CHINA CREATIVE GLOBAL HOLDINGS LIMITED
中 創 環 球 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)
Stock Code: 1678

Annual Report 2019

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wu Ming Fat Simon *(Chairman)*
Ms. Ching Wan Wah, Kitty
Mr. Zhang Zhisen
Mr. Wu Ming Chit William
Ms. Li Lai Ying
Mr. Shen Jianzhong (Under Suspension)
Mr. Zheng Hebin (Under Suspension)

Independent Non-executive Directors

Mr. Wong Shun Ching
Mr. Chan Yui Hang
Mr. Wong Sik Kei
Mr. Huang Songqing (Under Suspension)

AUDIT COMMITTEE

Mr. Chan Yui Hang *(Chairman)*
Mr. Wong Shun Ching
Mr. Wong Sik Kei
Mr. Huang Songqing (Under Suspension)

REMUNERATION COMMITTEE

Mr. Wong Shun Ching *(Chairman)*
Mr. Wong Sik Kei
Mr. Chan Yui Hang
Mr. Huang Songqing (Under Suspension)
Mr. Shen Jianzhong (Under Suspension)

NOMINATION COMMITTEE

Mr. Chan Yui Hang
Mr. Wong Shun Ching
Mr. Wong Sik Kei
Mr. Huang Songqing (Under Suspension)
Mr. Shen Jianzhong (Under Suspension)

COMPANY SECRETARY

Mr. Lai Wai Hing

AUTHORISED REPRESENTATIVES

Mr. Lai Wai Hing
Ms. Ching Wan Wah, Kitty

AUDITORS

Confucius International CPA Limited
Room 1501-08, 15/F., Tai Yau Building,
181 Johnston Road, Wanchai,
Hong Kong

PRINCIPAL BANKERS

China Merchants Bank, Quanxiu Branch
China Construction Bank, Licheng Branch
Industrial Bank

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

8th Floor.
Linkchart Centre, 2 Tai Yip Street,
Kwun Tong
Kowloon
Hong Kong

HEAD OFFICE IN THE PRC

Allen Electronic Industrial Park
Heshi
Luojiang District
Quanzhou
Fujian Province
China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

www.1678.com.hk

STOCK CODE

1678

CORPORATE PROFILE

China Creative Global Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group" or "China Creative Global") is principally engaged in design, development, manufacture and sales of home decor products and electric fireplaces. The shares of the Company (the "Shares") was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 2013. The Group mainly sells products in the People's Republic of China (the "PRC" or "China") under the "Allen (亚伦)" brand and to overseas customers including the US, Canada, Germany, France and the U.K. on original design manufacturing ("ODM")/original equipment manufacturing ("OEM") basis. Our home decor products include gardening decorations (e.g. fountains, waterfalls and patio furniture such as tables and stools) and indoor crafts (e.g. mini-figurines, vases, photo frames and sculptures). Our electric fireplaces are divided into two categories: (i) framed electric fireplaces and (ii) non-framed electric fireplaces.

The Group's design and technical team consists of more than 39 staff. Currently, the Group owns 64 patents in the PRC. The "Allen (亚伦)" brand has been recognised as the Well-known Trademark of the PRC in respect of home decor products by the State Administration for Industry and Commerce in the PRC in 2011 and as the Famous Trademark of Fujian Province in respect of its electric fireplaces by the Administration for Industry and Commerce of Fujian Province in 2012. It was selected in 2011 by the China Association for Engineering Construction Standardisation as the only electric fireplace manufacturer in the PRC to be involved in the process of developing and compiling the industry regulation standard of electric fireplaces in the PRC in recognition of its national market-leading position.

The Group's production facilities were located in Luojiang and Quangang in Fujian Province, and Bengbu in Anhui Province with a total gross floor area of approximately 145,650 square metres. As of 31 December 2018, the Group's total effective designed annual production capacity was 627,500 units of electric fireplaces and 16,200 tonnes of polyresin home decor products.

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

To Our Shareholders,

On behalf of the board of directors of the Company (the "Board"), I am pleased to present the annual report of the Group for the year ended 31 December 2019 ("year under review").

The financial results for the year under review are very disappointing and upset to all of the Company's stakeholders, which include losses from operations of around RMB322 million and deconsolidation of subsidiaries of around RMB1,329 million. Nevertheless, the Board believe that the publication of 2019 results just indicates the starting of the Company's actions to recover from these losses.

On the other hand, the Board attempt to inject and intake more profitable business to the Group. At the end of 2021, the Board successfully intake Gold Future Industrial Limited to the Group. Our efforts shall not be stopped in 2022 and we expect more and more positive news in these respects should be coming soon.

In addition, while the management adopts very prudence views for accounting purposes, which deconsolidate all the interests of the subsidiaries under the illegal transfers made by the Company's former chairman and executive director, Mr. Chen Fanglin, the management has not given up their efforts to trace and lodge legal actions against the wrongdoers to regain the control in these subsidiaries and/or recover and reduce the losses as a result of these transfers.

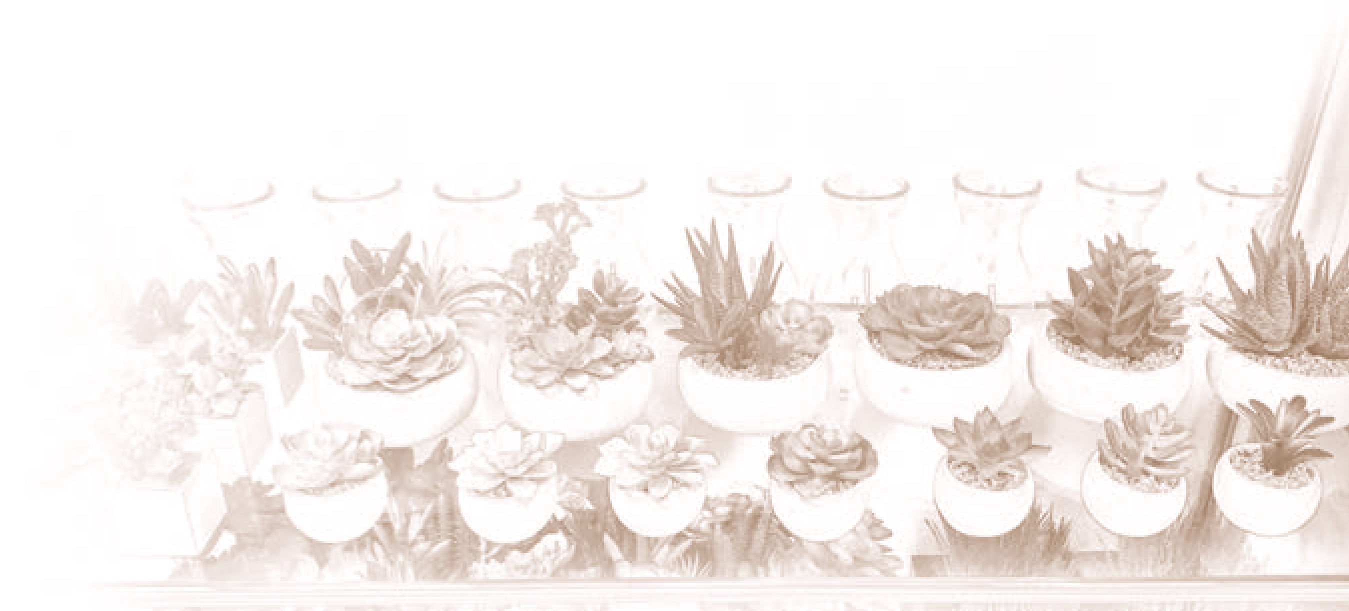
The actions are still in place. News and announcements in respect of the above aspects shall be released as soon as practicable and as when required.

On behalf of the Board, I would like to voice our utmost appreciation to customers, bankers, investors and business partners for their abiding support and trust towards the Group.

Going forward, the Company and the management shall endeavour their best efforts to resume the Company's Shares trading in the Exchange and thereafter will explore all opportunities in the market so as to strive for optimal returns for our stakeholders.

WU, Ming Fat Simon
Chairman and Executive Director

Hong Kong, 19 January 2022



MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2019, the world economy showed signs of recovery yet the rebound is still masked with uncertainties. As for the PRC, it picked up GDP growth rate gradually after 6 years of declining speed. While the PRC is developing and reforming on its path of economic new normal, domestic demand and consumer market pose more and more importance to its future growth.

Information from the National Bureau of Statistics of China indicates that per capita disposable income in the PRC in 2019 was RMB30,733, representing an increase of 8.9% as compared with that of last year. Per capita consumption expenditure also increased 8.6% to RMB21,559, while the Engel coefficient, i.e. the proportion of income spent on food, continued to fall, indicating an increasing living standard in the country.

After rapid growth in previous two decades, the PRC has become the largest home furniture production base and exporter. With the growing wealth of the PRC population, people are more willing to purchase and replace home furnishing products. However, the home furnishing manufacturers in the PRC are much less concentrated than in other industries, posing pressures on many of the market players.

BUSINESS REVIEW

China Creative Global is principally engaged in the business of design, development, manufacture and sales of home decor products and electric fireplaces. The Group sells its products domestically in the PRC under its "Allen"(亚伦) brand and export its products on ODM/OEM basis to countries including the U.S., Germany, Canada, France and the U.K..

The revenue of the Group for the year ended 31 December 2019 decreased by 24.5% to RMB115.2 million from RMB152.5 million for the year ended 31 December 2018. The loss attributable to the equity holders of the Company was RMB1,676.0 million, representing an increase of 1,048.7% as compared to the loss of RMB145.9 million for the year ended 31 December 2018. This was mainly due to (1) increases in selling and distribution expenses, and administrative and other operating expenses; and (2) the net loss arising on deconsolidation of subsidiaries of RMB1,329.1 million.

The Group's products are under two major categories, namely (1) electric fireplaces and (2) home decor products. Revenue distribution by the two categories for the year ended 31 December 2019 were 61.3% and 38.7% respectively, while the proportions were 69.4% and 30.6% respectively last year.

During the year ended 31 December 2019, overseas market contributed RMB81.6 million (2018: RMB85.6 million), or 70.8% (2018: 56.1%) to the Group's total revenue. Revenue from the PRC market decreased from RMB66.9 million in the year ended 31 December 2018 to RMB33.6 million in the year ended 31 December 2019, taking up 29.2% (2018: 43.9%) of the total revenue.

The Group considers innovation as the core element of its development. The design team consists of 39 staff as at 31 December 2019.

DECONSOLIDATION OF SUBSIDIARIES LOST CONTROL

As noted in the Company's announcement dated 7 May 2021, the PRC subsidiaries held by Allen International Holdings Limited ("Allen International"), namely Allen Electronics Co., Ltd. Fujian (福建亞倫電子電器科技有限公司), Allen China Co., Ltd. (亞倫(中國)有限公司) and Quanzhou Allen Light Industry Co., Ltd. (泉州亞倫輕工有限公司) (the "Deconsolidated Subsidiaries") were transferred to 泉州大東敏盛健康發展有限公司 on 20 November 2020, without any prior approval or notice to the Company's Board of Directors and, being the transfer of the Company's substantial assets, without approval by the Company's Shareholders. The Company has set up an Investigation Committee to study and take actions against these transfers and this Committee has then appointed Manivest Asia Limited ("Manivest") to conduct investigations in these respect. Upon the First Report produced by Manivest, it was noted that the Company has already lost of the controlling in the subsidiaries as at 31 December 2019 and hence, the Group no longer consolidated the financial position and performance of the Deconsolidated Subsidiaries starting from 31 December 2019. The deconsolidation had resulted in a net loss on deconsolidation of subsidiaries of approximately RMB1,329.1 million as the directors were of the view that the recoverability of the amounts due from Deconsolidated Subsidiaries was remote and do not expect to be able to recover the outstanding balances in the foreseeable future.

FINANCIAL ANALYSIS

Revenue

Our revenue decreased by RMB37.3 million from RMB152.5 million to RMB115.2 million, represented a decrease of 24.5% compared with last year. The decrease was mainly driven by the lower market demand.

Revenue analysis by product type is as follows:

	2019		2018	
	RMB'000	**% of revenue**	RMB'000	% of revenue
Electric fireplaces				
Frame electric fireplaces	**7,436**	**6.5**	13,077	8.6
Non-framed electric fireplaces	**10,948**	**9.5**	15,086	9.9
Heater and others	**52,242**	**45.3**	77,619	50.9
	70,626	**61.3**	105,782	69.4
Home decor products				
Polyresin series	**44,597**	**38.7**	46,719	30.6
	115,223	**100**	152,501	100

The decrease in the sales of electric fireplaces and home decor products was primarily due to the decrease in sales volume due to the lower market demand in the PRC.

Gross Profit And Gross Profit Margin

Our gross profit increased from RMB17.7 million for the year ended 31 December 2018 to RMB31.8 million for the year ended 31 December 2019, represented an increase of 79.7% compared with last year mainly due to the increase in gross profit margin.

The gross profit margin increased from 11.6% for the year ended 31 December 2018 to 27.6% for the year ended 31 December 2019. The increase was primarily due to the increase in average selling prices.

Other Income

Other income decreased by RMB2.0 million or approximately 16.4%, from RMB12.2 million for the year ended 31 December 2018 to RMB10.2 million for the year ended 31 December 2019 primarily due to the decreases in interest income and rental income.

Other Gains Or (Losses) — Net

The Group's other gains or losses mainly consists of loss on disposal/write-off of property, plant and equipment of RMB1.3 million and set off by the net foreign exchange gain of RMB1.5 million for the year ended 31 December 2019. The Group's other losses mainly consists of the net foreign exchange loss of RMB2.8 million and loss on disposal/write-off of property, plant and equipment of RMB19.6 million for the year ended 31 December 2018.

Selling And Distribution Expenses

Our selling and distribution expenses increased by RMB205.3 million, or approximately 11.9 times, from RMB17.2 million for the year ended 31 December 2018 to RMB222.5 million for the year ended 31 December 2019 primarily due to the increase in advertising and promotion expenses to enhance the brand recognition of "Allen (亚伦)" and to increase our market share in the PRC.

Administrative And Other Operating Expenses

Our administrative and other operating expenses increased by RMB67.2 million, or approximately 99.7%, from RMB67.4 million for the year ended 31 December 2018 to RMB134.6 million for the year ended 31 December 2019. The increase was mainly due to (1) the bonus payment of RMB18.0 million to the senior management of the Group for their contribution to our Group for the Year 2016 to the first half of the Year 2019; (2) the technical services provided by an university of RMB7.8 million incurred; (3) compensation paid of RMB19.7 million for the removal of premises on our factories disposed of; and (4) charitable donations of RMB23.5 million to the local government.

Impairment Losses on Property, Plant And Equipment

As at 31 December 2018, the Group had property, plant and equipment of approximately RMB401.5 million and RMB211.4 million located in Anhui and Quanzhou, the PRC respectively. For the year ended 31 December 2018, the Group's operation in Anhui and Quanzhou have been making losses and management has performed an impairment assessment, taking into account the current status of the assets and market price/transactions for similar assets. Based on the result of the assessment, carrying amount of the property, plant and equipment in Anhui and Quanzhou is lower than its recoverable amount, and therefore, an impairment provision of RMB10.8 million has been made during the year.

In 2019, these assets are under deconsolidation and fully written off accordingly.

Finance Costs

The Group's finance costs increased by RMB3.7 million, or approximately 18.3%, from RMB20.2 million for the year ended 31 December 2018 to RMB23.9 million for the year ended 31 December 2019. The increase was mainly due to the increase in interest expenses and set off by the decrease in the foreign exchange loss arising from borrowings denominated in HKD.

Income Tax Expenses

Our income tax expenses remained the same at RMB0.8 million for the years ended 31 December 2018 and 2019.

Loss for The Year Attributable To Owners Of the Company

Loss attributable to owners of the Company was approximately RMB1,676.0 million, an increase of 1,048.7% from approximately RMB145.9 million last year. The increase in loss was primarily due to (i) the net loss arising on deconsolidation of subsidiaries of approximately RMB1,329.1 million (2018: Nil) and (ii) the increase of the Company's administrative and other operating expenses of RMB67.2 million and selling and distribution expenses of RMB205.3 million.

CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

	2019	2018
Current ratio[1]	**0.0**	7.1
Gearing ratio (%)[2]	**N/A**	8.6%

(1) Current ratio is calculated based on our total current assets divided by our total current liabilities.

(2) Gearing ratio calculated based on our total debts (being our bank borrowings) divided by our total equity.

FOREIGN EXCHANGE RISK

Our functional currency is RMB. Our Group's foreign exchange risk mainly relate to fluctuations in exchange rates of RMB against our bank balances in USD and HKD and trade receivables denominated in USD, and these may affect our operation results. Our Group does not have a hedging policy. However, our management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

USE OF PROCEEDS FROM GLOBAL OFFERING

The Shares of the Company were listed on the Main Board of the Stock Exchange on 20 December 2013. Net proceeds from the global offering were approximately HK$597.2 million (after deducting the underwriting commission and relevant expenses). As at 31 December 2019, the unused proceeds were deposited in licensed banks in Hong Kong and the PRC.

	Percentage to total amount	Net Proceeds HK$' million	Utilised Amount as at 31 December 2019 HK$' million	Unutilised Amount as at 31 December 2019 HK$' million
Establishing new production facilities	53.7%	**320.7**	**320.7**	**—**
Establishing seven creative home furnishing concept shops	16.0%	**95.6**	**36.8**	**58.8**
Expanding overseas sales network under our own brand overseas	7.3%	**43.6**	**13.2**	**30.4**
Own-brand promotion	7.0%	**41.8**	**41.8**	**—**
Increasing and enhancing our research and development activities	6.0%	**35.8**	**35.8**	**—**
General working capital	10.0%	**59.7**	**59.7**	**—**
		597.2	**508.0**	**89.2**

EMPLOYEES AND EMOLUMENTS

As at 31 December 2019, we employed a total of 411 full time employees in the PRC and Hong Kong which included management staff, product designers, technicians, salespersons and workers. For the year ended 31 December 2019, the Group's total expenses on the remuneration of employees was RMB59.8 million, representing 51.9% of the revenue of the Group.

Our emolument policies are formulated based on the performance of individual employee which will be reviewed periodically. Apart from the provident fund scheme (operation in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or social insurance fund (including retirement pension insurance, medical insurance, unemployment insurance, injury insurance and maternity insurance for the PRC employees), discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance. Since the adoption of the share option scheme on 2 December 2013 and up to 31 December 2019, no options have been granted.

CAPITAL EXPENDITURE

For the year ended 31 December 2019, the capital expenditure of the Group amounted to RMB0.2 million. It was mainly comprised of property, plant and equipment.

MATERIAL ACQUISITION AND DISPOSALS AND SIGNIFICANT INVESTMENTS

The Group did not have any material investments or capital assets, or material acquisitions or disposals of subsidiaries or significant investments for the year ended 31 December 2019.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities.

PURCHASES, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of the shares of the Company during the year ended 31 December 2019. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's securities during the year ended 31 December 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company was committed to maintaining high level of corporate governance and has steered its development and protected the interests of its shareholders in an enlightened and open manner. The Board comprises seven executive Directors and four independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (the "Code Provisions") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Board has instructed to perform a review to the compliance of the Corporate Governance Code for the preceding year and the reporting year 2019. The Board has adopted the results and the recommendations from this review and improved the compliance on the Code Provisions.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct for dealing in securities of the Company by the Directors. Specific enquiries have been made with the Directors, and all Directors confirmed in writing that they have complied with the required standards set out in the Model Code regarding their securities transactions for the year ended 31 December 2019.

ADDRESSING ALL CONCERNS RAISED BY THE COMPANY'S AUDITORS

In the audited report of the Company for the year ended 31 December 2019, the Company's auditors issued disclaimer of opinion in the following matters, please refer to the auditor's report for full explanation:

1. Deconsolidation of subsidiaries and material uncertainties relating to the forensic investigation from special investigation committee of the Company

As noted above, the Company's subsidiaries held under Allen International were illegally transferred. Deconsolidation of the subsidiaries has to be adopted for accounting purposes. In addition, due to the absence of complete accounting books and records of the Deconsolidated Subsidiaries, the Company's auditors are unable to obtain sufficient appropriate audit evidence to satisfy themselves about the occurrence, completeness, accuracy, cut-off, classification and presentation and related disclosure of the results and related party transactions of the Deconsolidated Subsidiaries for period from 1 January 2019 to 31 December 2019. In addition, due to circumstances described above, the Company's auditor is 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. There were no alternative audit procedures that the Company's auditors could perform to satisfy themselves as to whether the contingent liabilities and commitments were free from material misstatements.

The Company has initiated legal actions against the holding company of the PRC entity acquiring the subsidiaries. In addition, the Company has instructed a PRC lawyer to take investigations in respect of the Deconsolidated Subsidiaries and to take actions to regain controls and ownership in the Deconsolidated Subsidiaries. In addition, in order to address the concerns raised by the auditors of the Company, the directors of the Company will continue to consult legal opinion on possible further steps. Further announcement(s) will be made by the Company as and when appropriate to keep the shareholders informed of the material developments in the above matters.

