense | (249) |
| Loss of the year | (7,810) |

The Deconsolidated Subsidiaries were held, directly and indirectly, by Chase On. Accordingly, the revenue, income and expenses of the Deconsolidated Subsidiaries disclosed in the above table are included in the results of Chase On and its subsidiaries disclosed above.

## 4. REVENUE AND SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, being the Directors (the "**CODM**"), in order to allocate resources to segments and to assess their performance. During the year, the CODM assesses the operating performance and allocates the resources of the Group as a whole as the Group is primarily engaged in designing, developing, manufacturing and selling plastic and other household products. Therefore, the management considers that the Group only has one operating segment. The Group mainly operates in Hong Kong and the PRC and the Group's non-current assets are mainly located in the PRC.

The CODM reviews the overall results and financial position of the Group as a whole based on the same accounting policies set out in note 3 to the consolidated financial statements and no further segment information is presented.

An analysis of the Group's revenue during the year is as follows:

**Types of Goods or Service**

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Sale of plastic and other household products | **21,468** | 260,389 |

All of the revenue of the Group is recognised on a point in time basis.

Based on the historical pattern, the Directors are of the opinion that the income from sale of plastic and other household products in respect of unsatisfied contracts as at the end of the financial reporting period are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to the unsatisfied contracts is not disclosed.

**Geographical Information**

The Group's revenue is mainly derived from customers located in Hong Kong, PRC, UK, USA and New Zealand. The Group's revenue by the geographical locations of the customers, determined based on the destination of goods delivered, irrespective of the origin of goods, is detailed below:

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Australia | **–** | 180,338 |
| Hong Kong | **11,653** | 32,560 |
| PRC | **3,351** | – |
| UK | **648** | 4,492 |
| USA | **5,474** | 2,791 |
| New Zealand | **8** | 12,948 |
| Germany | **–** | 10,392 |
| Others | **334** | 16,868 |
| | **21,468** | 260,389 |

### Information About Major Customers

Revenue from customers of corresponding years contributing over 10% of the total sales of the Group are as follows:

| | 2020<br>*HK$'000* | 2019<br>*HK$'000* |
|---|---|---|
| Customer A | **10,888** | 108,126 |
| Customer B | **3,351** | 53,578 |

## 5. OTHER INCOME

| | 2020<br>*HK$'000* | 2019<br>*HK$'000* |
|---|---|---|
| Bank interest income | **–** | 168 |
| Others | **–** | 543 |
| | **–** | 711 |

## 6. OTHER GAINS AND LOSSES

| | 2020<br>*HK$'000* | 2019<br>*HK$'000* |
|---|---|---|
| Net foreign exchange gain | **429** | 614 |
| Written off of property, plant and equipment | **–** | (1,234) |
| Gain on early termination of lease, net | **27** | – |
| Others | **(32)** | (25) |
| | **424** | (645) |

## 7. IMPAIRMENT LOSSES, NET

| | 2020 | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Property, plant and equipment | **54,315** | 116 |
| Right-of-use assets | **–** | 657 |
| Trade and other receivables | **–** | (90) |
| | **54,315** | 683 |

## 8. FINANCE COSTS

| | 2020 | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest expenses on: | | |
| — bank and other borrowings and overdrafts | **10,469** | 14,762 |
| — interest on lease liabilities | **–** | 336 |
| | **10,469** | 15,098 |

## 9. INCOME TAX EXPENSE

| | 2020 | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax: | | |
| — PRC | **–** | 251 |
| | **–** | 251 |
| Deferred tax | **–** | (30) |
| | **–** | 221 |

Under the two-tiered profits tax rates regime in Hong Kong, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

No provision for Hong Kong profits tax is made as there were no estimated assessable profits for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

## 10. LOSS FOR THE YEAR

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss for the year has been arrived at after charging: | | |
| Directors' remuneration: | | |
| — Fees | **487** | 420 |
| — Other emoluments, salaries and other benefits | **2,558** | 11,099 |
| — Retirement benefit scheme contributions | **–** | 54 |
| | **3,045** | 11,573 |
| Other staff salaries and allowances | **1,631** | 42,626 |
| Retirement benefit scheme contributions, excluding those of directors | **2** | 3,537 |
| Total employee benefits expenses | **4,678** | 57,736 |
| Auditor's remuneration | | |
| — Current year | **1,000** | 1,500 |
| — (Over)/under-provision in prior years | **(476)** | 1,923 |
| Cost of inventories recognised as an expense | **19,032** | 262,509 |
| Depreciation of property, plant and equipment *(Note)* | **802** | 24,469 |
| Depreciation of right-of-use assets | **1,921** | 2,134 |

*Note:* Depreciation of property, plant and equipment amounting to approximately HK$802,000 (2019: HK$23,507,000) are included in cost of sales and amounting to approximately HK$nil (2019: HK$962,000) are included in administrative expenses.

## 11. LOSS PER SHARE

The calculation of the basic earnings per share during the year is based on the loss attributable to owners of the Company and the weighted average number of ordinary shares in issue during the year of 540,000,000 (2019: 540,000,000).

No diluted loss per share is presented for both 2020 and 2019 as the Company did not have any potential ordinary share in issue during the years.

## 12. DIVIDENDS

The Directors did not recommend the payment of any dividend for the year ended 31 December 2020.

During the year ended 31 December 2019, a final dividend and special dividend, in respect of the financial year ended 31 December 2018 of HK4.0 cents and HK3.5 cents per ordinary share respectively, with an aggregate amount of HK$40,500,000 was declared and paid to the shareholders of the Company. No dividend was proposed or declared in respect of the financial year ended 31 December 2019, nor has any dividend been declared or proposed since the end of the reporting period.