In order to identify the internal control weaknesses which may directly or indirectly have led to the illegal transfer of the Deconsolidated Subsidiaries mentioned above, the Company's management has instructed the Internal Control Manager to review the Company's internal control policies and procedures for the preceding years and the year concerned and report to the Company's audit committee. These weaknesses are then confirmed and recognised by the management and thereafter rectified or modified by new internal control policies and procedures.

2. Multiple uncertainties relating to going concern

In view of the outstanding bond borrowings amounting to RMB139.4 million as at 31 December 2019 and other payables not settled;(ii) the processing of the Company's restructuring; and (iii) the Group's net loss attributable to the owners of the Company of approximately RMB1,676.0 million during the year ended 31 December 2019 and net liabilities of approximately RMB152.8 million as at 31 December 2019, the Company's auditors considered these indicate the existence of material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

To maintain the ongoing of the Company, the management has introduced Gold Future Industrial Limited to the Group. In addition, there may have more potential acquisitions or joint ventures to be setup soon, as the negotiations are in the final stage now.

Based on the above and subject to the successful restructuring and resumption of the Company, the management strongly believes that the going concern matters will be solved, as these businesses activities shall produce significant incomes and profits to maintain the Company's survival and ongoing operations.

3. Scope limitation of trade and other payables and current tax liabilities

The management considers that the trade and other payables of RMB2,000,000 and current tax liabilities of RMB3,671,000 are brought forward from preceding years. The trade and other payables should be in respect of the subsidiary company which has ceased operations and current tax liabilities may represent the under-provisions of tax in respect of the payments of interest expenses calculated on the inter-company balances due from 亞倫福建電子 to Allen International. Due to loss of control over the Deconsolidated Subsidiaries, the current directors cannot obtain sufficient information in respect of the above balances.

The management shall consider to obtain further steps/information to clear and dispose of this qualification in future.

4. Opening balances and corresponding figures

Due to the loss of control in the Company's subsidiaries, the opening balances are disclaimed for the year ended 31 December 2019.

FINAL DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

CORPORATE GOVERNANCE REPORT

We are committed to achieve and maintain high standards of corporate governance, in compliance with the principles set out in the Corporate Governance Code (the "Corporate Governance Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange from time to time.

The Company has adopted all the requirements of the code provisions of the Corporate Governance Code. During the year, the Company has complied with all the code provisions of the Corporate Governance Code.

ROLE OF THE BOARD

The Board oversees the management of the business and affairs of the Company. The Directors are accountable for making decisions objectively in the best interest of the shareholders as a whole.

The Board is responsible for making decisions on all major aspects of the Company's affairs, including the approval and monitoring of key policy matters, overall strategies, business plans and annual budgets, internal control and risk management systems, material transactions, major capital expenditure, appointment of Directors and other significant financial and operational matters.

The Board may delegate aspects of its management and administration functions to the management. In particular, the day-to-day management of the Company is delegated to the executive Directors of the Group and our management team.

BOARD COMPOSITION

The Company has throughout the year met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, and accounting or related financial management expertise. At all times during the year, the independent non-executive Directors represent at least one-third of the Board.

Throughout the year and up to the date of this report, the composition of the Board was as follows:

Executive Directors:

Mr. Wu Ming Fat Simon *(Chairman) (appointed on 15 April 2021)*
Ms. Ching Wan Wah, Kitty *(appointed on 16 March 2021)*
Mr. Zhang Zhisen *(appointed on 22 December 2020)*
Mr. Wu Ming Chit William *(appointed on 15 April 2021)*
Ms. Li Lai Ying *(appointed on 10 May 2021)*
Mr. Shen Jianzhong *(under suspension)*
Mr. Zheng Hebin *(under suspension)*
Mr. Chen Fanglin *(removed on 18 June 2021)*
Mr. Lo Kei Wai Paul *(resigned on 14 October 2019)*
Mr. Chen Jiang *(resigned on 21 December 2020)*
Mr. Xu Qiang *(resigned on 21 December 2020)*
Ms. Hui Sai Ha *(appointed on 17 December 2019 and resigned on 31 August 2020)*

BOARD COMPOSITION (Continued)

Independent Non-executive Directors:

Mr. Wong Shun Ching *(appointed on 16 March 2021)*
Mr. Chan Yui Hang *(appointed on 10 May 2021)*
Mr. Wong Sik Kei *(appointed on 28 October 2021)*
Mr. Huang Songqing *(appointed on 5 September 2019 and under suspension)*
Ms. Sun Kam Ching *(resigned on 5 September 2019)*
Mr. Ng Wing Keung *(resigned on 2 July 2020)*
Mr. Dai Jianping *(resigned on 8 January 2021)*

Other than Mr. Wu Ming Chit William is the elder brother of Mr. Wu Ming Fat Simon, the Board members have no financial, business, family or other material/relevant relationships with each other.

A description of the Directors is set out in the section headed "Board of Directors and Senior Management" in this annual report.

The Board is expected to meet regularly and at least four times a year. The Directors have full access to information on the Group and independent professional advice at all times whenever deemed necessary by the Directors.

With respect to regular meetings of the Board, the Directors will be given written notice of the meeting at least 14 days in advance and an agenda with supporting Board papers no less than three days prior to the meeting. For other meetings, the Directors are given as much notice as is reasonable and practicable in the circumstances. Minutes of board meetings and meetings of board committees are kept by the company secretary of the Company and open for inspection at any reasonable time or reasonable notice by any Director.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's annual and interim results. During the year, two Board meetings and one general meeting were held and attendance of the then Directors at the Board meetings and the general meeting is set out as follows:

	Number of Board meetings attended/held	Number of General meetings attended/held
Executive Directors:		
Mr. Chen Fanglin *(removed on 18 June 2021)*	2/2	1/1
Mr. Shen Jianzhong *(under suspension)*	2/2	1/1
Mr. Chen Jiang *(resigned on 21 December 2020)*	2/2	1/1
Mr. Xu Qiang *(resigned on 21 December 2020)*	2/2	1/1
Mr. Zheng Hebin *(under suspension)*	2/2	1/1
Mr. Lo Kei Wai Paul *(resigned on 14 October 2019)*	2/2	1/1
Ms. Hui Sai Ha *(appointed on 17 December 2019 and resigned on 31 August 2020)*	0/2	0/1
Independent Non-executive Directors:		
Mr. Dai Jianping *(resigned on 8 January 2021)*	2/2	1/1
Mr. Ng Wing Keung *(resigned on 2 July 2020)*	2/2	1/1
Ms. Sun Kam Ching *(resigned on 5 September 2019)*	2/2	1/1
Mr. Huang Songqing *(appointed on 5 September 2019 and under suspension)*	0/2	0/1

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In 2019, the chairman of the Company, Mr. Chen Fanglin, led the Board in the determination of the strategy of the Group and in the achievement of its objectives. He was responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. Nevertheless, he has also involved in the day-to-day business of the Group.

In 2019, the Company at present does not have a Chief Executive Officer. Nevertheless, in 2021, Ms. Ching Wan Wah Kitty is appointed as the Chief Executive Officer of daily operations of the Group where Mr. Wu Ming Fat Simon is the Chairman of the Company. As such, the Company is now complying with code A2 in the Corporate Governance Code.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Each independent non-executive Director gives the Company an annual confirmation of his independence. The Company considers such Directors to be independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Each Director, upon reasonable request, is given access to independent professional advice in circumstances he may deem appropriate and necessary for the discharge of his duties to the Company, at the expense of the Company.

APPOINTMENTS, RE-ELECTION AND ROTATION OF DIRECTORS

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

According to the Articles and in the opinion of the Board, the Directors, namely Mr. Shen Jianzhong, Mr. Zheng Hebin and Mr. Huang Songqing will retire at the forthcoming annual general meeting. All of the above retiring Directors, being eligible, will offer themselves for re-election at the same meeting.

Where vacancies arise at the Board, candidates will be proposed and put forward to the Board by the Nomination Committee (as defined below) as set out below under the section headed "Nomination Committee".

TRAINING, INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

Each newly appointed Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

According to the code provision A.6.5 of the Corporate Governance Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding suitable training, as well as placing an appropriate emphasis on the roles, functions and duties of the Directors.

The Directors confirm that they have complied with the relevant code provision. The Company had received from each of the Directors the record of training the Directors received.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct for dealing in securities of the Company by the Directors.

Specific enquiries have been made with all Directors, and all Directors confirmed in writing that they have complied with the required standards set out in the Model Code regarding their securities transactions for the year.

BOARD COMMITTEES

The Company has established a remuneration committee (the "Remuneration Committee"), an audit committee (the "Audit Committee") and a nomination committee (the "Nomination Committee"), for overseeing particular aspects of the Company's affairs.

Remuneration Committee

During the year, the Remuneration Committee comprised all the then independent non-executive Directors, namely, Mr. Dai Jianping, Mr. Ng Wing Keung, Ms. Sun Kam Ching (resigned on 5 September 2019) and Mr. Huang Songqing (appointed on 5 September 2019 and under suspension), and an executive Director, Mr. Shen Jianzhong. Mr. Huang Songqing was the then chairman of the Remuneration Committee.

BOARD COMMITTEES (Continued)

Remuneration Committee (Continued)

The major duties of the Remuneration Committee are as follows:

(a) to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) to determine, with delegated responsibility, the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(c) to make recommendations to the Board of the remuneration of non-executive Directors;

(d) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(e) to review and approve management's remuneration proposals by reference to the Board's corporate goals and objectives;

(f) to review and approve compensation payable to the executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(g) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

(h) to ensure that no Director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee's specific terms of reference are available on request to any shareholder of the Company and are posted on the Stock Exchange's website and the Company's website, 1678.com.hk.

During the year, the Remuneration Committee convened one meeting:

	Number of meetings attended/held	**Attendance rate (%)**
Mr. Huang Songqing *(Chairman) (appointed on 5 September 2019 and under suspension)*	0/1	0%
Ms. Sun Kam Ching *(resigned on 5 September 2019)*	1/1	100%
Mr. Dai Jianping	1/1	100%
Mr. Ng Wing Keung	1/1	100%
Mr. Shen Jianzhong	1/1	100%

During the year, the Remuneration Committee has reviewed the remuneration policy and structure of the executive Directors and senior management of the Company, and offered advice on the same to the Board. The Remuneration Committee also resolved to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management.

BOARD COMMITTEES (Continued)

Audit Committee

During the year, the Audit Committee comprised all the then independent non-executive Directors, namely, Mr. Dai Jianping, Mr. Ng Wing Keung, Ms. Sun Kam Ching (resigned on 5 September 2019) and Mr. Huang Songqing (appointed on 5 September 2019 and under suspension). Mr. Ng Wing Keung was the then chairman of the Audit Committee.

Under its terms of reference, the Audit Committee shall assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems and internal and external audit functions. The Audit Committee is further authorised by the Board to investigate any activity within its terms of reference, and is tasked with recommending to the Board appropriate actions emanating from such investigations. The Audit Committee has unrestricted access to personnel records, internal and external auditors, risk assessment and assurance and senior management, as may be appropriate in the discharge of its functions.

During the year, the Audit Committee discharged its responsibilities by:

(1) making recommendations to the Board on the reappointment of the external auditor and approval of the remuneration and terms of engagement of the external auditor;

(2) monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, and discussing with the external auditor the nature and scope of the audit and reporting obligations;

(3) implementing the Company's policy on the engagement of an external auditor to supply non-audit services;

(4) reviewing, and monitoring the integrity of, the financial statements of the Company to ensure that the information presents a true and balanced assessment of the Company's financial position;

(5) reviewing the Company's financial controls, and unless expressly addressed by a separate Board risk committee, or by the Board itself, reviewing internal control and risk management systems to ensure that management has discharged its duty to have effective internal control and risk management systems;

(6) considering major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(7) where an internal audit function exists, reviewing the internal audit programme, ensuring co-ordination between the internal and external auditors, and ensuring that the internal audit function is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring its effectiveness;

(8) reviewing the Company's financial and accounting policies and practices;

(9) reviewing the external auditor's management letter, material queries raised by the external auditor to the management, if any, in respect of the accounting records, financial accounts or systems of control and the management's response to such queries; and

(10) reporting to the Board on the matters set out in the Corporate Governance Code on the Audit Committee.

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

The Audit Committee is authorised by the Board to obtain external legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary in the performance of its functions. The Audit Committee is provided with sufficient resources by the Company to discharge its duties. The Audit Committee's specific terms of reference are available on request to any shareholder of the Company and are posted on the Stock Exchange's website and the Company's website, 1678.com.hk.

During the year, the Audit Committee convened two meetings:

	Number of meetings attended/held	Attendance rate (%)
Mr. Ng Wing Keung *(Chairman)*	2/2	100%
Mr. Dai Jianping	2/2	100%
Ms. Sun Kam Ching *(resigned on 5 September 2019)*	2/2	100%
Mr. Huang Songqing *(appointed on 5 September 2019 and under suspension)*	0/2	0%

During the year and up to the date of this report, the Audit Committee together with management has reviewed the Corporate Governance Code, the accounting principles and practices adopted by the Group and discussed the Group's internal control and financial reporting matters, including a review of the annual results for the year ended 31 December 2019 and the interim results, with recommendation to the Board for approval. The Audit Committee has also recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, Confucius International CPA Limited be re-appointed as the external auditors of the Company.

Nomination Committee

During the year, the Nomination Committee comprised all the then independent non-executive Directors, namely, Mr. Dai Jianping, Mr. Ng Wing Keung, Ms. Sun Kam Ching (resigned on 5 September 2019) and Mr. Huang Songqing (appointed on 5 September 2019 and under suspension), and an executive Director, Mr. Shen Jianzhong. Mr. Dai Jianping was the then chairman of the Nomination Committee.

The primary duties of the Nomination Committee are (among other things) to make recommendations to the Board on appointment of Directors and succession planning for Directors.

Where vacancy on the Board exists, the Nomination Committee will carry out a selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations, and select or make recommendations to the Board on the selection of candidates for directorship.

The Nomination Committee's specific terms of reference are available on request to any shareholder of the Company and are posted on the Stock Exchange's website and the Company's website, 1678.com.hk.

BOARD COMMITTEES (Continued)

Nomination Committee (Continued)

During the year, the Nomination Committee convened one meeting:

	Number of meetings attended/held	Attendance rate (%)
Mr. Dai Jianping *(Chairman)*	1/1	100%
Mr. Ng Wing Keung	1/1	100%
Ms. Sun Kam Ching *(resigned on 5 September 2019)*	1/1	100%
Mr. Shen Jianzhong	1/1	100%
Mr. Huang Songqing *(appointed on 5 September 2019 and under suspension)*	0/1	0%

During the year, the Nomination Committee has reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board, conducted performance evaluations to assess whether the independent non-executive Directors have spent enough time in fulfilling their duties, assessed the independence of independent non-executive Directors, and had been keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace. The Nomination Committee has also adopted the following diversity policy on the Board:

We embrace and encourage our employees' differences in age, color, disability, ethnicity, family or marital status, gender identity or expression, language, national origin, physical and mental ability, political affiliation, race, religion, sexual orientation, socio-economic status, veteran status, and other characteristics that make our Directors unique.

CORPORATE GOVERNANCE

The Board has carried out its duties and responsibilities as set out in code provision D.3 in the Corporate Governance Code ("Code Provisions"), including the development of policies and practices on corporate governance, monitoring the training and continuous professional development of Directors and senior management, as well as reviewing the compliance with the Corporate Governance Code, disclosure in this report and legal and regulatory requirements of the Group.

FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL AUDIT

Financial reporting

The Directors acknowledge their responsibility for the preparation of the financial statements of the Company to ensure that these financial statements give a true and fair presentation in accordance with the Hong Kong Financial Reporting Standards.

The statement by the auditor about their reporting responsibilities is set out in the independent auditor's report on pages 61 to 67.

FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL AUDIT (Continued)

Risk management and Internal Control

The Board is responsible for maintaining a sound and effective internal control system in order to safeguard the interests of the Shareholders and the assets of the Group against unauthorised use or disposition, ensuring maintenance of proper books and records for the provision of reliable financial information, and ensuring compliance with the relevant rules and regulations.

The Audit Committee reviewed the overall effectiveness of the internal control system and reported its findings and made recommendations to the Board. The Directors have conducted a review of the effectiveness of the Group's internal control system for the Financial Year. The Board would continue to assess the effectiveness of internal controls by considering the reviews performed by the Audit Committee and executive management.

The Company's risk management and internal control systems are designed to manage and mitigate risks, rather than eliminate risks, of failure to achieve the business objectives of the Company, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Company has employed a bottom-up approach for identification, assessment and mitigation of risk at all business unit levels and across functional areas.

MAIN FEATURES OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The key elements of the Company's risk management and internal control systems include keeping track of and documentation of identified risks, the assessment and evaluation of risks, the development and continuous updating of responsive procedures, and the ongoing testing of internal control procedures to ensure their effectiveness.

An ongoing risk management approach is adopted by the Company for identifying and assessing the key inherent risks that affect the achievements of its objectives.

PROCESS USED TO IDENTIFY, EVALUATE AND MANAGE SIGNIFICANT RISKS

During the process of risk assessment, the Board captures and identifies the key inherent risks that affect the achievements of its objectives by performing the followings:

– understanding organizational objectives and business processes;

– determining the risk appetite and establishing the risk assessment criteria;

– identifying the risks associated with achieving or not achieving the objectives and assessing the likelihood and potential impact of particular risks; and

– monitoring and evaluating the risks and the arrangements in place to address them.

PROCESS USED TO IDENTIFY, EVALUATE AND MANAGE SIGNIFICANT RISKS (Continued)

The Board reviews the effectiveness of the risk management and internal control systems by considering factors including but not limited to the followings:

– the changes since the last annual review in the nature and extent of significant risks, and the Group's ability to respond to changes in its business and the external environment;

– the scope and quality of managements' monitoring of risk and of the internal control system, and where applicable, the work of its internal audit function and other third party consultants;

– the extent and frequency of the communication of the results of the monitoring to the Board or the audit committee;

– the incidence of significant control failings or weakness that has been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have a material impact on the Group's financial performance or condition; and

– the effectiveness of the Group's processes relating to financial reporting and Listing Rules Compliance given the Group's business and scale of operations and in order to adapt the most cost-effective method of conducting periodic review of the Group's internal controls, the Board has engaged an Internal Audit Manager (the "IA Manager"), who is a qualified accountant and reporting directly to the Audit Committee to execute the internal control function. IA Manager has conducted an internal control review of the effectiveness of the Group's risk management, corporate governance, financial recording and reporting procedures, investment procedures, treasury function, sales and receipts, purchase and payment, and human resources management (except for the Deconsolidated Subsidiaries) for the period from 1 January 2019 to 31 December 2019 in accordance with the requirements under Code Provision C.2 of the Corporate Governance Code, according to the scope of review agreed and approved by the Audit Committee. The above said policies have been updated after the review of the incidents leading to the deconsolidation.

IA Manager responded to the Audit Committee and the Audit Committee was satisfied that the Company had addressed all deficiencies identified by IA Manager. The Audit Committee reviews the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures annually and has access to information necessary to fulfil its duties and responsibilities with respect to risk assessment and risk management. Accordingly, the Audit Committee and the Board considered the risk management and internal control systems to be effective and have been implemented with adequate resources during the year.

PROCEDURES AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

While the IA Manager assists the Board and the Audit Committee to carry out the internal control functions, the Board, nevertheless, would be directly responsible for internal control of the Group and for reviewing its effectiveness during the Year.

The IA Manager and the Board have already established a policy on the procedures and internal controls for the handling and dissemination of inside information. The policy stipulated the duty and responsibility of inside information announcement, restriction on sharing non-public information, handling of rumours, unintentional selective disclosure, exemption and waiver to the disclosure of inside information, and also compliance and reporting procedures. Every member of the senior management of the Company must take all reasonable measures to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Company from time to time. They must promptly bring any possible leakage or divulgence of inside information to the attention of the Financial Controller, who will notify the Board accordingly for taking the appropriate action promptly. For any material violation of this policy, the Board will decide, or designate appropriate persons to decide, the course of actions for rectifying the problem and avoiding recurrence.

CONTINUOUS PROFESSIONAL DEVELOPMENT

The Group acknowledges the importance of adequate and ample continuing professional development for the Directors for a sound and effective internal control system and corporate governance. In this regard, the Group has always encouraged our Directors to attend relevant training courses to receive the latest news and knowledge regarding corporate governance.

During the Financial Year, the Company has encouraged all Directors to attend at least one training course on the updates of the Listing Rules concerning good corporate governance practices. The Company will, if necessary, provide timely and regular training to the Directors to ensure that they are kept abreast with the latest requirements under the Listing Rules. The Group has also adopted a policy to reimburse the Directors for any relevant training costs and expenses incurred concerning corporate governance and internal control.