## 13. TRADE AND OTHER RECEIVABLES

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables — goods | **–** | 14,760 |
| Other receivables | **808** | – |
| | **808** | 14,760 |
| Less: Impairment loss allowance | **–** | (90) |
| | **808** | 14,670 |

The Group allows credit periods mainly ranging from cash on delivery to 90 days to its customers.

The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | | |
| 1–30 days | **–** | 5,875 |
| 31–60 days | **–** | 8,885 |
| | **–** | 14,760 |

## 14. OTHER PAYABLES

| | 2020 | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Payroll payable *(Note ii)* | **4,455** | 2,917 |
| Interest payable | **10,469** | 849 |
| Financial guarantee obligations *(Note i)* | **–** | 542 |
| Accrued professional fees | **5,380** | 5,337 |
| Other accrued expenses *(Note ii)* | **4,425** | 4,674 |
| Other payables *(Note ii)* | **8,131** | 4,474 |
| | **32,860** | 18,793 |

*Note:*

i. The amount represented financial guarantee contracts provided by Chase On to its related companies. The Former Controlling Shareholders and/or their family members have control or beneficial interests in these related companies.

ii. As at 31 December 2020, the payroll payables, other accrued expenses and other payables with the principal amounts of approximately HK$4,455,000, HK$4,425,000 and HK$8,131,000 respectively (2019: approximately HK$2,917,000, HK$4,674,000 and HK$4,474,000 respectively) were in default for repayment and repayable on demand.

## 15. BANK AND OTHER BORROWINGS AND BANK OVERDRAFTS

| | 2020 | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bank and other loans | **165,898** | 165,898 |
| Bank overdrafts | **2,529** | 2,529 |
| | **168,427** | 168,427 |
| Analysed as: | | |
| Secured | **168,427** | 168,427 |
| Unsecured | **–** | – |
| | **168,427** | 168,427 |
| The carrying amounts of the above bank and other borrowings and bank overdrafts are repayable: | | |
| – within one year | **168,427** | 168,427 |

As at 31 December 2020, the bank and other borrowings of approximately HK$165,898,000 (2019: approximately HK$123,346,000) were overdue and became immediately repayable. Some lenders had taken legal action against the Group for the immediate repayment of their loans and filed winding-up petitions against the Group as disclosed in notes 19 and 20. The Group is now restructuring their debts with the lenders, and has proposed the Creditors Scheme for the lenders' consideration. For details of the restructuring, see note 21 (iv).

## 16. SHARE CAPITAL

Details of movements of share capital of the Company are as follows:

| | **Number of shares** | **Share capital** |
|---|---:|---:|
| | | ***HK$'000*** |
| Ordinary shares of HK$0.01 each | | |
| **Authorised:** | | |
| At 31 December 2019, 1 January 2020 and 31 December 2020 | 2,000,000,000 | 20,000 |
| **Issued and fully paid:** | | |
| At 31 December 2019, 1 January 2020 and 31 December 2020 | 540,000,000 | 5,400 |

## 17. RELATED PARTY DISCLOSURES

### (a) Related Party Transactions

During the year, the Group entered into the following transactions with related parties:

| Related party | Nature of transactions | **2020** | 2019 |
|---|---|---:|---:|
| | | ***HK$'000*** | *HK$'000* |
| Hilston Development Limited | Rental expenses | – | 546 |
| Ms. Ng | Rental expenses | – | 162 |

The Former Controlling Shareholders and/or their family members have control or beneficial interests in Hilston Development Limited.

During the years ended 31 December 2019, the Group provided certain financial guarantees to its related companies as detailed in notes 14 and 18.

During the years ended 31 December 2020 and 2019, the Group's bank and other borrowings and bank overdrafts are secured and/or guaranteed by certain related parties.

### (b) Compensation of Directors and Key Management Personnel

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other allowances | **3,836** | 11,236 |
| Retirement benefit scheme contributions | **–** | 68 |
| Other benefits | **–** | 1,415 |
| Total | **3,836** | 12,719 |

The remuneration of Directors and key management personnel are determined having regard to the performance of the individuals and contribution to the Group.

## 18. CONTINGENT LIABILITIES

The following are the Group's contingent liabilities at the end of the reporting period:

### (i) Financial guarantees

| | **2020** | 2019 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Financial guarantees given to banks *(Note)* | **–** | 4,000 |

*Note:* As at 31 December 2020, the financial guarantees to banks in respect of banking facilities granted to related parties has been derecognised upon the deconsolidation of Chase On. As at 31 December 2019, the Group issued financial guarantees to banks in respect of banking facilities granted to related parties of an aggregate amount of HK$4,000,000. The amount disclosed above represents the aggregate amounts that could be required to be paid if the guarantees were called upon in entirety, of which HK$4,000,000 have been utilised by the related parties. Financial guarantees are initially recognised at fair value. The Directors are of the opinion that the fair value of the financial guarantees at initial recognition is not significant. The amounts of initial recognition of the financial guarantees are included in the consolidated statement of changes in equity. As at 31 December 2019, amounts of HK$542,000 have been recognised as financial guarantee obligations in the consolidated statement of financial position. The financial guarantee of HK$542,000 was derecognised upon deconsolidation of subsidiary during the year ended 31 December 2020 (Note 3).