CORPORATE GOVERNANCE FUNCTIONS

The Board as a whole is responsible for performing the corporate governance duties including:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;

(e) to communicate with various level of staff to ascertain the implementation of policies and procedures on corporate governance; and

(f) to review the Company's compliance with the code and disclosure on the Corporate Governance Report.

INDEPENDENT AUDITOR

The Audit Committee reviews and monitors the independent auditor's independence, objectivity and effectiveness of the audit process. It receives each year letter from the independent auditor confirming their independence and objectivity and holds meetings with representatives of the independent auditor to consider the scope of its audit, approve its fees, and the scope and appropriateness of non-audit services, if any, to be provided by it. The Audit Committee also makes recommendations to the Board on the appointment and retention of the independent auditor.

The remuneration paid or payable to the independent auditor of the Company in respect of the audit services for the year ended 31 December 2019 amounted to approximately RMB1.7 million.

COMPANY SECRETARY

The company secretary of the Company, Mr. Lai Wai Hing, is a full-time employee of the Group. Please refer to his biographical details as set out on page 43 of this annual report.

RIGHTS OF SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

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

SENDING ENQUIRIES TO THE BOARD AND PROCEDURES FOR PUTTING FORWARD PROPOSALS AT SHAREHOLDERS' MEETINGS

Shareholders or investors can contact the Company in the following ways to make enquiry or to provide suggestions:

Contact Person:	Mr. Lai Wai Hing, Company Secretary
Postal Address:	8/F Linkchart Centre, 2 Tai Yip Street, Kwun Tong, Kowloon, Hong Kong

To put forward proposals at a general meeting, the shareholders should submit a written notice of those proposals with detailed contact information to the company secretary at the Company's principal place of business stated above.

COMMUNICATIONS WITH SHAREHOLDERS

In every general meeting, in respect of each substantially separate issue, a separate resolution would be proposed by the Chairman of that meeting.

The Board and senior management maintain a continuing dialogue with the Company's shareholders and investors through various channels including the Company's annual general meeting. The Chairman, other members of the Board and external auditors attend the annual general meeting. The Directors answer questions raised by the shareholders on the performance of the Group. Our Company's website which contains corporate information, annual reports, announcements and circulars issued by the Company as well as the recent developments of the Group enables the Company's shareholders to have a timely and updated information of the Group.

DIRECTORS' REPORT

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of Company is investment holding and the principal activities of its subsidiaries are set out in Note 36 to the financial statements.

RESULTS AND APPROPRIATIONS

Results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of comprehensive income on page 68.

The Board does not recommend a final dividend for the year ended 31 December 2019.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 142 of this annual report.

SHARE CAPITAL

On 2 February 2018, the Company allotted and issued 90,000,000 new shares in satisfaction of the aggregate consideration of HKD18,000,000 to O2U Limited for the appointment of the Company by O2U Limited as a non-exclusive agent for the distribution and management of the O2U purebed air purifiers for infants in the PRC, Hong Kong and the Macau Special Administrative Region of the PRC from 11 January 2018 to 20 December 2022. The closing price of the Company's share on 2 February 2018 was HKD0.199 per share.

Details of the movements in share capital of the Company in the year ended 31 December 2019 are set out in Note 30 to the financial statements.

DISTRIBUTABLE RESERVES

The reserves available for distribution to shareholders consist of share premium and retained earnings. As of 31 December 2019, the Company did not have any share premium and retained earnings which are available for distribution to the shareholders. For the year ended 31 December 2019, no dividend has been proposed.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or applicable laws of the Cayman Islands where the Company was incorporated.

PRINCIPAL PROPERTY

Details of the principal property held for investment purpose are set out below:

Location	Existing use	Lease term
232 Xingxian Road, Licheng District, Quanzhou, Fujian Province, PRC	Rental	Medium term

BANK BORROWINGS

Details of the Group's bank borrowings are set out in Note 28 to the financial statements. Bank borrowings repayable within one year or on demand are classified as current liabilities in the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, the Group's five largest customers accounted for approximately 95.8% of the Group's total revenue and the Group's largest customer for the year accounted for approximately 36.9% of the Group's total revenue. The Group's five largest suppliers accounted for approximately 36.0% of the Group's total purchases, while the largest supplier for the year accounted for approximately 8.4% of the Group's total purchases.

To the knowledge of the Directors, none of the Directors or their respective associates or any of the shareholders of the Company who owns more than 5% of the Company's issued share capital has any interest in any of the Group's five largest customers or suppliers.

REMUNERATION POLICY AND EMPLOYEES

As at 31 December 2019, the Group had 411 employees in total. The table below shows a breakdown of the Group's employees by their responsibilities:

Department	Number of employees
Management	16
Production	264
Quality assurance	9
General and administration	55
Purchase and logistics	10
Design and technical	39
Sales and marketing	18
Total	411

REMUNERATION POLICY AND EMPLOYEES (Continued)

The remuneration policy (which includes the payment of the emoluments to the employees) of the employees of the Group is set up by the Remuneration Committee on the basis of the employees' qualifications, experiences, job nature, performance and market condition. Details of the staff cost, remuneration of key management and the Directors are set out in Notes 13, 14 and 35 respectively to the financial statements, having regard to the Company's operating results, individual performance of the senior management and the Directors and comparable market statistics.

Pursuant to the code provision B1.5 of the Corporate Governance Code, the remuneration of the members of the key management by band for the year is set out below:

Remuneration bands	**Number of persons**
Nil to RMB1,000,000	6
RMB1,000,001 to RMB1,500,000	3
RMB1,500,001 to RMB2,000,000	6
	15

The Group has established various welfare plans including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees who are employed by the Group pursuant to the rules and regulations of the PRC and the existing policy requirements of the local government. The Group also maintains the employee short-term health insurance and unforeseen injury insurance. In addition, the Group provides staff quarters to its employees.

Directors and qualified employees of the Company may be granted share options to subscribe for shares in the Company in accordance with the terms and conditions of the Share Option Scheme (as defined below).

DIRECTORS

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

Executive Directors:

Mr. Wu Ming Fat Simon *(Chairman) (appointed on 15 April 2021)*
Ms. Ching Wan Wah, Kitty *(appointed on 16 March 2021)*
Mr. Zhang Zhisen *(appointed on 22 December 2020)*
Mr. Wu Ming Chit William *(appointed on 15 April 2021)*
Ms. Li Lai Ying *(appointed on 10 May 2021)*
Mr. Shen Jianzhong *(under suspension)*
Mr. Zheng Hebin *(under suspension)*
Mr. Chen Fanglin *(removed on 18 June 2021)*
Mr. Lo Kei Wai Paul *(resigned on 14 October 2019)*
Mr. Chen Jiang *(resigned on 21 December 2020)*
Mr. Xu Qiang *(resigned on 21 December 2020)*
Ms. Hui Sai Ha *(appointed on 17 December 2019 and resigned on 31 August 2020)*

DIRECTORS' REPORT

DIRECTORS (Continued)

Independent Non-executive Directors:

Mr. Wong Shun Ching *(appointed on 16 March 2021)*
Mr. Chan Yui Hang *(appointed on 10 May 2021)*
Mr. Wong Sik Kei *(appointed on 28 October 2021)*
Mr. Huang Songqing *(appointed on 5 September 2019 and under suspension)*
Ms. Sun Kam Ching *(resigned on 5 September 2019)*
Mr. Ng Wing Keung *(resigned on 2 July 2020)*
Mr. Dai Jianping *(resigned on 8 January 2021)*

In accordance with the Articles, Mr. Shen Jianzhong, Mr. Zheng Hebin, Mr. Huang Songqing retire at the forthcoming annual general meeting but, being eligible, offers themselves for re-election.

Mr. Wong Shun Ching, Mr. Chan Yui Hang, Mr. Wong Sik Kei and Mr. Huang Songqing (suspended) are independent non-executive Directors and were appointed for a three-year term expiring on 16 March 2024, 10 May 2024, 28 October 2024 and 5 September 2022 respectively.

DIRECTORS' SERVICES CONTRACTS

None of the Directors has entered into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and senior management are set out on pages 38 to 43.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN ELATION TO THE COMPANY'S BUSINESS

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company's subsidiaries was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of he year or at any time during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Before 19 August 2019, the interests and short positions of the Directors of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code will be as follows:

Name of Director	Capacity/Nature of interest	Number of Shares	Approximate Percentage of Shareholding Interest (%)
Mr. Chen Fanglin (removed on 18 June 2021)	Interest in controlled corporation/ Long position (Note 1)	1,086,725,180	50.08
	Beneficial owner/Long position	166,000	0.01
	Interest of spouse/Long position (Note 2)	1,886,000	0.09
		1,088,777,180	50.18

Note 1: Mr. Chen Fanglin is deemed to be interested in the Shares held by China Wisdom Asia Limited in which Central Profit Group Limited holds entire interests. Central Profit Group Limited is his wholly-owned company. The details are set out as below:

Name of director	Name of associated corporation	Capacity/ Nature of interest	Number of Shares	Approximate Percentage of Shareholding Interest (%)
Mr. Chen Fanglin	China Wisdom Asia Limited	Interest in controlled corporation	50,000 shares of US$1.00 each	100
Mr. Chen Fanglin	Central Profit Group Limited	Beneficial owner	one share of US$1.00	100

Note 2: Chen Fanglin is the spouse of Chen Xiangqun and he is deemed to be interested in the Shares interested by Chen Xiangqun.

Mr. Chen Fanglin and China Wisdom Asia Limited has entered into an agreement with Zhongtai Financial Investment Limited on 21 June 2017 to charge the above share interests in the Company for a loan of HK$250 million.

As noted in the Company's announcement on 21 August 2019, these shares are then under receivership of two individuals as the joint and several receivers and managers. Thereafter, Mr. Chen Fanglin is considered having no interests in shareholding of the Company.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

Save as disclosed above, none of the Directors of the Company had interests or short positions in the Shares, underlying Shares of equity derivatives or debentures of the Company or any associated corporation defined under the SFO which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2019.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its holding companies, or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, existed at the end of the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors or their respective associates has any competing interests which need to be disclosed pursuant to Rule 8.10 of the Listing Rules.

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

As at 31 December 2019, save as disclosure above, there is no director who had interests or short positions in the shares or the underlying shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register.

INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (Continued)

Save as disclosed above, the Directors are not aware of any person, other than the Directors whose interests are set out in the section "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, who had an interest or short positions in the shares or underlying shares that were required to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded pursuant to Section 336 of Part XV of the SFO as of 31 December 2019.

SHARE OPTION SCHEME

Pursuant to a resolution passed by all the shareholders on 2 December 2013, the Company has conditionally adopted the share option scheme (the "Share Option Scheme") for the purpose of recognising and acknowledging the contributions the eligible participants had or may have made to the Group. The Board may, at its discretion, grant options pursuant to the Share Option Scheme to the Directors (including executive Directors and independent non-executive Directors), the Directors of the Company's subsidiaries and employees of the Group and any other persons (including consultants or advisers) whom the Board considers, in its absolute discretion, have contributed or will contribute to the Group. The Directors were authorised to grant options to subscribe for shares of the Company and to allot, issue and deal with the shares pursuant to the exercise of options granted under the Share Option Scheme and to take all such steps as may be necessary and/or desirable to implement and give effect to the Share Option Scheme. The maximum number of shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of shares in issue immediately following completion of the Global Offering (as defined in the Company's prospectus dated 10 December 2013), being 180,000,000 Shares, excluding any shares that may be issued under the options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company), unless otherwise approved by the shareholders of the Company in general meeting and/or such other requirements prescribed under the Listing Rules from time to time.

Unless otherwise approved by the shareholders of the Company in general meeting, the number of shares that may be granted to an eligible participant under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) shall not exceed 1% of the shares in issue of the Company within any 12-month period. Any grant of options to a Director, or substantial shareholder (as defined in the Listing Rules) of the Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by our independent non-executive Directors. Unless otherwise approved by the shareholders of the Company in general meeting and/or such other requirements prescribed under the Listing Rules, the number of shares that may be granted to a substantial shareholder or any independent non- executive Director or their respective associates under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) shall not exceed 0.1% of the shares in issue, having an aggregate value in excess of HKD5 million, within any 12-month period.

SHARE OPTION SCHEME (Continued)

There is no minimum period for which an option must be held before it can be exercised, and the period during which an option may be exercised will be determined by the Board in its absolute discretion, however, no options shall be exercised 10 years after they have been granted. The subscription price of a share in respect of a particular option shall be not less than the highest of (a) the official closing price of the Shares on the daily quotation sheet of the Stock Exchange; (b) the average official closing price of the shares on the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of a share. The Share Option Scheme shall take effect from the date it is adopted and shall remain effective within a period of 10 years from that date.

From the date that the Share Option Scheme became effective and unconditional and up to the date of this annual report, no share options were granted under the Share Option Scheme.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

The Company has not redeemed any of the shares during the year ended 31 December 2019. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's securities during the year ended 31 December 2019.

PUBLIC FLOAT

Rule 8.08(1)(a) of the Listing Rules requires that at least 25% of an issuer's total issued share capital must at all times be held by the public. Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficiency of public float at all times during the year ended 31 December 2019.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken in the normal course of business are provided under Note 36 to the financial statements, and none of which constitutes a discloseable connected transaction as defined under the Listing Rules.

DEED OF NON-COMPETITION

The Company entered into a deed of non-competition (the "Deed of Non-Competition") with Mr. Chen Fanglin, China Wisdom Asia Limited, Central Profit Group Limited, and Chen Xiangqun (collectively referred to as the "Covenantors") on 2 December 2013 so as to better safeguard the Group from any potential competition and to formalise the principles for the management of potential conflicts between them and to enhance our corporate governance in connection with the listing of the shares on the Stock Exchange.

The independent non-executive Directors have reviewed compliance by the Covenantors and confirm that based on confirmations and information provided by each of the Covenantors, they were in compliance with the Deed of Non-Competition during the year ended 31 December 2019.

The independent non-executive Directors were not required to review any matter in relation to compliance and enforcement of the Deed of Non-Competition during the year ended 31 December 2019.

PERMITTED INDEMNITY PROVISIONS

At no time during the financial year and up to the date of this report, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Company or an associated company.

AUDIT COMMITTEE

The Company has established the Audit Committee pursuant to a resolution of the Directors passed on 2 December 2013. During the year, the Audit Committee comprised all the then independent non-executive Directors, namely Mr. Ng Wing Keung, Mr. Dai Jianping, Ms. Sun Kam Ching (resigned on 5 September 2019) and Mr. Huang Songqing (appointed on 5 September 2019 and under suspension). Mr. Ng Wing Keung was the then chairman of the Audit Committee. The rights and duties of the Audit Committee comply with the code provisions of the CG Code. The Audit Committee is responsible for reviewing and supervising the Group's financial reporting process and internal control system and providing advice and recommendations to the Board.

The Audit Committee had reviewed the audited results of the Group for the financial year ended 31 December 2019.

AUDITOR

The financial statements for the year ended 31 December 2017 have been audited by PricewaterhouseCoopers. The financial statements for the year ended 31 December 2018 were audited by ZHONGHUI ANDA CPA Limited.

ZHONGHUI ANDA CPA Limited resigned as the auditor of the Company with effect from 9 April 2020. Confucius International CPA Limited was appointed as the auditor of the Company with effect from 9 April 2020 to fill the casual vacancy and to hold office until the conclusion of the next annual general meeting of the Company.

CLOSURE OF REGISTERED MEMBERS

In order to determine the entitlement to attend the annual general meeting to be held on 22 February 2022 (the "Annual General Meeting"), the register of members of the Company will be closed from 15 February 2022 to 22 February 2022 (both days inclusive), during which period no transfer of Shares can be registered. In order to qualify for attending the Annual General Meeting, all transfer of Shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by not later than 4:30 p.m. on 14 February 2022.

On behalf of the Board
Wu Ming Fat Simon
Chairman

Hong Kong, 19 January 2022

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wu Ming Fat Simon (胡明法) (“**Mr. Simon Wu**”)**,** aged 60, is the Company’s Chairman and Executive Director. He obtained a degree in Applied Science in Civil Engineering and a master degree of Business Administration from University of British Columbia in Canada. He then obtained a master of law in Arbitration and Dispute Resolutions from University of Hong Kong. Presently, he is a candidate of Doctor of Legal Science of University of Hong Kong. Mr. Simon Wu has substantial experiences in managing and carrying automotive businesses and he is also the directors of several companies carrying these businesses.

Ms. Ching Wan Wah, Kitty (程韻華) (“**Ms. Ching**”), aged 42, is the member of Institute of Public Accountants (Australia),Institute of Financial Management and Institute of Certified Management Accountants. Ms. Ching has substantial experiences in financial management and control. She is currently a director of a licensed trustee and professional service company and she was the Chief Operating Officer of a professional service provider.

Mr. Wu Ming Chit William (胡明哲) (“**Mr. William Wu**”), aged 64, obtained a degree in Business Administration from Simon Fraser University in Canada. Thereafter, Mr. William Wu has received technical training in several automotor companies and have been engaged as directors in several automotive companies such as Tai Fat Hong Limited and Agility Motors Limited. Mr. William Wu has substantial experiences in sales and marketing, and carrying out research and development projects. Mr. William Wu is the elder brother of Mr. Simon Wu

Ms. Li Lai Ying (李麗英) (“**Ms. Li**”), aged 65 was the Chief Executive Officer, secretary and director of a company traded in OTC market in the United States of America that she was responsible for strategic planning, day to day operations and overseeing the financial reporting matters for this company. Ms. Li has served as a director of Rodney Engineering Company Limited (“Rodney”) since 1980 which provides construction management services. Ms. Li holds overall responsibility of Rodney for daily operation and management. She has over 30 years experience in project management and financial advisory services in both businesses and charitable organisations.

Mr. Zhang Zhisen (張志森) (“**Mr. Zhang**”), aged 44, obtained a graduate certificate in Exhibition Planning and Management from Hainan College of Foreign Studies. Mr. Zhang has extensive experience in sales and marketing, investment and fund raising projects in China.

EXECUTIVE DIRECTORS (Continued)

Mr. Chen Fanglin (陳芳林) ("**Mr. Chen**"), aged 55, was the Chairman and executive Director of our Company. Mr. Chen is responsible for the overall strategic and business direction of our Group. He is the founder of our business in 1993. He graduated from the Quanzhou Normal School (泉州師範專科學校) (now known as the Quanzhou Normal University (泉州師範學院)) in 1982. He obtained a Master of Business Administration from The Open University of Hong Kong (香港公開大學) in 2004. From August 1982 to February 1986, Mr. Chen was a teacher at the Nanan No. 2 Middle School of Fujian (福建省南安第二中學) and from March 1986 to December 1989, he was responsible for research and English studies at the Education Department of Quanzhou Normal School (泉州師專教務處). Mr. Chen also holds the title senior economist (高級經濟師) awarded by Fujian Province Department of Personnel (福建省人事廳) in August 2008. Mr. Chen was appointed as the vice president of China Gift & Leisure Products Association (中國禮儀休閒用品工業協會) in September 2012. Mr. Chen was appointed as the deputy to National People's Congress of Quanzhou City (泉州市人大) in March 2012. He was awarded as the Outstanding Person of Economic in the China Market (中國市場傑出經濟人物) by the China Market Guidance Committee (中國市場指導委員會) and China Market Magazine (中國市場雜誌社) in December 2010. Mr. Chen is a member of council of the Fujian Province Chamber of Commerce for Privately Owned Enterprise (福建省民營企業商會) and the Fujian Province Committee of Business and Industrial Joint Association (福建省工商業聯合會直屬委員會) since January 2011. In February 2011, he was awarded as the Quanzhou Person of Economic (泉州經濟人物) by the Propaganda Department of the People's Communist Party of Quanzhou City (中共泉州市委宣傳部), Quanzhou City General Chamber of Commerce (泉州市總商會) and Quanzhou Evening Post (泉州晚報社). In December 2011, Mr. Chen was the vice president of the Quanzhou City Business and Industrial Joint Association (General Chamber of Commerce) (泉州市工商業聯合(總商會)). He was nominated as the Leader of China Building Energy Saving Industry (中國建築節能減排領導人物) by China Building Energy Saving Industry Alliance (中國建築節能減排產業聯盟) and China Urban Housing Industry Council (中國城市住宅產業理事會).

Mr. Shen Jianzhong (申建忠) ("**Mr. Shen**"), aged 59, was the vice president, chief administrative and human resources officer of our Group and an executive Director of our Company. Mr. Shen is responsible for human resources and administration management of our Group. Prior to joining our Group in 1994, Mr. Shen worked in Quanzhou Guopin Company (泉州市果品公司) and was the officer at the Guopin Trading Company (果品貿易公司). The principal business of these two companies was trading of fruits. In July 1994, Mr. Shen joined our Group and was an assistant to the president. He was promoted in 2005 to the vice general manager. In 2008, he was appointed as the vice president of our Group. Mr. Shen holds the title intermediate economist (中級經濟師) awarded by Fujian Province Department of Personnel (福建省人事廳) in November 2008. His duty was suspended on 7 May 2021.

EXECUTIVE DIRECTORS (Continued)

Ms. Hui Sai Ha (許細霞) ("**Ms. Hui**"), aged 54, was appointed as executive director. Ms Hui has held the chairman of Buona Holdings Limited since September 2014. She has been the president of business development of Chanceton Capital Partners Limited, being a subsidiary of Unitas Holdings Limited, from January 2018. Unitas Holdings Limited is a company listed on GEM of the Stock Exchange (stock code: 8020). Ms. Hui was the executive director of Century Energy International Holdings Limited, formerly China Oil Gangran Energy Group Holdings Limited (Stock Code: 8132) from 22 November 2018 to 5 October 2020. Ms. Hui is the vice president of Teo Chew Society of Vancouver Canada. She has extensive experience in the industrial and financial industry. She has also participated in various investment projects and fund raising projects relating to the photovoltaic, new energy and high technology sectors.

Mr. Chen Jiang (陳江), aged 50, was an executive Director of our Company. He is principally responsible for business expansion and finance management in the Group. He completed a course programme in Economic Information and Computing Application from Southwest University of Science and Technology (西南科技大學) in the PRC. Mr. Chen Jiang has served in senior management position in companies for finance leasing and trading for over 20 years. Mr. Chen Jiang had served as the vice chairman and is currently the executive chairman of Chengdu Enterprise Credit Assessment and Integrity Evaluation Association (成都企業信用評估與誠信評價協會) (the "Association") and was appointed as a specialist of the Review Committee of the Association in 2012. Mr. Chen Jiang was an executive director of Co-Prosperity Holdings Limited, the shares of which are listed on the main board of the Stock Exchange (stock code: 707), from 15 April 2015 to 3 March 2016. From 7 August 2015 to 2 December 2016, he was an executive director of China Ocean Fishing Holdings Limited ("China Ocean Fishing", previously known as Sky Forever Supply Chain Management Group Limited), the shares of which are listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8047). He was also the chairman of the board and co-chief executive officer of China Ocean Fishing from 4 May 2016 to 7 September 2016 and from 7 September 2016 to 2 December 2016, respectively.

Mr. Xu Qiang (徐強) ("**Mr. Xu**"), aged 35, was an executive Director of our Company. He is principally responsible for business expansion and finance management in the Group. He graduated from Zhongnan University of Economics and Law (中南財經政法大學) in the PRC, studying International Economic Law. He is a Chartered Financial Practitioner of the Asia Pacific Financial Services Association (APFinSA). He was the investment director of asset management department in Jialian Rongfeng Investment Development Management Limited (嘉聯融豐投資發展管理有限公司) from 2009 to 2012 and involved in private equity, initial public offerings and mergers and acquisitions projects. From 2012 to 2015, Mr. Xu served as a fund manager in an offshore fund and was responsible for managing and hedging of international derivatives products. Mr. Xu is also familiar with asset management, risk management and business strategic planning.

EXECUTIVE DIRECTORS (Continued)

Mr. Zheng Hebin (鄭鶴斌) ("**Mr. Zheng**"), aged 47, was an executive Director of our Company and the chief research and development officer of our Group. He is responsible for product research and development. He served the development department of Fuzhou Gaodeng Artefact Company Limited (福州高登工藝品有限公司), where he was responsible for designing products. He was the manager of the development department of Fuqing Fuhua Artefact Company Limited (福清複華工藝品有限公司). Mr. Zheng joined our Group in July 1997 as the manager of our design team. He was promoted in March 2005 to be the chief officer of our research and development team. Mr. Zheng has participated in the development of fireplace of our Group since 2005. His duty was suspended on 7 May 2021.

Mr. Lo Kei Wai Paul (盧其偉) ("**Mr. Lo**"), aged 68, was an executive Director of our Company. He is principally responsible for international trade business of our Group. Mr. Lo has over 30 years of international trade experience in Australia and New Zealand.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Shun Ching (黃信程) ("**Mr. Wong**"), aged 45, is a holder of Bachelor of laws (PRC) from Peking University and Master of laws from City University of Hong Kong. He is working at People Insurance Broker Ltd. (Wholly owned by Long Well International Holdings Ltd. (0850.HK)) as Licensed Responsible Officer. Mr. Wong is an associate of Hong Kong Institute of Arbitrators, and holds Practicing Certificate of Hong Kong Securities and Investment Institute. Mr. Wong works more than 23 years in relation to the legal matters for the PRC and Hong Kong laws.

Mr. Chan Yui Hang (陳銳衡) ("**Mr. Chan**"), aged 65 obtained Master of Business Administration from City University of Macau and Master of Professional Accounting and Master of Corporate Governance from The Hong Kong Polytechnic University. Mr. Chan is the practising member and fellow member of the Hong Kong Institute of Certified Public Accountants. He is also the Certified Tax Adviser and Fellow member of the Taxation Institute of Hong Kong and associate member of the Association of International Accountants. Mr. Chan has substantial experiences in the auditing and has worked in various international accounting firm.

Mr. Wong Sik Kei (王錫基), aged 73, obtained a Bachelor of Science in Engineering from the University of Hong Kong in 1971. He also obtained a Master of Philosophy in 1977 and a Master of Social Sciences from the University of Hong Kong in 1980. Mr. Wong Sik Kei joined the Hong Kong Government as an Assistant Telecommunications Engineer in the Post Office in September 1974. He was promoted to Telecommunications Engineer in September 1978, to Senior Telecommunications Engineer in July 1980, to Chief Telecommunications Engineer in June 1984, and to Assistant Postmaster General in July 1988. In March 1994, he was appointed as Senior Assistant Director of Telecommunications in the Office of the Telecommunications Authority ("OFTA"). Mr. Wong Sik Kei served as the director general of the OFTA from 1997 to 2003. In 2003, Mr. Wong Sik Kei left the OFTA and became the Commissioner of the Innovation and Technology Department of the Hong Kong Government. Mr. Wong Sik Kei officially retired from the Hong Kong Government in 2007.

Mr. Wong Sik Kei was appointed as an independent non-executive director of Future Data Group Limited (Stock Code: 8229) since 2016, and ETS Group Limited (Stock Code: 8031) since 2011.

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Mr. Dai Jianping (戴建平) (“**Mr. Dai**”), aged 62, was appointed as our independent non-executive Director on 1 December 2013. Mr. Dai graduated from Fujian Province Adult College (福建省成人中等專業學校) with a major in urban construction in 1988. He was an engineer qualified by the Fujian Province Department of Personnel (福建省人事廳) in November 1995. Since 2000, Mr. Dai has been serving as a vice general manager of Quanzhou Dahua Property Development Co., Ltd (泉州大華房地產開發有限公司). He was awarded the Temporary Certificate of Registration of Constructor of the PRC (中華人民共和國一級建造師臨時執業證書) by the Ministry of Housing and Urban-Rural Construction (中華人民共和國住房和城鄉建設部) in March 2008. In November 2008, Mr. Dai was awarded the title person-in-charge of project (項目負責人) by the Fujian Province Department of Construction (福建省建設廳).

Mr. Ng Wing Keung (伍永強) (“**Mr. Ng**”), aged 49, was appointed as our independent non-executive Director on 1 December 2013. Mr. Ng is a practising certified public accountant in Hong Kong, a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He worked in Li, Tang, Chen & Co. from August 1993 to March 2001 and started his own audit firm in June 2001. Mr. Ng has been practising as certified public accountant in Hong Kong over 10 years and is currently a managing director of KTO CPA Limited. From 10 August 2012 to 15 October 2013, Mr. Ng was the non- executive director of Peace Map Holding Limited (stock code: 402.HK).

Ms. Sun Kam Ching (孫錦程) (“**Ms. Sun**”), aged 46, was appointed as our independent non-executive Director on 1 December 2013. Ms. Sun received a bachelor’s degree in business administration from Huaqiao University (華僑大學) in 1994. Ms. Sun has over 15 years of experience in business administration and financial management. Ms. Sun joined Jinjiang Aile Group (晉江愛樂集團) (“Jinjiang Aile”) in 1996 and held various positions in Jinjiang Aile, including head of the sales department of Jinjiang Aile Shoes and Clothing Co., Ltd. (晉江愛樂鞋服公司), a subsidiary of Jinjiang Aile, from 1996 to 2000, the chief sales planning officer of Jinjiang Aile since 2003, and the chief financial officer of Jinjiang Aile since 2005. Ms. Sun has also been responsible for the image consultancy of Jinjiang Aile and is involved in the management of certain subsidiaries of Jinjiang Aile, including Jinjiang Aile Holiday Hotel (晉江愛樂假日酒店) and Shishi Aile Holiday Hotel (石獅愛樂假日酒店) since 2000. Ms. Sun attended the training courses for independent non-executive Director conducted by the Shenzhen Stock Exchange in 2008. Ms. Sun has been appointed as an independent non-executive director of Labixiaoxin Snack Group Limited (stock code: 1262.HK) since 2011.

Mr. Huang Songqing (黃松青) (“**Mr. Huang**”), aged 58, graduated from Quanzhou Normal University (泉州師範院學院). He founded Quanzhou Youth Culture Goods Co., Ltd. (泉州青年文化用品有限公司) in 1988 and was the managing director since 1988 to 1999. He founded Youth Arts Goods Co., Ltd. (青年藝品有限公司司) in 2000 and was the managing director since 2000 to 2014. He worked in Jing Shan Apparel Shoes and Hats Factory (金山服裝鞋帽廠) as the managing director since 2015 to 2016. He was the general manager of Jing Shan Shoes Industry Co., Ltd. (金山鞋業有限公司) since 2017. His duty was suspended on 7 May 2021.

SENIOR MANAGEMENT

Mr. Hui Hung Kwai (許鴻群) (“**Mr. Hui**”), aged 47, had been the chief financial officer of our Group since June 2013 and is responsible for our Group’s financial planning and strategy. Mr. Hui graduated from The Chinese University of Hong Kong (香港中文大學) with a bachelor’s degree in business administration in 1994. Mr. Hui has been a member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants since 1997 and 2002, respectively. Mr. Hui has ten years’ experience in the auditing profession. Prior to joining our Group, Mr. Hui was the audit manager of Li, Tang, Chen & Co., CPA, an accounting firm in Hong Kong from 1994 to 2004. Mr. Hui was the chief financial officer of C&G Environmental Protection Holdings Limited, a company listed on the main board of Singapore Exchange (stock code: SES: D79), from 2004 to October 2010. From November 2010 to December 2012, Mr. Hui was the chief financial officer of Premiere Eastern Energy Pte. Ltd. and was responsible for financial and capital market management. From July 2009 to June 2015, Mr. Hui was an independent non-executive director of TUS International Limited (啟迪國際有限公司) (formerly known as Jinheng Automotive Safety Technology Holdings Limited (錦恆汽車安全技術控股有限公司)), a company listed on the Stock Exchange (stock code: 872.HK). Mr. Hui has been appointed as an independent non-executive director of Gansu Qingheyuan Halal Food Co., Ltd. (甘肅清河源清真食品股份有限公司) since September 2018 and as an independent director of Shanghai Kindly Medical Instruments Co., Ltd. (上海康德萊醫療器械股份有限公司) since December 2018.

Mr. Yang Dilin (楊的林) (“**Mr. Yang**”), aged 54, had been the vice financial officer of our Group since March 2012 and is responsible for day-to-day financial affairs of our Group. Mr. Yang attended The Party School of Anhui Provincial Committee of C.P.C. (中共安徽省委黨校) from September 1998 to July 2001, majoring in law. Mr. Yang is a qualified accountant in China. Prior to joining our Group, Mr. Yang served the Susong Finance Bureau (宿松縣財政局) between July 1983 and September 2000. He worked at Shenzhen Liwei Electronic Company Limited (深圳力偉電子有限公司) from June 2005 to April 2010 as the chief financial officer. From May 2010 to December 2011, Mr. Yang was the manager of Jomoo Group Co., Ltd. (九牧集團有限公司) and was responsible for budgeting.

Mr. Lai Wai Hing (賴偉慶) (“**Mr. Lai**”), aged 52, is the Company Secretary of our Group since December 2020. Mr. Lai obtained Honour Diploma in Accountancy in Lingnan University and is a fellow member of the Association of Chartered Certified Accountants. Before joining the Group, he was a tax manager in various international accounting firms for more five years and thereafter, he was engaged in several listed companies in Hong Kong/Singapore as their accounting manager or financial controller.

Mr. Tai Sze Wa (戴思華) (“**Mr. Tai**”), aged 61, is the in-house legal adviser of the Group since May 2021. Mr. Dai obtained University of Wolverhampton LLB (2nd Honour). He is currently a member of the Law Society of Hong Kong and is a solicitor. Mr. Tai has more than 23 years of practical legal experiences.

Mr. Lee Sze Hei (李師熹) (“**Mr. Lee**”), aged 32, is the Internal Audit Manager of the Group since October 2021. He obtained a BBA (Hons) degree in Accountancy from the Open University of Hong Kong in 2013. Thereafter, he has joined several professional audit firms performing statutory audits. He is now a practising member of Hong Kong Institute of Certified Public Accountants.

ENVIRONMENT, SOCIAL AND GOVERNANCE REPORT

1 COMPANY REVIEW

China Creative Global Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group" or "China Creative Global") is principally engaged in design, development, manufacture and sales of home decor products and electric fireplaces. The Shares of the Company (the "Shares") was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 2013. The Group mainly sells products in the People's Republic of China (the "PRC" or "China") under the "Allen (亚伦)"brand and to overseas customers including the US, Canada, Germany, France and the U.K. on original design manufacturing ("ODM")/original equipment manufacturing ("OEM") basis. Our home décor products include gardening decorations (e.g. fountains, waterfalls and patio furniture such as tables and stools) and indoor crafts (e.g. mini-figurines, vases, photo frames and sculptures). Our electric fireplaces are divided into two categories: (i) framed electric fireplaces and (ii) non-framed electric fireplaces.

2 ABOUT THIS REPORT

2.1 REPORTING STANDARD, PERIOD AND SCOPE

This Environmental, Social and Governance Report (the "Report") is prepared in accordance with the Appendix 20 Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") issued by the Stock Exchange of Hong Kong Limited (the "Stock Exchange") under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The scope of this Report included major business operating in PRC factories (the "Factory"). It covered the Group's progress on ESG aspects for the reporting year from 1 January 2019 to 31 December 2019 (the "Reporting Year").

3 COMMENTS AND SUGGESTIONS

For more information about our businesses, please refer to the Group's website (www.1678.com.hk). If you have any comments or questions regarding the Report, please feel free to contact us:

8th Floor, Linkchart Centre,
2 Tai Yip Street, Kwun Tong, Kowloon
Hong Kong Email: info@1678.com.hk
Fax: (852) 3106 4064

4 STAKEHOLDER ENGAGEMENT

Stakeholders engagement is a key factor in formulating environmental and social strategies, defining the objectives, assessing materiality and establishing policies. The key stakeholders including,but not limited, to the Stock Exchange, government, shareholders and investors, customers, suppliers, employees, as well as community and public.

Stakeholders	Expectations	Response
the Stock Exchange	Compliance with listing rules, timely and accurate announcements	Meetings, training, website updates and announcements
Government	Observance with laws and regulations, social welfare and prevention of tax evasion	Complying with relevant laws and regulations
Shareholders and investors	Investment return, corporate governance system, information disclosure and transparency	Regular basis of annual report, interim report and quarterly report Disclose contact details on website and in reports ensure all communication channels available and effective
Customers	High quality product and service, reasonable pricing, value of service	Value views and opinions of all customers through various means and channels, including usage of business intelligence to understand customer trends and needs and regular analysis on customer feedback
Suppliers	Tendering and procurement process is conducted in an open, fair and just manner	well-communicated to suppliers before the commencement of a project
Employees	Competitive salary and benefits, fair promotion and development and good working environment	Provide comprehensive benefit package, career development opportunities and internal training appropriate to individual need Provide a healthy and safe workplace
Community and public	Community involvement and social responsibilities	Promote community building and development

5 ENVIRONMENTAL PROTECTION

5.1 ENVIRONMENTAL POLICY

The Group endeavored to manage the operation in an environmentally friendly and resource-efficient manner. The production activities of the Group lead to the emission of air pollutants and waste and discharge of wastewater. In order to effectively manage related emissions, we have implemented a number of emission reduction measures for the Factory to ensure compliance with relevant standards including the Integrated Emission Standard of Air Pollutants and the Integrated Wastewater Discharge Standard.

5.2 ENERGY MANAGEMENT

5.2.1 Exhaust Gas

The air pollutants emitted during the operation of the Group include nitrogen oxides, sulfur oxides, volatile organic compounds and particulate matters generated in the process flow of the Factory and the driving of the vehicles. In 2019, the Group's emissions of nitrogen oxides, sulfur oxides, volatile organic compounds and particulate matters were 338.1 kg, 2.3 kg, 2,339.6 kg and 492.6 kg, respectively.

Air Pollutants (kg)	**Emissions in 2019**	Emissions in 2018	Percentage Change
Nitrogen oxide	**338.1**	477.6	-29%
Sulfur oxides	**2.3**	2.8	-18%
Volatile organic compounds	**2,339.6**	2,609.0	-10%
Particulate matters	**492.6**	534.4	-8%

To reduce dust emission within the Factory, we have installed a centralized dust removal system to the wood processing workshop, thus achieving a dust collection rate of 99%. The painting workshop in our factory is installed with the ventilation system. Through such system, the water spray and mist removal device, as well as the glass-fiber mat and active carbon absorption devices, will purify organic waste gas, which will then be directed by the induced draft fan to the exhaust funnel at a height of 21.5 meters (above the ground).

For vehicle emissions, we choose energy-saving and environmentally-friendly vehicles, while strictly controlling the air pollutant emissions of purchased vehicles. For a business trip, we will arrange the vehicles reasonably according to the use, number of persons, destination, place of departure and otherwise, and try to transport more persons in one trip to improve the vehicle use efficiency. In addition, we have set vehicle fuel use standards and fuel consumption standards according to different models, and scientifically and reasonably use various electrical equipment on vehicles, and prohibit the idling of engine, so as to reduce fuel consumption and emissions.

5 ENVIRONMENTAL PROTECTION (Continued)

5.2 ENERGY MANAGEMENT (Continued)

5.2.2 Waste

During the production, the Factory generates hazardous waste and non-hazardous waste, among which, hazardous waste includes waste oil and its containers, dyes, waste paint, paint scraps, and organic resin waste. In 2019, the amounts of hazardous waste and non-hazardous waste produced by the Group were 1.7 tons and 55.3 tons respectively.

Waste (Ton)	**Amount Produced in 2019**	Amount Produced in 2018	Percentage Change
Nitrogen oxide	**1.7**	2.0	-15%
Sulfur oxides	**55.3**	62.5	-12%

The Factory has entered into agreements for disposal of hazardous waste with qualified waste disposal companies, pursuant to which hazardous waste will be transferred, temporarily stored and disposed of by them. Recyclable non-hazardous waste, including metal scraps, paper waste and sawdust, are collected and weighed by us and then delivered to environmental service companies which comply with laws, for recycling and reusing purposes.

5.2.3 Wastewater

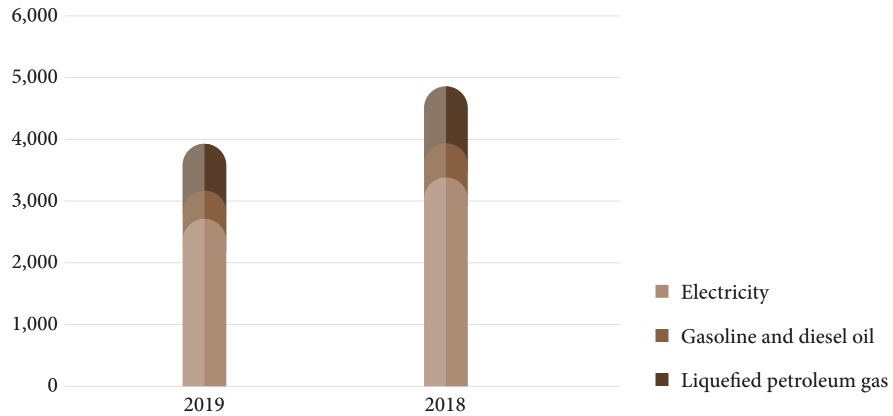
No industrial wastewater is produced during the operation of the Group. The domestic wastewater in the Factory area is discharged into the municipal sewage treatment Factory after being treated by the septic tank in the Factory, to ensure compliance with the Integrated Wastewater Discharge Standard.

5.3 PROPER USE OF RESOURCES

5.3.1 Energy

Energy used in the operation of the Group mainly includes fossil fuels burned in the Factory, vehicle oils and electricity consumption for daily operation. The electricity consumption is the biggest energy consumption of the Group, accounting for 69% of the total energy consumption, and such electricity is mainly consumed for equipment operation in the Factory. During the Reporting Year, the Group reported the total energy consumption of 3,940.0 GJ and the energy consumption intensity of 0.066GJ/piece of product, representing a decrease of 19% and an increase of 26% respectively, compared with 2018.