### (ii) Claims from multiple unknown creditors and the former director

As at the date of this announcement, the JPLs have received several claims against the Company from multiple unknown creditors and the former directors, demanding for the repayment of bonds and loans in an aggregate amount of approximately HK$135.7 million (the "**Claims**").

Since the Company and the JPLs have proposed the Creditors Scheme, all claims received by the JPLs that are substantiated will be considered for the restructuring purposes. However, due to the lack of sufficient supporting documents to corroborate the said creditors' claims, the Directors are of the opinion that the Claims are unsubstantiated and remote, thus no provision or other liability is recognised in the consolidated financial statements of the Group for the year ended 31 December 2020 in respect of the Claims.

## 19. LITIGATIONS

### HCA 2241 OF 2019

On 3 December 2019, a legal proceeding was initiated by Nanyang Commercial Bank, Limited ("**NCB**") as plaintiff under action number HCA 2241 of 2019 against Chase On, the Company, three former directors of the Company namely Mr. Tong Ying Chiu ("**Mr. Tong**") and Ms. Ng Siu Kuen Sylvia ("**Ms. Ng**"), and Mr. Chan Kam Hon Ivan ("**Mr. Chan**"), in respect of Chase On's outstanding sums and interests due from banking facilities granted by NCB to Chase On. The Company and the aforesaid directors were guarantors of Chase On's liabilities to NCB.

NCB claims against Chase On, the Company and the aforesaid directors for (i) the outstanding balance of HK$2,063,000 and its further interest payments accrued; and (ii) the outstanding principal of US$2,231,000 and its outstanding interest of US$16,000 (equivalent to approximately HK$17,398,000 and HK$123,000 respectively) and its interest accrued.

### HCA 2259 OF 2019

On 6 December 2019, a legal proceeding was initiated by Fubon Bank (Hong Kong) Limited ("**Fubon**") as plaintiff under action number HCA 2259 of 2019 against Chase On, the Company, Mr. Tong and Mr. Chan, in respect of Chase On's outstanding sums and interests due from banking facilities granted by Fubon to Chase On. The Company, Mr. Tong and Mr. Chan were guarantors of Chase On's liabilities to Fubon.

Fubon claims against Chase On, the Company, Mr. Tong and Mr. Chan for the sums of US$871,000 (equivalent to approximately HK$6,796,000) and HK$367,000 and their interests accrued.

**HCA 2395 OF 2019**

On 24 December 2019, a legal proceeding was initiated by O-Bank Co., Ltd. ("**O-Bank**") as plaintiff under action number HCA 2395 of 2019 against Chase On, the Company, and Mr. Tong, Ms. Ng, Mr. Chan, and Mr. Tong Bak Nam Billy (who resigned as director of the Company on 27 May 2020), in respect of Chase On's outstanding sums and interests due from credit facilities granted by O-Bank to Chase On. The Company and the aforesaid directors were guarantors of Chase On's liabilities to O-Bank.

The Plaintiff claims against Chase On, the Company and the aforesaid directors for the outstanding principal amounts of (i) HK$6,182,000 and US$3,647,000 (equivalent to approximately HK$28,444,000), and (ii) the interest on the said principal amounts accrued.

**HCA 354 OF 2020**

On 18 March 2020, a legal proceeding was initiated by DBS Bank (Hong Kong) Limited ("**DBS**") as plaintiff under action number HCA 354 of 2020 against Chase On and the Company, in respect of Chase On's outstanding sums and interests due from banking facilities granted by DBS to Chase On. The Company was guarantor of Chase On's liabilities to DBS.

DBS claims against Chase On and the Company for the sums of US$999,000 (equivalent to approximately HK$7,779,000) and their interests accrued.

**LBTC 3483 OF 2020**

On 28 December 2020, five former employees of the Company commenced proceedings in the Labour Tribunal of Hong Kong against the Company, claiming for a total amount of approximately HK$2,061,000 on the ground of inter alia the failure to pay their salaries, to provide annual leave and to pay in lieu of notice upon the termination of their employment… etc.

Pursuant to the Orders of the Labour Tribunal dated 8 June 2021, the Labour Tribunal Proceedings are currently stayed indefinitely until further notice by the High Court.

As of the date of this announcement, the salary payables, in the amount of approximately HK$1,331,000 were provided and included in other payables as at 31 December 2020. Due to the lack of sufficient supporting documents for the proof of their debts by the former employees, the Directors were of the view that the amount provided in the consolidated financial statements is adequate, and hence no further provision for the claim is necessary.

### DCCJ 5164 OF 2020

On 24 September 2020, a legal proceeding was initiated by Strategic Financial Relations Limited as the plaintiff under action number DCCJ 5164 of 2020 against the Company for a claim of approximately HK$139,000 for the provision of public relation services. Due to the lack of supporting documents provided for the proof of its debt by the claimant, the Directors were of the view that the claim is questionable, and hence no provision for the claim is necessary.

## 20. WINDING-UP PETITIONS

### HCCW 403 OF 2019

On 13 December 2019, the Company was served a winding-up petition filed by CTBC under action number HCCW 403 of 2019 in the High Court for an order that the Company be wound up by the High Court on the ground that the Company is insolvent and is unable to pay its debts of approximately US$5,728,000 (equivalent to approximately HK$44,604,000).

The petition was filed against the Company as guarantor of Chase On's liability to CTBC. The hearing of petition before the High Court has adjourned to be held on 3 January 2022.