Total Energy Consumption(GJ)

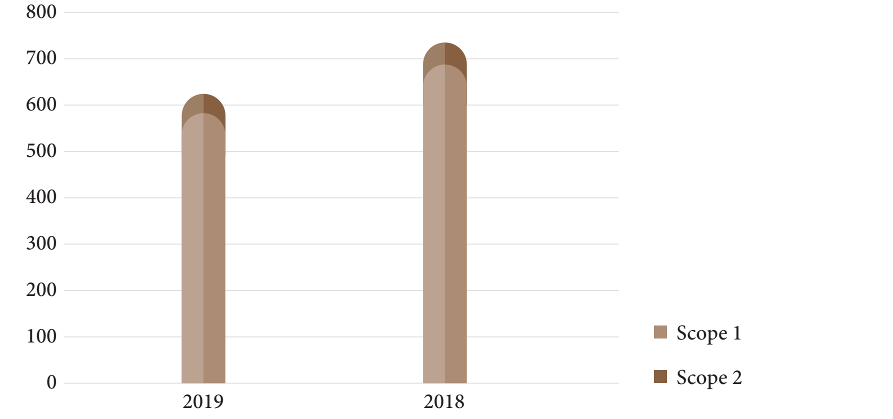


5.3.2 Greenhouse Gas Emission

Greenhouse gas emissions of the Group are mainly direct emissions from burning fossil fuel (Scope 1), and indirect emissions from consumption of purchased electricity (Scope 2).

During the Reporting Year, the Group reported the total greenhouse gas emission of 626.6 tCO_2e and the emission intensity of 0.01 tCO_2e/piece of product, representing a decrease of 15% and an increase of 32%, compared with 2018.

Total Greenhouse Gas Emissions (tCO_2e)



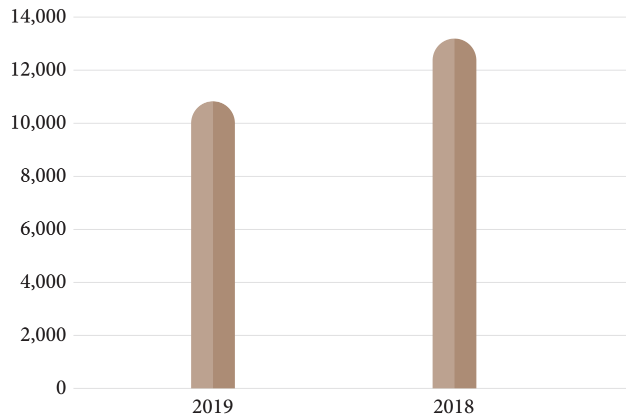
5 ENVIRONMENTAL PROTECTION (Continued)

5.3 PROPER USE OF RESOURCES (Continued)

5.3.3 Water Resources

During the Reporting Year, the Group reported the total water consumption of 10,873 m^3 and the water consumption intensity of 0.18 m^3/piece of product, representing a decrease of 18% and an increase of 28%, compared with 2018.

Total Water Consumption (m^3)



5.3.4 Packaging Material

The production process of the Group involves the use of packaging materials including carton box. In 2019, the total amount of packaging materials used for finished products was 124.69 tons, with the intensity of 0.0021 tons/piece of product.

Packaging Material (Ton)	**Amount Used in 2019**	Amount Used in 2018	Percentage Change
Total amount of packaging materials	**124.69**	149.06	-16%

5 ENVIRONMENTAL PROTECTION (Continued)

5.4 ENERGY-SAVING AND EMISSION REDUCTION PLAN

In order to improve the resource efficiency in the daily operations of the Group and reduce unnecessary emissions, we have operated according to the Environmental Management Policies and Objectives and the Energy Consumption Management Measures, and have formulated the Energy Conservation and Emission Reduction Work Plan every year. We raise employees' awareness of energy conservation and emission reduction, through publicity, education, enhanced management, reasonable use and innovative mechanisms, energy conservation and consumption reduction activities. The following table summarizes the energy conservation and emission reduction measures taken by the Group during the Reporting Year:

Item	Measures
Electricity saving	• Minimize the use of air conditioners by maintaining a minimum air conditioning temperature of 26° C in the office area • Use natural light as far as possible to reduce the use of lighting equipment; and turn off all lighting equipment before leaving the office • Turn off the power of all devices before leaving work, so as to reduce the standby time of such devices
Water saving	• Turn off the faucet immediately after washing hands • Improve daily maintenance of water and heating pipelines to prevent leakage of water • Use recycled water for the spray-work painting booth located within the Factory
Reduction in the use of office supplies	• Use recycled paper • Use double-sided paper • Promote paperless office by using electronic communications to reduce paper • Encourage personal use of drinking cups for avoiding the use of disposable cups • Improve the purchase and distribution policies of office supplies by prioritizing use of energy-saving and environmental products

In order to ensure the effective implementation of the energy conservation and emission reduction plan for the Factory, we have established a leading group for energy conservation and emission reduction, which is responsible for supervising the use of resources by the Factory and implementing corresponding reward and punishment measures to encourage employees to participate in energy conservation and consumption reduction activities. The Group will gradually establish a resource management organization system with standard management and clear responsibilities, and form a long-term mechanism for energy conservation and emission reduction.

5 ENVIRONMENTAL PROTECTION (Continued)

5.4 ENERGY-SAVING AND EMISSION REDUCTION PLAN (Continued)

Green Purchase

The Group takes into consideration, environmental factors, in purchase of materials. All wood products required for the production process of the Factory (including wood, accessories and steel) have been certified by the Forest Stewardship Council (hereinafter referred to as "FSC") to ensure sustainability of sources, and ISO14001 certificate was obtained for 5% of such products. In addition, as for paper used by the Factory, 80% of such paper derived from the FSC certified paper suppliers, while the remaining 20% came from the recycled paper.

In view that wood is a major material for electric fireplaces, the Group plans to improve its wood management procedures in the future. For example, over the course of wood purchase, the Group will specify in orders to be placed that the suppliers shall cut wood based on our product dimension specifications in their production facilities to prevent waste due to secondary cutting. Sawdust and wood scraps generated from the production process will be recycled for engineered wood to maximize the wood resources. In the long term, we will focus on introducing imitation wood products to reduce use of wood.

6 OPERATING PRACTICES

6.1 SUPPLY CHAIN MANAGEMENT

China Creative Global has always valued the collaboration with its suppliers, and an established cooperative partnership with its suppliers can help the Group continuously optimize its operation process and improve its operation quality. During the Reporting Year, the Group had a total of 231 suppliers, all of which were located in China and were subject to the relevant supplier management policies of the Group.

According to the "Supply Agreement" signed with the suppliers, both parties can formally cooperate with each other after reaching a consensus on the delivery schedule, quality and price. The Group has strict requirements on the quality of raw materials which must comply with national or industrial standards, including but not limited to RoHS1 and REACH2 standards. The Factory will inspect the quality of the goods, and those failing to meet the standards will be returned for handling or the suppliers will be required to make compensation.

The Group emphasizes the quality of the raw materials as well as the social responsibility performance of the suppliers. The major materials purchased by the Factory are electronic components, packaging materials and steel and their production and use process will affect the health of our employees and the environment. The Factory has formulated the "Supplier Social Responsibility Management Measures" to manage the relevant performance of our suppliers, and has required them to comply with the requirements under the international standards "Business Social Compliance Initiative" (BSCI) and sign the "Social Responsibility Undertaking" of the Company, whereby undertaking to fulfill the social responsibility requirements. The human resources and administrative department shall conduct factory audit over suppliers under the BSCI, and the suppliers failing to meet the relevant requirements are required to make rectifications in due course, during which, all outstanding production orders will be suspended.

6 OPERATING PRACTICES (Continued)

6.2 PRODUCT RESPONSIBILITY

Since 2010, China Creative Global has obtained the ISO9001 quality management certification and continued to implement strict quality and safety monitoring standards. The Factory has formulated internal policies to regulate its production process, including "Materials Inspection Instruction", "PQC Operation Instruction" and "Inspection and Test Management Procedures" which can strictly control the quality of raw materials, semi-finished products and finished products.

The products produced by the Group shall not only comply with the requirements of the customers, but also comply with the relevant industrial and national standards. For example, electric fireplaces shall satisfy the safety and quality standards in China, North America or Europe, while home decor products shall pass the hazardous substances test according to the requirements of the overseas customers to ensure product quality and safety.

Raw materials	Semi-finished products	Finished products
The inspectors verify whether the raw materials meet the requirements of the purchase orders and only those identified to be qualified can be warehoused	The manufacturing department checks items required for inspection under the standards with proper equipment	The manufacturing department warehouses the inspected finished products with labels and QC marks attached

6.3 PRODUCT EXAMINATION PROCEDURE

The certification mark will be attached to all products that have passed the product examination and obtained the certification prior to their shipments by the quality control department according to the specifications stipulated in the "Procedures to Use, Manage and Control Product Certification Mark". Use of compulsory certification mark shall be in compliance with the requirements under the Management Measures on Compulsory Product Certification Mark. Use of compulsory certification mark is not permitted for uncertified products, unqualified products, and certified products that are modified without certification by any certification body, none of which therefore is permitted for shipment.

According to the "Non-Compliant Product Control Procedures", the unqualified products found in the product inspection process will be separated and isolated from the qualified products, and will be attached with the identification labels and not be stored in the warehouse or used in the production process. In order to minimize the risk of public safety, once any product with safety hazards were sold to the market, the Factory will recall and deal with the defective products according to the "Product Recall Procedures".

The Group also takes measures to manage the products advertising matters, and the legal advisors will provide legal opinions and perform their duty of oversight. In case that any advertisement is found false or exaggerating, the Group will immediately cease to circulate such advertisement and eliminate the negative effects by issuing a clarification announcement accordingly.

6 OPERATING PRACTICES (Continued)

6.4 CUSTOMER SATISFACTION

Through the establishment of effective communications channels with the customers, the Group is confident that it will help the Group to know their needs, so as to perfect the products and services continuously. The Group has built complaint channel and manages each complaint carefully, and the customers can express their opinions by telephone, e-mail or fax. Upon receiving customer complaints, relevant departments will deal with these complaints according to "Customer Complaint Handling Procedures".

Customer complaints are generally divided into product quality or product delivery, the quality control department will analyze the causes based on the content of customer complaints. The responsibility departments shall take corrective actions or formulate preventive measures immediately, while our sales department will respond to the customers and survey the customers' satisfaction in settlement results, and will follow up these cases until the relevant complaints are fully resolved. If the products should be returned for repair, the quality department will fully examine the repaired products before delivering them to the customers. The sales department will record all complaints, corrective actions and preventive measure to avoid recurrence of similar incidents. During the Reporting Year, the Group did not receive any customer.

6.5 PRIVACY PROTECTION

Customer data security protection is critical to the Group in maintaining sound corporate governance and building long standing trusted relationship with its customers. The Factory has formulated the "Corporate Information Management Measures" to divide internal information into different levels, including top secret information, confidential information, secret information, sensitive information and public information. All departments have the responsibility to implement relevant management measures for different types of information, while the operation and human resources department will check the results of privacy protection in each department regularly. Violators need to bear the responsibility of secret leak and are subject to economic sanctions. In the worst case scenario, the violators may be dismissed and held liable.

During the Reporting Year, the Group was not aware of any violation of laws and regulations that have a significant impact on the Group related to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.

6 OPERATING PRACTICES (Continued)

6.6 ANTI-CORRUPTION

China Creative Global adopts a zero-tolerance policy on acts of corruption in any form, including bribery and extortion, fraud and money laundering, by undertaking that it conducts its business in an honest, ethical and good faith manner. The Group strictly complies with the national laws and regulations related to anti-corruption, including but not limited to the Criminal Law of the People's Republic of China and the Anti-Unfair Competition Law of the People's Republic of China.

In order to create a clean and pragmatic atmosphere within the Group, the finance department regularly organizes relevant training to explain to employees the anti-corruption policy of the Company and how to deal with the commercial bribery. The Company is committed to strengthening employees' awareness of corruption prevention through training and avoiding employees' involvement in any corruption.

The Group formulated its own internal policies to regulate employee's behaviors. All employees at the Factory shall be required to enter into the Employee Undertaking. The Anti-corruption and Anti-bribery Control Procedures and the Business Ethics and Integrity Control Procedures clearly stipulate that our employees are prohibited from providing special treatments and seeking any form of benefits from our customers, suppliers or any business associates. Our employees also are required to report the conflict of interest to the Company in the Conflict of Interest Declaration Form. The human resources and administrative department will conduct the regular sampling inspection. Any employee in violation of the business ethics and integrity control procedures will be subject to corporate penalties.

To strengthen the cooperation with suppliers in good faith, both parties shall enter into the Business Integrity Cooperation Agreement when cooperating to make a commitment to the code of conduct in relation to the prevention of bribery. During the Reporting Year, all qualified suppliers of the Group have entered into the agreement. The Group has established a reporting mechanism to encourage employees or external stakeholders to report suspected corruption incidents. Informed persons can report under their real name or anonymously via the suggestion box or the reporting hotline. Disclosing the identities of the whistle-blowers or retaliating against them is strictly prohibited by the Company. Violators will be dismissed or transferred to a judicial authority for legal treatment. The Company will reward whistle-blowers when the incident is found to be true.

During the Reporting Year, the Group was not aware of any violations of relevant laws and regulations relating to the prevention of bribery, extortion, fraud and money laundering. The Group was not involved in any cases of corruption.

6.7 CUSTOMER FEEDBACK

Client satisfaction was the measure and the key of the company's success. The Group valued every customer's opinion and encouraged clients to provide feedbacks on our services. In case of comments received from the clients, trained employees would review it and address clients' concern professionally. During the Reporting Year, the Group did not receive any complaint on our products.

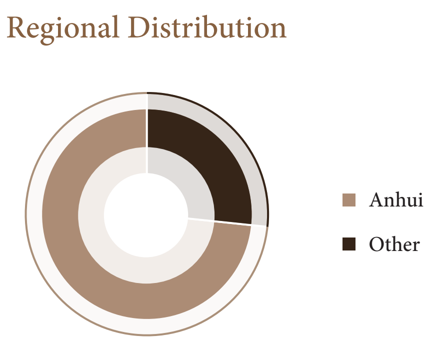
7 CREATING VALUES TO OUR EMPLOYEES

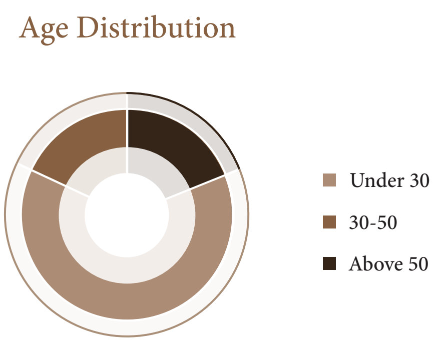
7.1 EMPLOYMENT POLICY

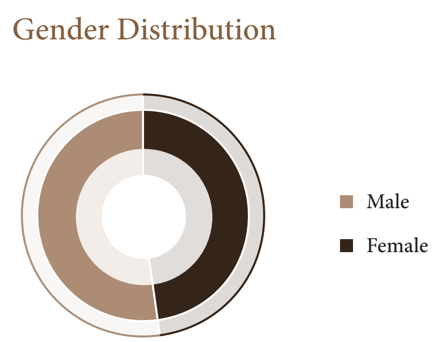
With the commitment to create a harmonious workplace, the Group adhered to the principle of fairness. The Group treated the employees with respect and fairness and encouraged a culture of equal opportunity regardless of race, color, gender, age, religion, physical or mental health status, marital status, family status, nationality, political affiliation and other factors. Any forms of discrimination were prohibited. Any employee who violated this policy would be subject to immediate disciplinary action such as discharge after investigation from the management. During the Reporting Year, the Group was not aware of any violations against the relevant labor laws and regulations.

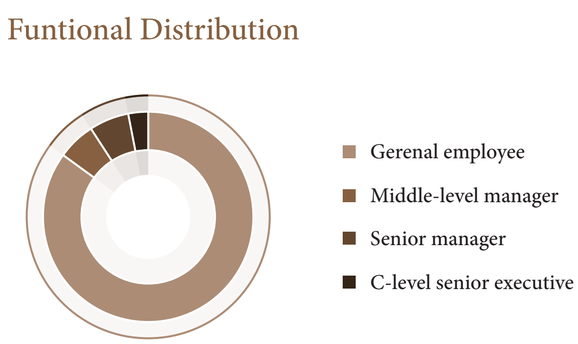
The Group believed the quality services and environmental stewardship were built upon the dedicated employees. The Group was committed to build a supportive workforce and protect their well-being. In light of this, the Group had established various policies and measures to safeguard the benefits of our staff. Employees could enjoy a comprehensive and competitive remuneration package including, but not limited to, paid time off and health insurance.

As an ethical corporate, the Group prohibited any illegal employment of children or forced labor, discrimination and harassment. In order to prevent employment of child labor, the human resources department was responsible for verifying the identity documents of the candidates before employment. If the candidate failed to meet our legal employment requirements, the recruitment procedure would be terminated.









In 2019, the average turnover rate of Factory was 45.8%, and new employees accounted for 18.6%.

7 CREATING VALUES TO OUR EMPLOYEES (Continued)

7.2 HEALTH AND SAFETY

To build a safe working environment, the Group placed unwavering effort on minimizing the occupational accident risk. The Group established a series of guidelines and policies to prevent accidents at the workplace. The Group required the employees to report on any unsafe practices, injury, accident or safety hazard immediately to their supervisor(s). In addition, the Group provided good working posture trainings to raise the employees' awareness of occupational health and safety. During the Reporting Year, with zero fatalities and work injury reported within the Group.

7.2.1 Factory Safety

- In workshops, all areas involving the use of chemicals are equipped with eyewash facilities with pictures and legends
- In workshops of the Factory involving the use of chemicals, materials safety data sheets (MSDS) are posted, in which chemicals used are recorded
- In workshops, machinery equipment is equipped with safety protection devices. For example, pulleys and other dangerous parts are equipped with protective covers to prevent any accidents that cause bodily injury to Factory employees due to machine parts, functions and processes
- Personal protective equipment is provided for each employee
- The safety of machines is checked every day, and dirt and grease on machines are cleaned off to ensure that the machines are clean to avoid danger
- Fire extinguishers are provided in each workshop, and fireworks are forbidden in workshops and warehouse areas

7.2.2 Emergency Management

In order to effectively control emergencies and minimize potential damage, the Factory has formulated the Accident Emergency Plan in accordance with the Production Safety Law of China to response to various potential emergencies such as leak, earthquake, fire, typhoon and explosion. In addition to various accident management measures, the Factory has a contact team, a fire-fighting and rescue team, a safety evacuation team and a security alert team, which are responsible for direction in case of an emergency, so that employees can still perform their duties in an emergency, thus minimizing casualties and property damage.

7.2.3 Occupational Health of Employees

We pay close attention to the occupational health of employees and strictly comply with the Law of the China on the Prevention and Control of Occupational Diseases. The Factory organizes employees holding a special position to have health and safety checkups every year to ensure that they are in good physical condition. During the Reporting Year, the Group did not find any health and safety related violations or work-related injuries in the Factory, with the accident rate of 0%.

7 CREATING VALUES TO OUR EMPLOYEES (Continued)

7.3 TRAINING AND DEVELOPMENT

The Group believed employees were one of the most important assets and recognised the importance of employee development to the business growth, the Group emphasized on the talent cultivation. Furthermore, employees could grow with the Group by realising their own values on the basis of their personal interests and expertise. The Group was dedicated to formulating comprehensive training programs and policies to encourage the employees to pursue continuous development of their capabilities and professional skills. In addition to the internal on-job trainings, the Group supported our employees to seek external education to facilitate their long-term career development.

7.4 ETHICAL OPERATION

Following the principle of integrity, the Group strictly abided by the regulations of anti-corruption, anti-bribery, anti-money laundering and any form of misbehaviors.

The Group established whistle-blowing mechanism to raise concerns about possible suspected business irregularities. Employees were encouraged to report suspicious cases anonymously to management and to report to law enforcement authorities when necessary. All reported cases would be fully investigated by the management of the Group on confidential basis. During the Reporting Year, the Group complied with all laws and regulations regarding corruption and money-laundering such as Prevention of Bribery Ordinance.

8 MOVING FORWARD TOGETHER WITH THE COMMUNITY

As a socially responsible enterprise, The Group has extended our commitment to create values for the local community. The Group will make good use of its professional skills and resources to continue to understand the needs of the community and to contribute to the society through sponsorship and donation.

9 LOOKING FORWARD

The Group will keep integrating sustainability elements into its decision making and resource allocation, and explore other sustainable business opportunities to diversity business risk and drive towards a sustainable future.

10 ESG CONTENT INDEX

Aspect/Description/KPI		Statement/Section
A. Environment		
A1 Emission		
A1	General Disclosure	5 Environmental Protection
A1.1	Types of emissions and respective emissions data	5.2 Energy management
A1.2	Greenhouse gas emissions in total and intensity	5.3 Proper use of resources
A1.3	Total hazardous waste produced and intensity	5.2 Energy management
A1.4	Total non-hazardous waste produced and intensity	5.3 Proper use of resources
A1.5	Description of measures to mitigate emissions and results achieved	5.3 Proper use of resources
A1.6	Description of how hazardous and non-hazardous wastes were handled, reduction initiatives and results achieved	5.2 Energy management
A2 Use of Resources		
A2	General Disclosure	5 Environmental Protection
A2.1	Direct and/or indirect energy consumption by type in total and intensity	5.2 Energy management
A2.2	Water consumption in total and intensity	5.3 Proper use of resources
A2.3	Description of energy use efficiency initiatives and results achieved	5.2 Energy management
A2.4	Description of whether there was any issue in sourcing water that was fit for purpose, water efficiency initiatives and results achieved	5.3 Proper use of resources
A2.5	Total packaging material used for finished products and with reference to per unit produced	5.3 Proper use of resources

10 ESG CONTENT INDEX (Continued)

Aspect/Description/KPI		Statement/Section
A3 The Environment and Natural Resources		
A3	General Disclosure	5 Environmental Protection
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	5 Environmental Protection
B. Social		
B1 Employment		
B1	General Disclosure	7.1 Employment policy
B1.1	Total workforce by gender, employment type, age group and geographical region	7.1 Employment policy
B1.2	Employee turnover rate by gender, age group and geographical region	7.1 Employment policy
B2 Health and Safety		
B2	General Disclosure	7.2 Health and safety
B2.1	Number and rate of work-related fatalities	No reported cases of injuries or fatality were found in the Reporting Year
B2.2	Lost days due to work injury	0
B2.3	Description of occupational health and safety measures adopted, how they were implemented and monitored	7.2 Health and safety
B3 Development and Training		
B3	General Disclosure	7.3 Training and development
B3.1	Percentage of employees trained by gender and employee category	Not disclosed
B3.2	Average training hours completed per employee by gender and employee category	Not disclosed
B4 Labour Standard		
B4	General Disclosure	7.1 Employment policy
B4.1	Description of measures to review employment practices to avoid child and forced labour	7.1 Employment policy
B4.2	Description of steps taken to eliminate such practices when discovered	7.1 Employment policy

10 ESG CONTENT INDEX (Continued)

Aspect/Description/KPI		Statement/Section
B5 Supply Chain Management		
B5	General Disclosure	6.1 Supply chain management
B5.1	Number of suppliers by geographical region	6.1 Supply chain management
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices were being implemented, how they were implemented and monitored	6.1 Supply chain management
B6 Product Responsibility		
B6	General Disclosure	6.2 Product responsibility
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Not applicable
B6.2	Number of products and service-related complaints received and how they were dealt with	The Group received no complaints during the Reporting Year
B6.3	Description of practices relating to observing and protecting intellectual property rights	Intellectual property right was not material issue to the operations
B6.4	Description of quality assurance process and recall procedures	6.2 Product responsibility
B6.5	Description of consumer data protection and privacy policies, how they were implemented and monitored	6.5 Privacy protection
B7 Anti-Corruption		
B7	General Disclosure	6.6 Anti-corruption
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting year and the outcomes of the cases	6.6 Anti-corruption
B7.2	Description of preventive measures and whistle-blowing procedures, how they were implemented and monitored	6.6 Anti-corruption
B8 Community Investment		
B8	General Disclosure	8 Moving forward together with the community
B8.1	Focus areas of contribution	8 Moving forward together with the community
B8.2	Resources contributed to the focus area	8 Moving forward together with the community

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TO THE MEMBERS OF CHINA CREATIVE GLOBAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of China Creative Global Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 68 to 141, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group for the year ended 31 December 2019. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

1. Deconsolidation of subsidiaries

As described in note 2 to the consolidated financial statements, on 7 May 2021, the Company announced that, based on public available records, the Company noted that the Group's certain subsidiaries, including Allen China Co., Ltd. (亞倫(中國)有限公司), Allen Electronics Co., Ltd. Fujian (福建亞倫電子電器科技有限公司), Quanzhou Allen Light Industry Co., Ltd. (泉州亞倫輕工有限公司) and Allen Electronics Co., Ltd. Anhui (安徽亞倫電子科技有限公司) (collectively the "Deconsolidated Subsidiaries") located in the People's Republic of China ("PRC") were disposed of on 20 November 2020, without any prior approval of or notice to the Company's board of directors and, being the transfer of the Group's substantial assets, without approval by the Company's shareholders. Therefore, the Company was unable to obtain complete books and records and relevant accounting and supporting documents (the "Books and Records") from the Deconsolidated Subsidiaries located in the PRC. All books and records and operations of the Deconsolidated Subsidiaries were at all material time maintained and controlled by the senior management personnel of the Deconsolidated Subsidiaries.

The Company has engaged a legal adviser in Hong Kong to perform a due diligence investigation so as to obtain more information about the above situation and the present situations in relation to the Deconsolidated Subsidiaries and to provide necessary assistance in relation to the preparation and the audit of the Group's consolidated financial statements. Nevertheless, the Company was still unable to obtain any information and documents thereabout and the Company was unable to exercise its control over the Deconsolidated Subsidiaries.

In light of the above, the Company has engaged an independent professional firm ("Forensic Accountants") to investigate and prepare a forensic report (the "Investigation Report") on the Deconsolidated Subsidiaries. Based on the findings in the Investigation Report, it was noted, among others, that the transfer of the Deconsolidated Subsidiaries was effected and registered in the PRC authorities on 20 November 2020 and the Group had disposed of the Deconsolidated Subsidiaries on the same date. Notwithstanding that the following actions being taken, including searches of publicly available information and review of relevant information documents provided by the board of directors of the Company, the Forensic Accountants opined that they were unclear whether the Deconsolidated Subsidiaries had relocated its office and/or whether the business of the Deconsolidated Subsidiaries was still in operation. Based on the findings in the Investigation Report and after careful consideration, the directors of the Company (the "Directors") were of the view that the Company no longer has: (a) power over the Deconsolidated Subsidiaries; (b) exposure or rights to variable returns from its involvement with the Deconsolidated Subsidiaries; or (c) the ability to use its power over the Deconsolidated Subsidiaries to affect the amount of the Company's returns.

Due to the situation described above, the Directors considered that the Group was unable to exercise its rights as the shareholder either to control the assets and operations of the Deconsolidated Subsidiaries or to exercise the decision-making rights over the Deconsolidated Subsidiaries and also had not obtained completed and reliable information and documents from the Deconsolidated Subsidiaries for the purpose of the audit of the Group's consolidated financial statements for the year ended 31 December 2019. As such, the Directors further considered that it is inappropriate to consolidate the financial results of the Deconsolidated Subsidiaries into the Group's consolidated financial statements. The Directors have resolved to deconsolidate the Deconsolidated Subsidiaries with effect from 31 December 2019, the date when the Directors considered that it had effectively lost control over the Deconsolidated Subsidiaries. In addition, the Directors were of the view that the recoverability of the amounts due from the Deconsolidated Subsidiaries was remote and do not expect to be able to recover the outstanding balances in the foreseeable future. The resulting loss arising from the deconsolidation of the Deconsolidated Subsidiaries of approximately RMB1,329,144,000 has been recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019.

Under HKFRS 10 "Consolidated Financial Statements", the carrying amounts of the assets and liabilities of the Deconsolidated Subsidiaries should be derecognised from the consolidated financial statements of the Group at the date when control over the Deconsolidated Subsidiaries was lost. Since we were unable to gain access to the Books and Records and management personnel of the Deconsolidated Subsidiaries, we were unable to obtain sufficient appropriate audit evidence to assess the appropriateness of the accounting treatment and amounts adopted by the Group of not treating the Deconsolidated Subsidiaries as subsidiaries of the Group on 31 December 2019. We were also unable to obtain sufficient appropriate audit evidence and explanation to satisfy ourselves as to the date when the Group lost control over the Deconsolidated Subsidiaries. There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the resulting loss arising from the deconsolidation of the Deconsolidated Subsidiaries of approximately RMB1,329,144,000 had been recognised in the consolidated statement of profit or loss and other comprehensive income are free from material misstatement. Any adjustments that would be required may have a consequential significant effect on the net liabilities of the Group and loss and cash flows of the Group for the year ended 31 December 2019, and the related disclosures thereof in the consolidated financial statements.

During the audit, due to the absence of complete Books and Records of the Deconsolidated Subsidiaries, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves about the occurrence, completeness, accuracy, cut-off, classification and presentation, commercial substance, business rationale and related disclosure of the results and any related party transactions of the Deconsolidated Subsidiaries for the year ended 31 December 2019 which have been included in the consolidated statement of profit or loss and other comprehensive income and which have been summarised and disclosed in note 32 to the consolidated financial statements.

Any adjustments found to be necessary in respect of the abovementioned matters might have significant consequential significant effects on the net assets of the Group as at 31 December 2019 and the loss and cash flows of the Group for the year ended 31 December 2019 and the related disclosure thereof in the consolidated financial statements.

In addition, due to circumstances described above, 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". There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the contingent liabilities and commitments of the Group as at 31 December 2019 were free from material misstatements. Any adjustments that would be required may have a consequential significant effect on the net liabilities of the Group as at 31 December 2019 and loss and cash flows of the Group for the year ended 31 December 2019, and the related disclosures thereof in the consolidated financial statements.

2. Material uncertainties relating to the forensic investigations from special investigation committee of the Company

As disclosed in note 4 to the consolidated financial statements, on 29 December 2020, the Company made an announcement that the Company was informed the Deconsolidated Subsidiaries had already been disposed of ("Incident"). On 7 May 2021, the Company made an announcement that, based on a preliminary legal study on the Incident carried out by the Company's legal adviser appointed by the Directors, considered that the Incident may involve illegal and unauthorised transfers of the Group's substantial assets. In consequence of the investigation conducted, the Company suspended all the duties of three executive directors and one independent non-executive director with effect from 7 May 2021.

The Company further announced on 11 May 2021 that the special investigation committee ("SIC") was established for the purposes of addressing the matters of the Incident.

On 30 June 2021, the Company engaged Forensic Accountants to undertake a forensic investigation ("Investigation") into matters on the Incident. On 5 October 2021, the Forensic Accountants submitted an Investigation Report to the SIC. Up to the date of this report, no assets of the Deconsolidated Subsidiaries have been recovered. On 8 October 2021, the Directors considered that the preliminary findings in the Investigation Report and the availability of the Group's financial statements are lastly made up to 31 December 2019, the Directors agreed and approved the date of deconsolidation of the subsidiaries was 31 December 2019.

On 3 December 2021, the Company also announced that, based on the preliminary findings of the Investigation Report, the Directors were of the view that the transfer was effected without acknowledge and proper approval by the Directors and considered that the Company lost the control over the Deconsolidated Subsidiaries involved in the unauthorised and illegal transfer. The Company's management will take further actions to recover the losses from the deconsolidation of subsidiaries. On 7 January 2022, the Company engaged a PRC lawyer to perform a professional due diligence on the Deconsolidated Subsidiaries in PRC. Up to the date of the auditor's report, the due diligence was still in process.

The findings in the Investigation Report and result of the actions taken by the Company's management to recover losses from the Deconsolidated Subsidiaries showed that there may have a significant impact on the Group's substantial assets and liabilities as at 31 December 2019. In light of the above, we consider that there are material uncertainties as to whether the preliminary findings by the Forensic Accountants may have a significant impact on the Group's consolidated results for the year ended 31 December 2019 and the consolidated financial position as at that date and the related disclosures thereof in the consolidated financial statements.

3. Multiple uncertainties relating to going concern

The Group incurred a net loss of approximately RMB1,675,984,000 and a net operating cash outflow of approximately RMB282,022,000 during the year ended 31 December 2019. As at 31 December 2019, the Group's deficit attributable to shareholders of the Company amounted to approximately RMB152,790,000 and the total indebtedness was (comprising bond payables in Hong Kong) amounted to approximately RMB139,443,000, while the Group's cash and cash equivalents was only approximately RMB58,000.

In respect of the bond payables in Hong Kong, during the year ended 31 December 2019 and up to the date of this report, the Company failed to repay the principals and related interests of the bonds in accordance with the repayment schedule of the bond contracts, thereby triggered the default redemption clause of the bond contracts. As a result, all the outstanding bond borrowings amounting to RMB139,443,000 as at 31 December 2019 became immediately repayable if requested by the bond holder creditors as at the date of this report. Therefore, all of the bonds were classified as current liabilities as at 31 December 2019. In addition, the Company received several writs of summons and a statutory demand from the bond holder creditors in relation to the overdue payments of the bonds' principals and related interests. Further details are set out in note 28 to the consolidated financial statements.

As further explained in note 2 to the consolidated financial statements, the Directors have given careful consideration to the future liquidity and performance of the Group and its available resources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. A number of measures have been taken to mitigate the liquidity pressure and to improve the financial position, to finance its operation and to restructure its debts. These include (i) proposed subscription of shares to raise additional working capital; (ii) active negotiation with the bond holders to obtain an extension for repayment of the bonds and not demand for repayment even if any event of default or potential event of default might occur; (iii) active negotiations with potential investors to obtain financial support to the Group for its operation on a going concern basis and undertake all the liabilities that may arise; and (iv) the Directors will continue to implement measures aiming at improving the working capital and cash flows of the Group including closely monitoring general administrative expenses and operating costs.

As at the date of approval of the consolidated financial statements, the implementations of these measures are still in progress. The Company continues to seek new business opportunities to improve its profitability and business prospects, consolidate or streamline its existing business, enhance its future business development and strengthen its revenue base, and may diversify into other businesses should suitable opportunities arise. The validity of the going concern assumption on which the consolidated financial statements are prepared is dependent on the successful and favourable outcomes of the measures taken by the Directors. The consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern and, therefore, do not include any adjustments relating to the realisation and reclassification of non-current assets and non-current liabilities that may be necessary if the Group is unable to continue as a going concern. Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at amounts other than those currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities.

4. Scope limitation of trade and other payables and current tax liabilities

As at 31 December 2019, included in trade and other payables and current tax liabilities were approximately RMB2,000,000 and approximately RMB3,671,000 respectively. We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves whether the aforesaid balances were free from material misstatements, and whether the effects of these transactions, including the related cash flows, have been properly accounted for and disclosed in the consolidated financial statements as at and for the year ended 31 December 2019. Consequently, we were unable to determine whether any adjustments to these amounts and related disclosures were necessary.

5. Opening balances and corresponding figures

Our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2018, which forms the basis for the corresponding figures presented in the current year's consolidated financial statements, was disclaimed because of the significance of the possible effect of the limitations on the scope of our audit of opening balances and corresponding figures during our audit.

During the course of the audit, due to the limitations described in Point (1) and (4) above, we were not provided with the complete Books and Records of the Deconsolidated Subsidiaries, and sufficient information of trade and other payables and current tax liabilities of the Group for the purpose of our audit.

Therefore, we were unable to obtain sufficient appropriate audit evidence and there were no alternative audit procedures that we could perform to satisfy ourselves about the opening balances as at 1 January 2019 and corresponding figures for the year ended 31 December 2018 were free from material misstatements.

Any adjustments to the opening balances as at 1 January 2019 found to be necessary may affect the balance of retained profits as at 1 January 2019 and the results and related disclosures in the notes to the consolidated financial statements of the Group for the year ended 31 December 2019. The comparative figures shown in the consolidated financial statements may not be comparable with the figures for the current year.

RESPONSIBILITIES OF THE DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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

REPORT ON OTHER MATTERS UNDER SECTIONS 407(2) AND 407(3) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the inability to obtain sufficient appropriate audit evidence as described in the Basis for Disclaimer of Opinion section of our report above:

- we were unable to determine whether adequate accounting records had been kept; and
- we have not obtained all the information or explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by the previous auditor of the Group who expressed an unmodified opinion on those statements on 29 March 2019.

Confucius International CPA Limited
Certified Public Accountants
Wong Kam Hing
Practising Certificate Number: P05697
Hong Kong, 19 January 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	8	**115,223**	152,501
Cost of sales		**(83,393)**	(134,782)
Gross profit		**31,830**	17,719
Other income	10	**10,207**	12,227
Other gains or (losses) – net	11	**293**	(22,342)
Selling and distribution expenses		**(222,534)**	(17,160)
Administrative and other operating expenses		**(134,631)**	(67,362)
Impairment losses on property, plant and equipment	18	**—**	(10,831)
Impairment losses on prepayments	25	**—**	(22,360)
Impairment losses on goodwill and intangible asset	22	**(5,286)**	(15,650)
Fair value gain on investment property	19	**—**	300
(Loss allowance) reversal of loss allowance for trade receivables	24	**(1,980)**	582
Loss from operations		**(322,101)**	(124,877)
Finance costs	12	**(23,947)**	(20,224)
Net loss arising on deconsolidation of subsidiaries	32	**(1,329,144)**	—
Loss before tax		**(1,675,192)**	(145,101)
Income tax expense	13	**(792)**	(792)
Loss and total comprehensive expense for the year	14	**(1,675,984)**	(145,893)
Loss per share	17		
Basic (RMB)		**(0.77)**	(0.07)
Diluted (RMB)		**(0.77)**	(0.07)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	**2019 RMB'000**	2018 RMB'000
Non-current assets			
Property, plant and equipment	18	—	495,010
Investment property	19	—	70,300
Land use rights	20	—	174,990
Right-of-use assets	21	—	—
Goodwill and intangible asset	22	—	6,154
Deposits, prepayments and other receivables	25	—	32,104
		—	778,558
Current assets			
Land use rights	20	—	3,981
Inventories	23	—	7,367
Trade receivables	24	—	55,894
Deposits, prepayments and other receivables	25	**624**	432,364
Bank and cash balances	26	**58**	889,760
		682	1,389,366
Current liabilities			
Trade and other payables	27	**10,358**	30,528
Borrowings	28	**139,443**	159,724
Current tax liabilities		**3,671**	5,794
		153,472	196,046
Net current (liabilities) assets		**(152,790)**	1,193,320
Total assets less current liabilities		**(152,790)**	1,971,878

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Borrowings	28	—	8,890
Deferred tax liabilities	29	—	6,133
		—	15,023
NET (LIABILITIES) ASSETS		**(152,790)**	1,956,855
Capital and reserve			
Share capital	30	**171**	171
Reserves		**(152,961)**	1,956,684
TOTAL (DEFICIT) EQUITY		**(152,790)**	1,956,855

The consolidated financial statements on pages 68 to 141 were approved and authorised for issue by the Board of Directors on 19 January 2022 and are signed on its behalf by:

Wu Ming Fat, Simon
DIRECTOR

Ching Wan Wah, Kitty
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital RMB'000 (Note 30)	Share premium RMB'000 (Note 30)	Capital reserve RMB'000 (Note 31)	Statutory reserves RMB'000 (Note 31)	Revaluation reserve RMB'000	Retained earnings (accumulated losses) RMB'000	Total RMB'000
At 1 January 2018	164	702,809	406,736	144,178	1,642	832,703	2,088,232
Loss and total comprehensive expense for the year	–	–	–	–	–	(145,893)	(145,893)
Issue of new shares (Note 30)	7	14,509	–	–	–	–	14,516
At 31 December 2018 and 1 January 2019	171	717,318	406,736	144,178	1,642	686,810	1,956,855
Loss and total comprehensive expense for the year	–	–	–	–	–	(1,675,984)	(1,675,984)
Deconsolidation of subsidiaries (Note 32)	–	–	(287,841)	(144,178)	(1,642)	–	(433,661)
At 31 December 2019	171	717,318	118,895	–	–	(989,174)	(152,790)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Operating activities			
Loss before tax		**(1,675,192)**	(145,101)
Adjustments for:			
Amortisation of land use rights	20	**—**	3,981
Amortisation of intangible asset	22	**868**	2,831
Loss on disposal/write-off of property, plant and equipment		**1,253**	19,616
Depreciation of property, plant and equipment	18	**22,535**	22,860
Depreciation of right-of-use assets	21	**3,981**	—
Interest income	10	**(3,157)**	(4,346)
Finance costs	12	**23,947**	20,224
Foreign exchange loss		**—**	2,770
Impairment losses on property, plant and equipment	18	**—**	10,831
Impairment losses on prepayments	25	**—**	22,360
Impairment losses on goodwill and intangible asset	22	**5,286**	15,650
Loss allowance (reversal of loss allowance) for trade receivables	24	**1,980**	(582)
Write-off of inventories		**158**	7,074
Fair value gain on investment property	19	**—**	(300)
Net loss arising on deconsolidation of subsidiaries	32	**1,329,144**	—
Operating cash flows before working capital changes		**(289,197)**	(22,132)
Change in inventories		**(2,613)**	(300)
Change in trade receivables		**18,260**	36,419
Change in deposits, prepayments and other receivables		**5,988**	(72,717)
Change in trade and other payables		**1,810**	(13,297)
Cash used in operations		**(265,752)**	(72,027)
Interest paid		**(16,947)**	(11,306)
Income tax refund		**677**	4,578
Net cash used in operating activities		**(282,022)**	(78,755)

CONSOLIDATED STATEMENT OF CASH FLOWS

	2019 RMB'000	2018 RMB'000
Investing activities		
Purchases of property, plant and equipment	**(210)**	(268)
Prepayments for construction cost	—	(7,352)
Proceeds from disposal of assets classified as held for sale	—	183,375
Interest received	**3,157**	4,346
Net cash outflow from deconsolidation of subsidiaries	**(942,015)**	—
Net cash (used in) from investing activities	**(939,068)**	180,101
Financing activities		
Proceeds from borrowings	**403,280**	45,000
Repayments of borrowings	**(71,892)**	(33,000)
Net cash from financing activities	**331,388**	12,000
Net (decrease) increase in cash and cash equivalents	**(889,702)**	113,346
Cash and cash equivalents at beginning of the year	**889,760**	777,201
Exchange losses on cash and cash equivalents	—	(787)
Cash and cash equivalents at end of the year	**58**	889,760
Analysis of cash and cash equivalents		
Bank and cash balances	**58**	889,760

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

China Creative Global Holdings Limited (the "Company") is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited. Its ultimate controlling parties are Mr. Arab, Osman Mohammed and Mr. Lai Wing Lun, who are the joint and several receivers and managers appointed by Win Win Stable No.1 Fund SP. The address of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The principal activities of the Company is investment holding. The Company and its subsidiaries collectively referred to as the "Group". The principal activities of its subsidiaries are set out in note 37 to the consolidated financial statements.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company. All values are rounded to the nearest thousand except when otherwise stated.