### HCCW 28 OF 2020

On 17 January 2020, the Company was served a winding-up petition filed by Orix Asia Limited ("**Orix**") under action number HCCW 28 of 2020 in the High Court for an order that the Company be wound up by the High Court on the ground that the Company is insolvent and is unable to pay its debts of approximately HK$7,033,000 in total.

The petition was ordered to be dismissed by the High Court on 21 September 2020, and Orix is now acting as a supporting creditor in the petition filed under action number HCCW 403 of 2019.

## 21. EVENTS SUBSEQUENT TO REPORTING PERIOD

(i) On 9 June 2020, the Board received a letter from Mr. Cheung Hok Hin, Alan (the "**Receiver**") of Wing United CPA Limited regarding the appointment of the Receiver (the "**Receivership**") over 270,256,500 ordinary shares and 98,613,000 ordinary shares of the Company (collectively the "**Charged Shares**") which are registered under the names of Uni-Pro and Mr. Chan Kam Hon Ivan ("**Mr. Chan**"), respectively, pursuant to the powers contained in a debenture dated 16 January 2020 and executed by Uni-Pro in favour of Cachet Multi Strategy Fund SPC (the "**Lender**") and a share charge dated 1 April 2019 and executed by Mr. Chan in favour of the Lender (as amended and supplemented by a supplemental deed dated 16 January 2020) in connection with a loan agreement dated 1 April 2019 and entered into among Uni-Pro (as borrower), the Lender (as lender), and Mr. Tong Ying Chiu, Ms. Ng Siu Kuen Sylvia and Mr. Chan (as guarantors). Given Uni-Pro is the former controlling shareholder of the Company which holds approximately 50.05% of the issued share capital of the Company, and the Charged Shares represent approximately 68.31% of the total issued shares capital of the Company as at 31 December 2020, the Receivership may result in the sale of the Charged Shares to other third-party purchasers, which in turn may trigger a mandatory general offer under the Takeovers Code should any purchaser(s) and parties acting in concert with it acquire 30% or more of the voting rights of the Company. As of the date of this announcement, to the best of the knowledge of the directors of the Company, no potential purchaser has been identified in respect of the sale of the Charged Shares, and that no agreement has been entered into in respect of the disposal of the Charged Shares. For details, please refer to the announcements of the Company dated 16 June 2020, 16 March 2021 and 16 November 2021.

(ii) On 27 July 2020, the Company presented a winding-up petition together with an ex parte summons to the Grand Court of the Cayman Islands for the appointment of provisional liquidators of the Company under a "light touch" approach for restructuring purposes. On 30 July 2020, the Grand Court of the Cayman Islands made the orders that David Martin Griffin of FTI Consulting (Cayman) Limited and Fok Hei Yu of FTI Consulting (Hong Kong) Limited be appointed as joint and several provisional liquidators (the "**JPLs**") of the Company. On 13 August 2020, the Company's JPLs circulated a letter with the JPLs order from Cayman Court to the known or potential creditors of the Company regarding the details of the JPLs arrangement. The JPLs will provide creditors with an update on the provisional liquidation and proposed restructuring in due course. JPLs has liaised with various parties regarding becoming White Knight for the Company and has identified certain potential investor to participate in the restructuring of debt and equity of the Company. The application for leave to convene meeting was fixed to 2 November 2021 while the hearing for sanction of the proposed scheme arrangement of the Group will be held on 22 February 2022.

For details, please refer to the announcements of the Company dated 31 July 2020, 22 December 2020 and 30 September 2021.

(iii) On 17 September 2021, One Oak Tree Limited ("**One Oak**") as lender, the Company as borrower and the JPLs entered into the One Oak Funding Agreement, pursuant to which One Oak conditionally agreed to grant (i) an initial credit facility in the principal amount of up to HK$50 million; and (ii) a further credit facility in the principal amount of up to HK$50 million, at an interest rate of 3.0% per annum to the Company subject to and upon the terms and conditions of the One Oak Funding Agreement to facilitate the preparation and implementation of the restructuring plan of the Company and support the business operation and expansion of the Group. For details please refer to the announcement of the Company on 17 September 2021.

(iv) On 8 November 2021, the Company and the JPLs entered into a restructuring agreement with One Oak, pursuant to which the Company will implement restructuring which involves the restructuring of business, debts and liabilities, capital structure and share capital of the Company including, among others, (i) proposed consolidation of every ten issued shares of the Company into one consolidated share, and the proposed increase in the authorised share capital of the Company from HK$20,000,000 divided into 200,000,000 consolidated shares to HK$200,000,000 divided into 2,000,000,000 consolidated shares by the creation of an additional 1,800,000,000 consolidated shares; (ii) the subscription of the subscription shares subject to the terms and conditions of the subscription agreement and (iii) the Creditors Scheme involving possible grant of share options and the put options.

Following the entering into of the restructuring agreement, the Company submitted the resumption proposal on 15 December 2021, containing details of the restructuring to the Stock Exchange for the purpose of seeking a resumption of trading of the Company's shares on the Main Board.

For details, please refer to the announcements of the Company dated 8 November 2021 and 30 November 2021.

## EXPLANATION FOR THE DISCREPANCY WITH THE PRELIMINARY RESULTS

| | Notes | Audited | Preliminary Result | Variance |
|---|---|---|---|---|
| | | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | 1 | 21,468 | 41,163 | (19,695) |
| Gross profit/(loss) | 2 | 2,436 | (4,228) | 6,664 |
| Loss for the year | 3 | (75,921) | (21,374) | (54,547) |
| Total assets | 4 | 8,426 | 69,316 | (60,890) |
| Total liabilities | 5 | (201,287) | (199,391) | (1,896) |
| Net liabilities | 6 | (192,861) | (130,075) | (62,786) |

*Notes:*

1. The decrease in revenue is mainly due to exclusion of revenue from the trading of motor vehicles of approximately HK$20 million which was originally recorded based on earlier representations made by Mr. Chan Kam Hon Ivan ("**Mr. Chan**"), a former executive director of the Company. However, since Mr. Chan subsequently did not confirm the said trading revenue during the finalization of audit for 2020, this revenue was excluded.

2. The increase of gross profit is mainly due to the total effects of exclusion of the relevant cost of sale of motor vehicles of approximately HK$19 million as noted 1 above, and the deduction of the depreciation charge of approximately HK$8 million for property, plant and equipment after impairment (see 3 below) included in cost of sales.

3. The increase of loss for the year is mainly due to the impairment of property, plant and equipment of approximately HK$54 million recognised during the year.

4. The reasons for the decrease in total assets are mainly due to the effect of the impairment loss as stated in 3 above, and the termination of right-of-use assets of approximately HK$5 million.

5. The increase of total liabilities is mainly due to net effect of the decrease of lease liabilities of approximately HK$6 million and increase of accrued interest for the bank and other loans of approximately HK$10 million.

6. The increase of net liabilities is mainly due to the total effect of the items as stated in 4 and 5 above.

## CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B of the Listing Rules, the changes of information of the Directors since the date of the Company's 2020 Interim Report are set out below:

With effect from 24 June 2021, Mr. Sze Chun Wai resigned as an independent non-executive Director and ceased to be the chairman of the nomination committee of the Company and a member of each of the audit committee, the remuneration committee and the risk management committee of the Company due to his intention to pursue other business opportunities. Further details were disclosed in the Company's announcement dated 25 June 2021.

With effect from 26 July 2021, Ms. Lin Weiqi Wendy has been appointed as an independent non-executive Director, chairlady of the nomination committee and a member of each of the audit committee, the remuneration committee and the risk management committee of the Company. Further details were disclosed in the corresponding announcement dated 26 July 2021.

With effect from 16 August 2021, Mr. Li Ka Chun resigned as an independent non-executive Director and ceased to be the chairman of the remuneration committee of the Company and a member of each of the audit committee, the nomination committee and the risk management committee of the Company due to his intention to pursue other business opportunities. Further details were disclosed in the Company's announcement dated 16 August 2021.

With effect from 31 August 2021, Mr. Fung Wai Hang resigned as an independent non-executive Director and ceased to be the chairman of each of the audit committee and the risk management committee of the Company and a member of each of the remuneration committee and the nomination committee of the Company due to his intention to devote more time to his personal commitments. Further details were disclosed in the Company's announcement dated 31 August 2021.

With effect from 20 September 2021, Mr. Wong Chi Kei has been appointed as an independent non-executive Director, chairman of the remuneration committee and a member of each of the audit committee, the nomination committee and the risk management committee of the Company. Further details were disclosed in the corresponding announcement dated 27 September 2021.

With effect from 1 December 2021, Dr. Chan Kai Yue Jason has been appointed as an independent non-executive Director, chairman of each of the audit committee and risk management committee and a member of each of the remuneration committee and the nomination committee of the Company. Further details were disclosed in the corresponding announcement dated 1 December 2021.

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

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

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining and promoting stringent corporate governance. The principle of the Company's corporate governance is to promote effective internal control measures and to enhance the transparency and accountability of the Board. During the year ended 31 December 2020, the Company has complied with the applicable code provisions of 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 of Hong Kong Limited (the "**Listing Rules**").

Full details of the Company's corporate governance practices will be set out in the Company's 2020 Annual Report.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its code of conduct regarding securities transactions by Directors. The Company has made specific enquiries and all the Directors confirmed that they have complied with the required standards set out in the Model Code throughout the Year Under Review.

## AUDIT COMMITTEE

We established the Audit Committee on 16 August 2018 with written terms of reference in compliance with the Listing Rules. The Audit Committee consists of three Independent Non-executive Directors, namely Mr. Wong Chi Kei, Ms. Lin Weiqi Wendy and Dr. Chan Kai Yue Jason. The Audit Committee is chaired by Dr. Chan Kai Yue Jason.

The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2020. The Audit Committee has also discussed with senior management members, matters with respect to the accounting policies and practices adopted by the Company and internal control and risk management.

## SCOPE OF WORK OF KTC PARTNERS CPA LIMITED

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2020 have been agreed by the Group's auditor, KTC Partners CPA Limited ("**KTC**"), to the amount set out in the Group's consolidated financial statements for the year ended 31 December 2020. The work performed by KTC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the HKICPA and consequently no assurance has been expressed by KTC on the preliminary announcement.

## EXTRACT OF THE AUDITOR'S REPORT

### Basis for Disclaimer of Opinion

### *1. Deconsolidation of Certain Subsidiaries of the Group*

As disclosed in note 3 to the consolidated financial statements, the directors of the Company (the "**Directors**") were unable to obtain access to complete set of accounting books and records together with the supporting documents of the Group's subsidiaries in the People's Republic of China, namely 深圳新昌塑膠用品有限公司 (Shenzhen Xincang Plastic Article Co., Ltd.) and 佛山市海昌新材料科技有限公司 (Foshan Haichang New Materials Technology Co., Ltd.) (together referred to as the "**Deconsolidated Subsidiaries**"), due to the non-cooperation of Mr. Tong Ying Chiu ("**Mr. Tong**"), the former ultimate controlling party and former executive director of the Company and the legal representative of the Deconsolidated Subsidiaries. The factories of the Deconsolidated subsidiaries were sealed off by the Shenzhen Longgang District People's Court, on 17 January 2020.