SUSPENSION OF TRADING IN SHARES OF THE COMPANY

The trading in shares of the Company has been suspended with effect from 1 September 2020 and pending the fulfillment of the conditions set out in the resumption guideline.

2. BASIS OF PREPARATION FOR THE CONSOLIDATED FINANCIAL STATEMENTS

GOING CONCERN BASIS

The Group incurred a net loss of approximately RMB1,675,984,000 and a net operating cash outflow of approximately RMB282,022,000 during the year ended 31 December 2019. As at 31 December 2019, the Group's deficit attributable to shareholders of the Company amounted to approximately RMB152,790,000 and the total indebtedness was (comprising bond payables in Hong Kong) amounted to approximately RMB139,443,000, while the Group's cash and cash equivalents was only approximately RMB58,000.

In respect of the bond payables in Hong Kong, during the year ended 31 December 2019 and up to the date of this report, the Company failed to repay the principals and related interests of the bonds in accordance with the repayment schedule of the bond contracts, thereby triggered the default redemption clause of the bond contracts. As a result, all the outstanding bond borrowings amounting to RMB139,443,000 as at 31 December 2019 became immediately repayable if requested by the bond holder creditors as at the date of this report. Therefore, all of the bonds were classified as current liabilities as at 31 December 2019. In addition, the Company received several writs of summons and a statutory demand from the bond holder creditors in relation to the overdue payments of the bonds' principals and related interests. Further details are set out in note 28 to the consolidated financial statements.

These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

2. BASIS OF PREPARATION FOR THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GOING CONCERN BASIS (Continued)

In view of such circumstances, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. A number of measures have been taken to mitigate the liquidity pressure and to improve the financial position, to finance its operation and to restructure its debts. These include the followings:

(i) On 31 October 2021, the Company announced a proposed subscription of new shares of the Company ("Shares Subscription"). The Shares Subscription is subject to fulfillment of the conditions under the subscription agreement entered between the Company and the subscribers dated 28 October 2021 (Please refer to the Company's announcement dated 31 October 2021 for details of the subscription agreement).

(ii) Active negotiations with the bond holders to obtain an extension for repayment of the bonds and not to demand for repayment even if any event of default or potential event of default might occur.

(iii) Active negotiations with potential investors to obtain financial support to the Group for its operation on a going concern basis and to undertake all the liabilities that may arise.

(iv) The Directors will continue to implement measures aiming at improving the working capital and cash flows of the Group including closely monitoring general administrative expenses and operating costs.

The Directors are of the opinion that, taking into account of the successful implementation of measures of the Group as described above, the uncertainty will not have significant impact to the Group and the Group will have sufficient working capital to meet its cash flow requirements in the next twelve months. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

Should the Group fail to achieve the abovementioned plans and measures, it might not be able to continue to operate as a going concern, adjustments would have to be made to write down the carrying amounts of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of the adjustments have not been reflected in the consolidated financial statements.

2. BASIS OF PREPARATION FOR THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

BASIS OF DECONSOLIDATION

On 7 May 2021, the Company announced that, based on public available records, the Company noted that the Deconsolidated Subsidiaries located in the PRC were disposed of on 20 November 2020, without any prior approval of or notice to the Company's board of directors and, being the transfer of the Group's substantial assets, without approval by the Company's shareholders. Therefore, the Company was unable to obtain the complete Books and Records from the Deconsolidated Subsidiaries located in the PRC. All books and records and operations of the Deconsolidated Subsidiaries were at all material time maintained and controlled by the senior management personnel of the Deconsolidated Subsidiaries.

The Company had engaged a legal adviser in Hong Kong to perform a due diligence investigation so as to obtain more information about the above situation and the present situations in relation to the Deconsolidated Subsidiaries and to provide necessary assistance in relation to the preparation and the audit of the Group's consolidated financial statements. Nevertheless, the Company was still unable to obtain any information and documents thereabout and the Company was unable to exercise its control over the Deconsolidated Subsidiaries.

In light of the above, the Company has engaged Forensic Accountants to investigate and prepare an Investigation Report on the Deconsolidated Subsidiaries. Based on the findings in the Investigation Report, it was noted, among others, that the transfer of the Deconsolidated Subsidiaries was effected and registered in the PRC authorities on 20 November 2020 and the Group had disposed of the Deconsolidated Subsidiaries on the same date. Notwithstanding that the following actions being taken, including searches of publicly available information and review of relevant information documents provided by the board of directors of the Company, the Forensic Accountants opined that they were unclear whether the Deconsolidated Subsidiaries had relocated its office and/or whether the business of the Deconsolidated Subsidiaries was still in operation. Based on the findings in the Investigation Report and after careful consideration, the Directors were of the view that the Company no longer has: (a) power over the Deconsolidated Subsidiaries; (b) exposure or rights to variable returns from its involvement with the Deconsolidated Subsidiaries; or (c) the ability to use its power over the Deconsolidated Subsidiaries to affect the amount of the Company's returns.

2. BASIS OF PREPARATION FOR THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

BASIS OF DECONSOLIDATION (Continued)

Due to the situation described above, the Directors considered that the Group was unable to exercise its rights as the shareholder either to control the assets and operations of the Deconsolidated Subsidiaries or to exercise the decision-making rights over the Deconsolidated Subsidiaries and also had not obtained completed and reliable information and documents from the Deconsolidated Subsidiaries for the purpose of the audit of the Group's consolidated financial statements for the year ended 31 December 2019. As such, the Directors further considered that it is inappropriate to consolidate the financial results of the Deconsolidated Subsidiaries into the Group's consolidated financial statements. The Directors have resolved to deconsolidate the Deconsolidated Subsidiaries with effect from 31 December 2019, the date when the Directors considered that it had effectively lost control over the Deconsolidated Subsidiaries. In addition, the Directors were of the view that the recoverability of the amounts due from the Deconsolidated Subsidiaries was remote and do not expect to be able to recover the outstanding balances in the foreseeable future. The resulting loss arising from the deconsolidation of the Deconsolidated Subsidiaries of approximately RMB1,329,144,000 has been recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019.

FINANCIAL IMPACT ON DECONSOLIDATION

The deconsolidation had resulted in a net loss arising on deconsolidation of subsidiaries of approximately RMB1,329,144,000 for the year ended 31 December 2019 as the Directors were of the view that the carrying amounts of the investments in the Deconsolidated Subsidiaries were not recoverable in the foreseeable future.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs and an interpretation issued by the HKICPA for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Payment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of above new and amendments to HKFRSs and an interpretation in the current year have had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 16 Leases (Continued)

Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed as "right-of-use assets".

At the date of transition to HKFRS 16, the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as land use rights is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "land use rights", these amounts are included within "right-of-use assets". There is no impact on the opening balance of equity.

Upfront payments for leasehold lands in the PRC for own used properties were classified as land use rights as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of land use rights amounting to approximately RMB3,981,000 and RMB174,990,000 respectively were reclassified to right-of-use assets.

On transition, the Group has not made any adjustments on lease liabilities upon application of HKFRS 16 because the Group elected not to recognise right-of-use assets and liabilities for lease with lease as the outstanding term ends within 12 months of the date of initial application of HKFRS 16.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 16 Leases (Continued)

The following adjustments were made to the amounts recognised in the statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amounts under HKFRS 16 at 1 January 2019 RMB'000
Non-current assets			
Land use rights	174,990	(174,990)	—
Right-of-use assets	—	178,971	178,971
Current assets			
Land use rights	3,981	(3,981)	—

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[7]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions[5]
Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021[5]
Amendments to HKFRS 3	Reference to the Conceptual Framework[6]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
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[8]

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and amendments to HKFRSs in issue but not yet effective (Continued)

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[7]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[7]
Amendments to HKAS 8	Definition of Accounting Estimates[7]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[7]
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[6]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[6]
Amendments to HKFRSs	Annual improvements to HKFRSs 2018–2020[6]

[1] Effective for annual periods beginning on or after 1 January 2020
[2] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
[3] Effective for annual periods beginning on or after 1 June 2020
[4] Effective for annual periods beginning on or after 1 January 2021
[5] Effective for annual periods beginning on or after 1 April 2021
[6] Effective for annual periods beginning on or after 1 January 2022
[7] Effective for annual periods beginning on or after 1 January 2023
[8] Effective date to be determined

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptial Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

The Directors anticipate that the application of all above new and amendments to HKFRSs and an interpretation will have no material impact on consolidated financial statements in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES

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

These consolidated financial statements have been prepared under the historical cost basis except for an investment property that is measured at fair values at the end of each reporting period, 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), 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.

Engagement of an independent professional firm to undertake forensic investigation

On 29 December 2020, the Company made an announcement that the Company was informed that the Deconsolidated Subsidiaries had already been disposed of (the "Incident"). On 7 May 2021, the Company made an announcement that, based on a preliminary legal study on the Incident carried out by the Company's legal adviser appointed by the Directors, considered that the Incident may involve illegal and unauthorised transfers of the Group's substantial assets. In consequence of the investigation conducted, the Company suspended all the duties of three executive directors and one independent non-executive director with effect from 7 May 2021.

The Company further announced on 11 May 2021 that the SIC was established for the purposes of addressing the matters of the Incident.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Engagement of an independent professional firm to undertake forensic investigation (Continued)

On 30 June 2021, the Company engaged Forensic Accountants to undertake an Investigation into matters on the Incident. On 5 October 2021, the Forensic Accountants submitted an Investigation Report to the SIC. Up to the date of this report, no assets of the Deconsolidated Subsidiaries have been recovered. On 8 October 2021, the Directors considered that the preliminary findings in the Investigation Report and availability of the Group's financial statements are lastly made up to 31 December 2019, the Directors agreed and approved the date of deconsolidation of the subsidiaries was 31 December 2019.

On 3 December 2021, the Company also announced that, based on the preliminary findings of the Investigation Report, the Directors were of the view that the transfer was effected without acknowledge and proper approval by the Directors and considered that the Company lost the control over the Deconsolidated Subsidiaries involved in the unauthorised and illegal transfer. The Company's management will take further actions to recover the losses from the deconsolidation of subsidiaries. On 7 January 2022, the Company engaged a PRC lawyer to perform a professional due diligence on the Deconsolidated Subsidiaries in PRC. Up to the date of the auditor's report, the due diligence was still in process.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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.

When 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.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests. Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 Financial Instruments ("HKFRS 9") or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in subsidiaries

Investment in subsidiaries presented in the statement of financial position of the Company included in note 33 to the consolidated financial statements are stated at cost less any identified impairment loss.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units). Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Interest income is recognised using the effective interest method.

Rental income is recognised on a straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 3)

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

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as lessee (upon application of HKFRS 16 in accordance with transitions in note 3)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of office premise that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as lessee (upon application of HKFRS 16 in accordance with transitions in note 3) (Continued)

Right-of-use assets (Continued)

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as lessee (upon application of HKFRS 16 in accordance with transitions in note 3) (Continued)

Lease liabilities (Continued)

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (prior to 1 January 2019)

Leases that do not substantially transfer all the risks and rewards of ownership of assets to the Group are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

The Group as lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 *Revenue from Contracts with Customers* to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write-off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The principal useful lives are as follows:

Buildings	30 years
Plant and machinery	5 to 10 years
Office equipment	5 years
Motor vehicles	4 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value, adjusted to exclude any prepaid or accrued operating lease income.

Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Impairment of property, plant and equipment, land use rights, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, land use rights, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, land use rights, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of property, plant and equipment, land use rights, right-of-use assets and intangible assets other than goodwill (Continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provision

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchase or sale of financial assets are recognised and derecognised on a trade day basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) ("FVTPL") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income which are derived from the Group's ordinary course of business are presented as other income.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, financial assets included in deposits, prepayments and other receivables and bank and cash balances), which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognise lifetime ECL for trade receivables. Except for those debtors with credit-impaired are assessed individually, the ECL on trade receivables are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 60 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 360 days past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit rating where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Decognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables and borrowings) are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss.

PRC land appreciation tax ("LAT")

LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including land costs, borrowing costs, business taxes and all property development expenditures. LAT is recognised as an income tax expense. LAT paid is a deductible expense for PRC enterprise income tax purposes.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash on hand, demand deposits with banks and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Related parties

A related party is a person or an entity that is related to the Group;

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the parent of the Group.

(b) An entity is related to the Group if any of the following conditions apply:

- (i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions apply: (Continued)

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;

(v) the entity has a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or a parent of the entity); or

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the Group and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgments in applying accounting policies (Continued)

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, the management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment is less than the original estimate useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining useful lives.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of property, plant and equipment and land use rights

The Group carried out review of the recoverable amount of certain property, plant and equipment and land use rights by assessing value in use calculations. It estimates the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The Directors have exercised their judgement and are satisfied that the method of calculations is reflective of the current market conditions. Based on this calculations, no impairment of property, plant and equipment and land use rights have been made since the carrying amounts of certain property, plant and equipment are lower than their value in use.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for trade receivables. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or efforts. At each reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

Provision for impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the reporting period was RMBNil (2018: approximately RMB2,684,000) after an impairment loss of approximately RMB2,684,000 (2018: approximately RMB6,825,000) recognised during the year ended 31 December 2019. Details of the impairment loss calculation are provided in note 22 to the consolidated financial statements.

Recoverability of intangible asset

During the year, the Group reconsidered the recoverability of its intangible asset, which is included in its consolidated statement of financial position at 31 December 2019 at approximately RMB2,602,000 (2018: approximately RMB12,295,000), before the impairment. The Group carried out reviews of the recoverable amount of its intangible asset as a result of business suspension and market deterioration. This asset are used in the Group's electric fireplaces and air purifiers segment. The review led to the recognition of an impairment loss of approximately RMB2,602,000 (2018: approximately RMB8,825,000) for the intangible asset that have been recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Income taxes

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

6. FINANCIAL RISK MANAGEMENT

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

(a) Foreign currency risk

Certain transactions and monetary assets and liabilities of the Group are denominated in Hong Kong Dollars ("HKD") and the United States dollar ("USD") which are different from the functional currency of the Group entities, i.e. RMB, which expose the Group to currency risk. The Group currently does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its foreign currency risk by monitoring the movement of the foreign currency rate and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2019, if RMB had weakened/strengthened by 5% against HKD and USD with all other variables held constant, the Group's loss after tax for the year would have been approximately RMB7,456,000 lower/higher (2018: approximately RMB6,253,000 higher/lower), arising mainly as a result of the foreign exchange differences on borrowings and other payables denominated in HKD.

(b) Credit risk

The carrying amount of bank and cash balances, trade receivables and deposits, prepayments and other receivables included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings.

6. FINANCIAL RISK MANAGEMENT (Continued)

(b) **Credit risk** (Continued)

In order to minimise credit risk, the Directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the Directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following information is used:

- internal credit rating;
- external credit rating (if available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is occurred when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor fails to engage in a repayment plan with the Group. The Group normally categorises a loan or receivable for write-off when a debtor fails to make contractual payments greater than 360 days past due. Where loans or receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

6. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

As at 31 December 2019, there was no outstanding trade receivables.

As at 31 December 2018, there were three customers which individually contributed over 10% of the Group's trade receivables. The amounts of trade receivables from these customers amounted to 88% of the Group's total trade receivables. The Group had assessed the credit quality of these customers, taking into account their financial positions, past experiences and other factors, and considered that the credit risk is limited.

(c) Liquidity risk

The Group regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long terms.

The maturity analysis of the Group's financial liabilities is as follow:

	Less than 1 year or on demand RMB'000	Between 1 to 2 years RMB'000	Between 2 to 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amounts RMB'000
At 31 December 2019					
Trade and other payables	**10,358**	**—**	**—**	**10,358**	**10,358**
Borrowings	**143,056**	**590**	**978**	**144,624**	**139,443**
	153,414	**590**	**978**	**154,982**	**149,801**
At 31 December 2018					
Trade and other payables	30,528	—	—	30,528	30,528
Borrowings	164,750	580	11,222	176,552	168,614
	195,278	580	11,222	207,080	199,142

(d) Interest rate risk

The Group's bank and cash balances and borrowings bear interests at variable interest rates and therefore are subject to fair value interest rate risks.

The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. Management monitors interest rate fluctuations to ensure that exposure to interest rate risk is within an acceptable level and will consider hedging significant interest rate exposure should the need arises.

6. FINANCIAL RISK MANAGEMENT (Continued)

(d) Interest rate risk (Continued)

As at 31 December 2019, if interest rates of bank and cash balances and borrowings with variable rates had been 100 basis-points higher/lower with all other variables held constant, the Group's post-tax loss for the year would have been approximately RMB580 lower/higher (2018: RMB8,898,000 lower/higher).

(e) Categories of financial instruments

	2019 RMB'000	2018 RMB'000
Financial assets:		
Financial assets at amortised cost (including cash and cash equivalents)	**682**	1,267,741

	2019 RMB'000	2018 RMB'000
Financial liabilities:		
Financial liabilities at amortised cost	**149,801**	199,142

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate at respective fair values.

7. FAIR VALUE MEASUREMENTS

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: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 31 December:

There were no assets and liabilities measured at fair value as at 31 December 2019.

	Fair value measurements using:			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurements:				
At 31 December 2018				
Investment property				
Commercial – PRC	—	—	70,300	70,300

During the year ended 31 December 2019 and 2018, there were no transfer between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfer between levels of fair value hierarchy as at the end of the reporting period in which they occur.

7. FAIR VALUE MEASUREMENTS (Continued)

(b) Reconciliation of assets measured at fair value based on level 3:

	Investment property 2019 RMB'000
At 1 January 2019	**70,300**
Deconsolidation of subsidiaries (note 32)	**(70,300)**
At 31 December 2019	**—**

	Investment property 2018 RMB'000
At 1 January 2018	70,000
Total gains recognised in profit or loss (#)	300
At 31 December 2018	70,300
(#) include gains or losses for assets held at end of reporting period	300

The total gains or losses recognised in profit or loss including those for assets held at end of reporting period are presented in the consolidated statement of profit or loss and other comprehensive income.

7. FAIR VALUE MEASUREMENTS (Continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December:

The Group's chief financial officer is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The chief financial officer reports directly to Directors for these fair value measurements. Discussions of valuation processes and results are held between the chief financial officer and Directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

As at 31 December 2018, the Group engaged an independent valuer, Roma Appraisals Limited, to determine the fair value of the investment property.

Key unobservable inputs used in level 3 fair value measurements are mainly:

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value 2018
Investment property	Income approach	(1) Current average monthly rental per square meter	RMB30	Increase	
		(2) Reversionary yield	13%	Decrease	
		(3) Average monthly rental per square meter during reversionary period	RMB27	Increase	70,300

8. REVENUE

The Group manufactures and sells electric fireplaces, air purifiers, home decor products and humidifiers to the customers. Sales are recognised when control of the products has transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products and the customer has obtained legal titles to the products.

Sales to customers are normally made with credit terms of 60 to 90 days. For new customers, deposits or cash on delivery may be required. Deposits received are recognised as a contract liability.

A receivable is recognised when the products are delivered to the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Disaggregation of revenue from contracts with customers:

	2019 **RMB'000**	2018 RMB'000
Major products		
Electric fireplaces and air purifiers	**70,626**	105,782
Home decor products	**44,597**	46,719
	115,223	152,501
Geographical markets		
PRC	**33,578**	66,935
France	**55,381**	77,615
America	**20,661**	4,878
Others	**5,603**	3,073
	115,223	152,501
Timing of revenue recognition		
At a point in time	**115,223**	152,501

9. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The chief operating decision-maker is identified as the executive directors of the Company. The executive directors consider the business from a product perspective and assess the performance of the operating segments based on a measure of revenue and segment results.