Due to the non-cooperation of the management personnel of the Deconsolidated Subsidiaries, and the sealing off of the factories of the Deconsolidated subsidiaries, the Directors were unable to have access to the complete accounting books and records of the Deconsolidated Subsidiaries. As a result, the Directors were of the opinion that the Company was unable to govern the financial and operating decisions of the Deconsolidated Subsidiaries and the control over the Deconsolidated subsidiaries was lost upon Mr. Tong's resignation as the executive director of the Company on 7 December 2019 (the "**Deconsolidation Date**"). In this connection, the financial results, assets and liabilities of the Deconsolidated Subsidiaries have been deconsolidated from the consolidated financial statements of the Group since the Deconsolidation Date.

The deconsolidation of the Deconsolidated Subsidiaries had resulted in the recognition of a net loss of approximately HK$54,330,000 in consolidated profit or loss for the year ended 31 December 2019. As disclosed in note 3 to the consolidated financial statements, the Company included the transactions of the Deconsolidated Subsidiaries for the period from 1 January 2019 to 6 December 2019 in the consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2019 based on the unaudited management accounts of the Deconsolidated Subsidiaries.

During the current financial year ended 31 December 2020, Chase On Development Limited ("**Chase On**"), a wholly owned Hong Kong subsidiary of the Company which was the intermediate holding company of the Deconsolidated Subsidiaries, was wound up under a winding-up order dated 31 March 2020 (see note 3). The deconsolidation of Chase On upon its winding up had resulted in a net loss on deconsolidation of approximately HK$1,829,000 recognised in consolidated profit or loss for the year ended 31 December 2020. The net loss from deconsolidation of Chase On is determined by the Group based on the unaudited management accounts of Chase On. We have not been provided with sufficient information and explanations on the deconsolidation of the Deconsolidated Subsidiaries and there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Group had lost control over the Deconsolidated Subsidiaries on the Deconsolidation Date, or on 31 March 2020 when Chase On was wound up, and hence as to whether it was appropriate to deconsolidate the assets and liabilities of the Deconsolidated Subsidiaries and cease consolidating their results of operations in the consolidated financial statements of the Group with effect from the Deconsolidation Date. We were also unable to perform audit procedures on the management accounts of Chase On and hence unable to satisfy ourselves as to whether the loss on deconsolidation of Chase On is materially misstated.

Further, due to the lack of assess to accounting books and records of the Deconsolidated Subsidiaries, we were unable to obtain sufficient appropriate audit evidence and explanation to support the recording of the transactions and balances included in the consolidated financial statements of the Group before and up to the date of deconsolidation of the Deconsolidated Subsidiaries. Hence we were unable to satisfy ourselves about the financial performance and cash flows of the Deconsolidated Subsidiaries included in the consolidated statements of profit or loss and other comprehensive income and of cash flows of the Group for the year ended 31 December 2019, the loss on deconsolidation of subsidiaries recognised in consolidated profit or loss for the year ended 31 December 2019 and the resulting movements recorded in the consolidated statement of changes in equity for the year ended 31 December 2019. We were therefore unable to carry out satisfactory audit procedures to obtain reasonable assurance regarding the completeness, accuracy, existence or occurrence, valuation, ownership, classification and disclosures of the transactions undertaken by and account balances of the Deconsolidated Subsidiaries in respect of the financial year ended 31 December 2019 included as comparative figures in the consolidated financial statements. There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the above transactions and balances were free from material misstatements.

Consequently, we were also unable to carry out audit procedures that we consider necessary to satisfy ourselves as to the completeness and existence or occurrence of any other significant transactions, inter-group transactions, contingent liabilities, commitments and related party transactions relating to the Deconsolidated Subsidiaries.

Any adjustments that might have been found to be necessary in respect of the above would have a consequential significant effect on the Group's net liabilities as at 31 December 2019 and the financial performance and cash flows of the Group for the years ended 31 December 2020 and 2019 and the elements making up the consolidated financial statements and their related disclosures and may result in additional information being disclosed in the consolidated financial statements as to the nature of the transactions and any contingent liabilities, commitments, related party transactions and significant non-adjusting subsequent events relating to the Deconsolidated Subsidiaries.

***2. Investment in Joint Venture Company***

On 12 November 2019, Chase On entered into a business cooperation agreement ("**Agreement**") with Bridging Wealth Capital Management Limited ("**JV Partner**"), an independent third party, relating to formation of a joint venture company "Chase On Plastic Houseware Limited" (formerly known as Ocean Regal Enterprises Limited) (the "**JV company**") to explore the market for the trading and wholesaling of variety of household products worldwide.

Pursuant to the Agreement, the Group and the JV Partner own 49% and 51% of the JV company respectively. In consideration for the 49% shareholding in the joint venture company, the Group provided business support including expertise in plastic business and transferred Chase On's certain trademarks, whose carrying amount was zero, to the JV company.

However, subsequent to the formation of the JV company, the former executive directors of the Company, Mr. Tong and his son, Mr. Tong Kam Nam Billy resigned from their directorship in the JV company on 9 December 2019 and 9 January 2020 respectively. Since their resignations, the Company was unable to obtain the financial information of the JV company. Under these circumstances, no financial information including the investment cost of the JV company has been accounted for by the Group in its consolidated financial statements for the year ended 31 December 2019.

In the absence of the financial information of and explanations in relation to the JV company, there were no alternative audit procedure that we could perform to satisfy ourselves as to the nature of the Group's interests in the JV company and whether and how the JV company should be accounted for in the consolidated financial statements of the Group up until 31 March 2020, the date Chase On was wound up. Any adjustments that might have been found to be necessary in respect of the above issues would have a significant effect on the net liabilities of the Group as at 31 December 2019, its net loss for the years ended 31 December 2020 and 2019 and the elements making up the consolidated financial statements, and the related disclosures in the consolidated financial statements.

### 3. *Amounts due from the Deconsolidated Subsidiaries*

During the year ended 31 December 2019, Chase On recorded an impairment loss in respect of amounts due from the Deconsolidated Subsidiaries of approximately HK$147,053,000 due to the circumstances described in paragraph (1) above. We were unable to obtain sufficient appropriate audit evidence regarding the validity, existence and impairment assessment of the amounts due from the Deconsolidated Subsidiaries as at 31 December 2019 because: (i) there was inadequate documentary evidence available for us to verify the validity, existence and nature of the amounts due from the Deconsolidated Subsidiaries; (ii) we were unable to carry out any effective confirmation procedures in relation to the amounts due from the Deconsolidated Subsidiaries for the purpose of our audit; (iii) there was inadequate documentary evidence available for us to satisfy ourselves as to whether the impairment testing in respect of the amounts due from the Deconsolidated Subsidiaries were properly carried out and recorded and accounted for and in compliance with the requirements of applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"); and (iv) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the amounts due from the Deconsolidated Subsidiaries as at 31 December 2019 were free from material misstatement. In addition, the scope limitation explained in (1) above as to the date when the Group lost control over the Deconsolidated Subsidiaries would also affect the appropriate accounting period in which the impairment loss should be recognised.

Any adjustments that might have been found necessary may have a significant consequential effect on the carrying amount of, and impairment loss on, the amounts due from the Deconsolidated Subsidiaries and hence on the net liabilities of the Group as at 31 December 2019 and the loss and cash flows of the Group for the years ended 31 December 2020 and 2019 and the elements making up the consolidated financial statements, and the related disclosures thereof in the consolidated financial statements.

### 4. *Contingent Liabilities and Commitment*

Due to the lack of access to the books and records of the Deconsolidated Subsidiaries and the incomplete records of the Group, we were unable to obtain sufficient appropriate audit evidence and explanations as to whether the contingent liabilities and commitments committed by the Group were properly recorded and accounted for and in compliance with the requirements of applicable Hong Kong Financial Reporting Standards, including HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and HKFRS 9 “Financial Instruments”. There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the contingent liabilities and commitments were free from material misstatements. Any adjustments that might have been found necessary may have a consequential effect on the Group’s net liabilities as at 31 December 2019 and consequently the financial performance and cash flows of the Group for the years ended 31 December 2020 and 2019 and the elements making up the consolidated financial statements, and the related disclosures thereof in the consolidated financial statements.

### 5. *Related Parties Transactions*

Due to the lack of access to the books and records of the Deconsolidated Subsidiaries and the incomplete records of Chase On, we have not been able to obtain sufficient appropriate audit evidence as to whether the related party transactions and balances were properly recorded and accounted for and in compliance with the requirements of applicable Hong Kong Financial Reporting Standards, including Hong Kong Accounting Standard 24 “Related Party Disclosures”. There were no practical alternative procedures that we could perform over the related party transactions and balances which occurred during the years ended 31 December 2020 and 2019. Any adjustments that might have been found necessary may have a consequential effect on the Group’s net liabilities as at 31 December 2019 and consequently the financial performance and cash flows of the Group for the years ended 31 December 2020 and 2019 and the elements making up the consolidated financial statements, and the related disclosures thereof in the consolidated financial statements.

### *6. Financial Guarantee Contract*

As disclosed in notes 3 and 18 to the consolidated financial statements, Chase On has issued financial guarantees to banks in respect of banking facilities granted to companies owned by Mr. Tong of an aggregate amount of approximately HK$4,000,000, which represented the aggregate maximum amounts that the Group could be required to pay if the guarantees were called upon in entirety. At 31 December 2019, the amount of approximately HK$542,000 was recognised as financial guarantee obligations in the consolidated statement of financial position. We have not been provided with documentary evidence and explanations of the fair value measurement of the financial guarantee obligations as at the inception of the financial guarantees and the assessments of expected credit loss allowances as at 31 December 2019, and we have been unable to obtain sufficient appropriate audit evidence in respect of the financial guarantee obligations. There were no other satisfactory audit procedures that we could perform to satisfy ourselves as to whether the aforesaid balance was materially misstated as at 31 December 2019.

Any adjustment found necessary might have a consequential significant effect on the consolidated financial performance and cash flows of the Group for the years ended 31 December 2020 and 2019 and the financial position of the Group as at 31 December 2019 and the elements making up the consolidated financial statements, and the related disclosures thereof in the consolidated financial statements.

### *7. Unrecorded liabilities*

As disclosed in notes 18(ii) and 21(ii), the Company's joint and several provisional liquidators of the Company (the "**JPLs**") circulated a letter with JPLs order from Cayman Court to the known or potential creditors of the Company regarding the details of the JPLs arrangement. The JPLs have received several claims against the Company from multiple unknown creditors and the former directors demanding for the repayment of bonds and loans in an aggregate amount of approximately HK$135.7 million (the "**Claims**"). Since the Company and the JPLs have proposed the Creditors Scheme, all claims received by the JPLs that are substantiated will be considered for restructuring purposes. However, due to the lack of sufficient supporting documents to corroborate the said creditors' claims, the Directors are of the opinion that the Claims are unsubstantiated and remote, thus no provision or other liability is recognised in the consolidated financial statements of the Group for the year ended 31 December 2020. Due to this lack of sufficient supporting documents, we were unable to obtain sufficient appropriate audit evidence and explanation to satisfy ourselves as to the validity of the Claims. There were no alternative audit procedures that we could perform to satisfy ourselves as to the completeness of liabilities recognised in the consolidated financial statements and hence whether they were free from material misstatements. Any adjustments that might have been found necessary may have a consequential effect on the Group's net liabilities as at 31 December 2020 and 2019 and consequently the financial performance and cash flows of the Group for the years then ended and the elements making up the consolidated financial statements, and the related disclosures thereof in the consolidated financial statements.

## MATERIAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

The disclosures in note 1 to the consolidated financial statements indicate the Group incurred a loss of approximately HK$75,921,000 for the year ended 31 December 2020; and had net current liabilities and net liabilities of approximately HK$200,437,000 and HK$192,861,000 respectively in the consolidated statement of financial position of the Group as at 31 December 2020, and have pending litigations and winding up petitions against the Company. The Group also had late payment issues with financial institutions and other creditors. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. In view of the extent of the uncertainties relating to the future working capital sufficiency of the Group, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

## RESUMPTION GUIDANCE

On 31 July 2020, 16 April 2021 and 23 August 2021, the Company has received notices from the Stock Exchange in relation to the conditions for resumption of the Company's trading, including the followings:

i. address the audit modification in the 2019 Annual Results;

ii. demonstrate its compliance with Rule 13.24;

iii. conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to comply with the Listing Rules;

iv. have the winding-up petitions (or winding orders, if made) against the Company withdrawn or dismissed;

v. inform the market of all material information for the Company's shareholders and other investors to appraise its positions;

vi. to publish all outstanding financial results required by the Listing Rules and address any audit modifications (Including the audit modifications in the 2019 Annual Results); and

vii. re-comply with (i) Rule 3.10(1), which is to have at least three independent non-executive directors and (ii) Rule 3.21, which requires the audit committee to comprise a minimum of three members, at least one of whom being an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise.

Under Rule 6.01A(1) of the Listing Rules, the Stock Exchange may cancel the listing of any securities that have been suspended from trading for a continuous period of 18 months. In the case of the Company, the 18-month period expires on 1 January 2022. If the Company fails to remedy the issues causing this trading suspension, fulfil the resumption guidance in its shares by 1 January 2022, the Listing Division will recommend the Listing Committee to proceed with the cancellation of the Company's listing. Under Rules 6.01 and 6.10 of the Listing Rules, the Stock Exchange also has the right to impose a shorter specific remedial period where appropriate.

The Company is taking appropriate steps to resolve the issues causing its trading suspension and to fully comply with the Listing Rules to the Stock Exchange's satisfaction. On 1 December 2021, as a step to re-comply with Rule 3.10(1) and Rule 3.21 in relation to requirement for independent non-executive Director, Dr. Chan Kai Yue Jason has been appointed as (i) an independent non-executive Director of the Company; (ii) a member of the remuneration committee and the nomination committee of the Company; and (iii) a chairperson of the audit committee and the risk management committee of the Company. On 15 December 2021, a resumption proposal has been submitted to the Stock Exchange. The Company will seek to resume trading of its shares as soon as possible.

## EVENTS AFTER THE REPORTING PERIOD

Save for the events disclosed below, there was no other major subsequent event occurred since the financial year ended 31 December 2020 up to 30 September 2021. Please refer to the Company's interim report 2021 for events subsequent to 30 September 2021.

## LITIGATIONS

Please refer to consolidated financial statement note 19.

## WINDING-UP PETITIONS

Please refer to consolidated financial statement note 20.

## ANNUAL GENERAL MEETING

It is proposed that the 2020 annual general meeting of the Company (the "**2020 AGM**") will be held on Friday, 18 February 2022. Notice of the 2020 AGM will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cknassociates.com) and despatched to the shareholders of the Company ("**Shareholders**") in the manner as required by the Listing Rules in due course.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 15 February 2022 to Friday, 18 February 2022 (both days inclusive), during which period no transfer of shares in the Company will be effected. In order to qualify for entitlement to attend and vote at the 2020 AGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited, Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not later than 4:00 p.m. on Monday, 14 February 2022.

## PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.cknassociates.com. The annual report of the Group for the year ended 31 December 2020 will be published on the aforesaid websites and will be dispatched to the Company's shareholders in due course.

## SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company has been suspended since 9:00 a.m. on 2 July 2020, and will remain in suspension until further notice.

**Shareholders and potential investors should accordingly exercise caution when dealing in the securities of the Company.**

By Order of the Board
**Sun Cheong Creative Development Holdings Limited**
*(Provisional Liquidators Appointed)*
*(For Restructuring Purposes)*
**Chan Sai On Bill**
*Executive Director*

Hong Kong, 24 December 2021

*As at the date of this announcement, the executive Directors are Mr. Chan Sai On Bill and Mr. Ng Chun Chung; and the independent non-executive Directors are Mr. Wong Chi Kei, Ms. Lin Weiqi Wendy and Dr. Chan Kai Yue Jason.*