The Group has two reportable segments as follows:

Electric fireplaces and air purifiers	—	Design, development, manufacturing and sales of electric fireplaces and air purifiers
Home decor products	—	Design, development, manufacturing and sales of home decor products and humidifiers

Other activities primarily relate to holding corporate assets and liabilities. Corporate assets and liabilities mainly include investment property, plant and equipment and land use rights for corporate use. These activities are excluded from the reportable operating segments.

Segment assets consist primarily of certain property, plant and equipment, land use rights, inventories, trade receivables, deposits, prepayments and other receivables and cash and cash equivalents. Investment property and other assets for corporate functions are grouped under “others”.

Segment liabilities consist primarily of trade and other payables. They exclude current tax liabilities, deferred tax liabilities, borrowings and other liabilities for corporate functions are grouped under “others”.

All non-current assets of the Group are located in the PRC.

9. SEGMENT INFORMATION (Continued)

Information about reportable segment profit or loss, assets and liabilities:

	Electric fireplaces and air purifiers RMB'000	Home decor products RMB'000	Others RMB'000	Total RMB'000
For the year ended 31 December 2019				
Segment revenue				
– PRC	18,867	15,071	—	33,938
– International	52,036	29,609	—	81,645
	70,903	44,680	—	115,583
Less: Inter-segment revenue	(277)	(83)	—	(360)
Revenue from external customers	70,626	44,597	—	115,223
Segment results	(281,521)	(34,464)	(5,851)	(321,836)
Unallocated expense				(265)
Finance costs				(23,947)
Net loss arising on deconsolidation of subsidiaries				(1,329,144)
Loss before tax				(1,675,192)
Income tax expense				(792)
Loss for the year				(1,675,984)
Other segment items:				
Additions to:				
Property, plant and equipment	207	3	—	210
Depreciation and amortisation	26,907	477	—	27,384
Impairment losses on goodwill and intangible asset	5,286	—	—	5,286
Loss allowance for trade receivables	1,980	—	—	1,980
Interest income	597	885	1,675	3,157
As at 31 December 2019				
Segment assets	—	—	682	682
Segment liabilities	—	—	153,472	153,472

9. SEGMENT INFORMATION (Continued)

Information about reportable segment profit or loss, assets and liabilities:

	Electric fireplaces and air purifiers RMB'000	Home decor products RMB'000	Others RMB'000	Total RMB'000
For the year ended 31 December 2018				
Segment revenue				
– PRC	28,328	39,115	—	67,443
– International	77,616	7,950	—	85,566
	105,944	47,065	—	153,009
Less: Inter-segment revenue	(162)	(346)	—	(508)
Revenue from external customers	105,782	46,719	—	152,501
Segment results	(110,135)	(6,793)	(7,332)	(124,260)
Unallocated expense				(617)
Finance costs				(20,224)
Loss before tax				(145,101)
Income tax expense				(792)
Loss for the year				(145,893)
Other segment items:				
Additions to:				
Intangible asset	15,126	—	—	15,126
Property, plant and equipment	268	—	—	268
Depreciation and amortisation	28,022	1,033	617	29,672
Impairment losses on property, plant and equipment	10,831	—	—	10,831
Impairment losses on prepayments	22,360	—	—	22,360
Impairment losses on goodwill and intangible asset	15,650	—	—	15,650
Fair value gain on investment property	—	—	300	300
Interest income	768	622	2,956	4,346
As at 31 December 2018				
Segment assets	1,523,509	390,626	253,789	2,167,924
Segment liabilities	17,170	7,650	186,249	211,069

9. SEGMENT INFORMATION (Continued)

Revenue from major customers:

	2019 RMB'000	2018 RMB'000
Electric fireplaces and air purifiers segment		
Customer A	**6,824**	23,619
Customer B	**52,256**	77,615
Customer C	**10,840**	3,752
Home decor products segment		
Customer A	**12,166**	23,006
Customer C	**2,436**	15,779

During the year ended 31 December 2019, the Group's revenue are derived from three (2018: three) individual external customers which contributed more than 10% revenue of Group's revenue. These revenues are attributed to the electric fireplaces and air purifiers segment and home decor segment.

10. OTHER INCOME

	2019 RMB'000	2018 RMB'000
Bank interest income	**3,157**	4,346
Rental income	**7,050**	7,881
	10,207	12,227

11. OTHER GAINS OR (LOSSES) - NET

	2019 RMB'000	2018 RMB'000
Net foreign exchange gain (loss)	**1,546**	(2,770)
Loss on disposal/write-off of property, plant and equipment	**(1,253)**	(19,616)
Others	**—**	44
	293	(22,342)

The amounts of loss on disposal/write-off of property, plant and equipment mainly represent the write-off of a plant and equipment located in the PRC. During the year ended 31 December 2018, management of the Group had assessed the usability of the show room and the Group decided to write-off the show room with carrying amount of RMB19,593,000.

12. FINANCE COSTS

	2019 **RMB'000**	2018 RMB'000
Interest expense on borrowings	**21,185**	12,922
Net foreign exchange loss	**2,762**	7,302
	23,947	20,224

13. INCOME TAX EXPENSE

	2019 **RMB'000**	2018 RMB'000
Current tax — PRC Enterprise Income Tax:		
Withholding tax	**792**	792

(i) Cayman Islands profits tax

The Company is not subject to any taxation in the Cayman Islands.

(ii) Hong Kong profits tax

No provision for taxation in Hong Kong has been made as the Group did not have any assessable profit arising from Hong Kong for both years.

(iii) PRC enterprise income tax ("EIT")

Under the Enterprise Income Tax Law of the PRC (the "New EIT Law"), the applicable income tax rate for the Group's entities in the PRC, except for Allen Electronics Co., Ltd. Fujian and Allen Electronics Co., Ltd. Anhui, is 25%.

Pursuant to the New EIT Law, with respect to a new and high technology enterprise, the tax levied on its income will be charged at a preferential rate of 15% after obtaining the High New Technology Enterprise Certificate (the "Certificate") and completing the tax reduction and exemption filing with the tax authorities. Allen Electronics Co., Ltd. Fujian obtained the Certificate on 5 September 2013 and renewed the Certificate on 1 December 2016. The Certificate will expire on 30 November 2019. Allen Electronics Co., Ltd. Anhui obtained the Certificate on 17 November 2017 and will expire on 7 November 2020.

13. INCOME TAX EXPENSE (Continued)

(iv) Withholding tax on distributed profits

Pursuant to the New EIT Law, a 10% withholding tax is levied on dividends declared by PRC companies to their foreign investors. A lower withholding tax rate of 5% is applicable if direct foreign investors with at least 25% equity interest in the PRC company are incorporated in Hong Kong and meet the relevant requirements pursuant to the tax arrangement between the PRC and Hong Kong. Since the equity holder of the PRC subsidiaries of the Company is a Hong Kong incorporated company, the Company has used 5% to provide for deferred tax liabilities on retained earnings which are anticipated to be distributed as at 31 December 2018.

(v) Land appreciation tax

Land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of land less deductible expenditures including lease charges of land use rights and all development expenditures.

14. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging (crediting) the following:

	2019 **RMB'000**	2018 RMB'000
Auditor's remuneration	**1,700**	1,680
Cost of inventories sold	**83,235**	133,552
Depreciation of property, plant and equipment	**22,535**	22,860
Depreciation of right-of-use assets	**3,981**	—
Amortisation of land use rights	**—**	3,981
Amortisation of intangible asset	**868**	2,831
Loss allowance (reversal of loss allowance) for trade receivables	**1,980**	(582)
Impairment losses on property, plant and equipment	**—**	10,831
Impairment losses on prepayments	**—**	22,360
Impairment losses on goodwill and intangible asset	**5,286**	15,650
Fair value gain on investment property	**—**	(300)
Write-off of inventories	**158**	7,074
Operating lease expenses in respect of office premises	**1,679**	1,717
Staff costs (including directors' remuneration):		
Salaries, bonuses and allowances	**53,276**	42,944
Retirement benefit scheme contributions	**6,498**	13,143
	59,774	56,087

15. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS

(a) Directors' emoluments

The details of directors' emoluments are set out below:

	As Director (Note (i))			As management (Note (ii))	
	Fees	Salary	Employer's contribution to pension scheme	Employee benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Mr. Chen Fanglin (Note (iii))	**—**	**4,817**	**94**	**5,000**	**9,911**
Mr. Shen Jianzhong (Note (iv))	**—**	**639**	**51**	**3,000**	**3,690**
Mr. Chen Jiang (Note (v))	**529**	**—**	**—**	**—**	**529**
Mr. Xu Qiang (Note (v))	**529**	**—**	**—**	**—**	**529**
Mr. Zheng Hebin (Note (vi))	**—**	**608**	**49**	**3,000**	**3,657**
Mr. Lo Kei Wai Paul (Note (vii))	**250**	**—**	**—**	**—**	**250**
Ms. Hui Sai Ha (Note (viii))	**43**	**—**	**—**	**—**	**43**
Independent Non-executive Directors					
Mr. Dai Jianping (Note (ix))	**106**	**—**	**—**	**—**	**106**
Mr. Ng Wing Keung (Note (x))	**106**	**—**	**—**	**—**	**106**
Ms. Sun Kam Ching (Note (xi))	**72**	**—**	**—**	**—**	**72**
Mr. Huang Songqing (Note (xii))	**34**	**—**	**—**	**—**	**34**
Total for 2019	**1,669**	**6,064**	**194**	**11,000**	**18,927**
Executive Directors					
Mr. Chen Fanglin	—	605	389	604	1,598
Mr. Shen Jianzhong	—	122	196	486	804
Mr. Chen Jiang (Note (v))	506	—	—	—	506
Mr. Xu Qiang (Note (v))	506	—	—	—	506
Mr. Zheng Hebin (Note (vi))	—	95	192	503	790
Mr. Lo Kei Wai Paul (Note (vii))	30	—	—	—	30
Independent Non-executive Directors					
Mr. Dai Jianping	101	—	—	—	101
Mr. Ng Wing Keung	101	—	—	—	101
Ms. Sun Kam Ching	101	—	—	—	101
Total for 2018	1,345	822	777	1,593	4,537

No director has waived or agreed to waive any emoluments during the year (2018: Nil).

15. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS (Continued)

(a) **Directors' emoluments** (Continued)

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2018: Nil).

Notes

(i) The amounts represented emoluments paid or payable in respect of a person's services as a director, whether of the Company or its subsidiaries undertakings.

(ii) The amounts represented emoluments paid or payable in respect of a person's other services in connection with the management of the affairs of the Company or its subsidiaries undertakings and included salaries, discretionary bonuses and pension costs.

(iii) Duties suspended on 7 May 2021 and removed on 18 June 2021.

(iv) Duties suspended on 7 May 2021.

(v) Appointed on 16 February 2017 and resigned on 21 December 2020.

(vi) Appointed on 8 December 2017 and duties suspended on 7 May 2021.

(vii) Appointed on 28 November 2018 and resigned on 14 October 2019.

(viii) Appointed on 17 December 2019 and resigned on 31 August 2020.

(ix) Resigned on 8 January 2021.

(x) Resigned on 2 July 2020.

(xi) Resigned on 5 September 2019.

(xii) Appointed on 5 September 2019 and duties suspended on 7 May 2021.

15. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five highest paid individuals in the Group during the year included three (2018: four) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2018: one) individuals are set out below:

	2019 RMB'000	2018 RMB'000
Wages and salaries (including discretionary bonuses) and other benefits	**4,456**	548
Social security and pension costs	**47**	15
	4,503	563

The emoluments fell within the following band:

	2019 No. of employees	2018 No. of employees
Nil to HK$1,000,000	**—**	1
HK$2,000,000 to HK$2,500,000	**2**	—

During the years ended 31 December 2019 and 2018, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

16. DIVIDENDS

The Directors do not recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil).

17. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately RMB1,675,984,000 (2018: RMB145,893,000) and the weighted average number of ordinary shares of 2,170,000,000 (2018: 2,161,863,000) in issue during the year.

Diluted loss per share

No diluted loss per share are presented as the Company did not have any dilutive potential ordinary shares during the years ended 31 December 2019 and 2018.

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost					
At 1 January 2018	716,343	37,573	3,221	2,167	759,304
Additions	—	268	—	—	268
Disposals/written-off (Note (a))	(25,007)	—	—	(233)	(25,240)
At 31 December 2018 and 1 January 2019	691,336	37,841	3,221	1,934	734,332
Additions	—	210	—	—	210
Disposals/written-off	—	(9,761)	(94)	(151)	(10,006)
Deconsolidation of subsidiaries (Note 32)	(691,336)	(28,290)	(3,127)	(1,783)	(724,536)
At 31 December 2019	—	—	—	—	—
Accumulated depreciation and impairment					
At 1 January 2018	186,416	20,421	2,431	1,987	211,255
Charge for the year	19,413	2,997	337	113	22,860
Impairment loss (Note (b))	—	10,831	—	—	10,831
Disposals/written-off (Note (a))	(5,414)	—	—	(210)	(5,624)
At 31 December 2018 and 1 January 2019	200,415	34,249	2,768	1,890	239,322
Charge for the year	19,737	2,554	197	47	22,535
Disposals/written-off	—	(8,532)	(85)	(136)	(8,753)
Deconsolidation of subsidiaries (Note 32)	(220,152)	(28,271)	(2,880)	(1,801)	(253,104)
At 31 December 2019	—	—	—	—	—
Carrying amounts					
At 31 December 2019	—	—	—	—	—
At 31 December 2018	490,921	3,592	453	44	495,010

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes

(a) During the year ended 31 December 2018, the amount of disposal/write-off of property, plant and equipment mainly represented the write-off of a show room located in Quanzhou, the PRC. The management of the Group had assessed the usability of the show room and the Group decided to write-off the show room with carrying amount of RMB19,593,000.

(b) As at 31 December 2018, the Group had property, plant and equipment and land use rights before impairment provision of approximately RMB612,979,000 and RMB178,971,000 respectively, located in Anhui and Quanzhou, the PRC. For the year ended 31 December 2018, the Group's operation in Anhui and Quanzhou, which represented separate cash-generating units ("CGUs"), had been making losses and management considers that there was an impairment indicator on property, plant and equipment and land use rights in Anhui and Quanzhou. Therefore, management performed an impairment assessment on the property, plant and equipment and land use rights of the CGUs. The recoverable amount of the property, plant and equipment and land use rights had been determined on the basis of their value in use using discounted cash flow method (level 3 fair value measurement), the discount rate used was 17%. Also, the management engaged an independent professional valuer to perform a valuation on buildings and land use rights, taking into account the current status of the assets and market price or transactions for similar assets. The valuation was categorised under level 2 of the fair value hierarchy. In view of the current status of the CGUs, management considered that the recoverable amount of the buildings and land use rights calculated based on fair value less costs of disposal would be higher than the amount estimated by using value in use calculation. Therefore, management decided to determine the recoverable amount of the buildings and land use rights based on fair value less costs of disposal.

In the year 2018, the reviews led to the recognition of an impairment loss of RMB10,831,000, that had been recognised in profit or loss.

19. INVESTMENT PROPERTY

	2019 **RMB'000**	2018 RMB'000
At 1 January	**70,300**	70,000
Fair value gain	**—**	300
Deconsolidation of subsidiaries (Note 32)	**(70,300)**	—
At 31 December	**—**	70,300

Investment property was valued at 31 December 2018 by an independent qualified valuer, Roma Appraisals Limited.

Management reviewed the valuation performed by the independent valuer for financial reporting purposes. The review included verification of all major inputs to the valuation, assessing property valuation movements and discussions with the independent valuer. Management considered that the current use of the investment property equated the best use.

Fair value measurement of investment property is disclosed in Note 7.

20. LAND USE RIGHTS

	2018 RMB'000
At 1 January	182,952
Amortisation	(3,981)
At 31 December	178,971

	2018 RMB'000
Analysed for reporting purpose as:	
Non-current assets	174,990
Current assets	3,981
	178,971

Amortisation of the Group's land use rights had been charged to administrative and other operating expenses in the consolidated statement of profit or loss and other comprehensive income.

At 31 December 2018 the carrying amount of land use rights amounted to approximately RMB71,260,000 was pledged as security for the Group's bank borrowings.

21. RIGHT-OF-USE ASSETS

	Land use rights RMB'000
As at 1 January 2019	
Carrying amounts	178,971
As at 31 December 2019	
Carrying amounts	—
For the year ended 31 December 2019	
Depreciation charge	3,981

	2019 **RMB'000**
Expense relating to short-term leases	**1,679**
Deconsolidation of subsidiaries (Note 32)	**174,990**
Total cash outflow for leases	**1,679**

22. GOODWILL AND INTANGIBLE ASSET

	Goodwill (Note a) RMB'000	Distribution right (Note b) RMB'000	Total RMB'000
Cost			
At 1 January 2018	9,509	—	9,509
Additions	—	15,126	15,126
At 31 December 2018, 1 January 2019 and 31 December 2019	9,509	15,126	24,635
Accumulated impairment losses			
At 1 January 2018	—	—	—
Amortisation for the year	—	2,831	2,831
Impairment loss	6,825	8,825	15,650
At 31 December 2018 and 1 January 2019	6,825	11,656	18,481
Amortisation for the year	—	868	868
Impairment loss	2,684	2,602	5,286
At 31 December 2019	9,509	15,126	24,635
Carrying amounts			
At 31 December 2019	—	—	—
At 31 December 2018	2,684	3,470	6,154

Notes

(a) Goodwill

During the year ended 31 December 2017, the Group acquired 100% of the issued share capital of Aoshiweilang Environmental Technology (Shanghai) Limited, a company incorporated in the PRC and principally engaged in trading of air purifiers.

On 30 November 2017, the Company issued 50,000,000 ordinary shares at HKD0.219 amounting to HKD10,950,000 (equivalent to RMB9,319,000) as a consideration for the acquisition.

The recoverable amounts of the CGUs are determined on the basis of their value in use using discounted cash flow method (level 3 fair value measurements). The key assumptions for the discounted cash flow method are those regarding the discount rates, growth rates and budgeted gross margin and revenue during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and revenue are based on past practices and expectations on market development.

22. GOODWILL AND INTANGIBLE ASSET (Continued)

Notes (Continued)

(b) Distribution right

During the year ended 31 December 2018, the Company issued 90,000,000 ordinary shares as a consideration for obtaining a distribution right for purebed air purifier (Note 30). The distribution right is carried at cost less amortisation over its useful lives, which is approximately 5 years, and impairment for finite life assets.

The recoverable amount of the related cash-generating unit has been determined based on a value-in-use calculation. The Directors determined the recoverable was RMBNil as at 31 December 2019 on the ground that the Group do not expect to generate sales income from trading of air purifiers in the foreseeable future due to business suspension and market deterioration. Therefore, the amounts of goodwill and distribution rights in relation to the Group's electric fireplaces and air purifier business segment were fully impaired during the year ended 31 December 2019.

23. INVENTORIES

	2019 **RMB'000**	2018 RMB'000
Raw materials and consumables	—	1,893
Work in progress	—	1,468
Finished goods	—	4,006
	—	7,367

24. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 60 to 90 days. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

	2019 **RMB'000**	2018 RMB'000
Trade receivables	—	58,064
Provision for loss allowance	—	(2,170)
	—	55,894

24. TRADE RECEIVABLES (Continued)

The aging analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	2019 RMB'000	2018 RMB'000
0–30 days	—	9,364
31–60 days	—	13,082
61–90 days	—	7,859
Over 90 days	—	25,589
	—	55,894

Reconciliation of loss allowance for trade receivables:

	2019 RMB'000	2018 RMB'000
At 1 January	**2,170**	2,752
Increase (decrease) in loss allowance for the year	**1,980**	(582)
Deconsolidation of subsidiaries (Note 32)	**(4,150)**	—
At 31 December	—	2,170

The Group applies the simplified approach under HKFRS 9 to provide for ECLs using the lifetime expected loss provision for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The ECLs also incorporate forward looking information.

	Current	Over 30 days pass due	Over 60 days pass due	Over 90 days pass due	Total
At 31 December 2019					
Weighted average expected loss rate	—	—	—	—	
Receivable amount (RMB'000)	—	—	—	—	—
Loss allowance (RMB'000)	—	—	—	—	—
At 31 December 2018					
Weighted average expected loss rate	—	—	—	24.97%	
Receivable amount (RMB'000)	26,645	12,646	10,081	8,692	58,064
Loss allowance (RMB'000)	—	—	—	2,170	2,170

25. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Current		
Deposits and prepayments	**624**	1,676
Prepayment for advertising and promotion (Note (a))	**—**	72,009
Receivables for disposal of assets classified as held for sale (Note (b))	**—**	54,210
Receivables for disposal of a land use right (Note (c))	**—**	17,353
Receivable for termination of commercial buildings (Note (d))	**—**	237,500
Prepayments for property, plant and equipment and land use rights (Note (e))	**—**	49,000
Accrued rental income	**—**	524
Others	**—**	92
	624	432,364
Non-current		
Receivable for termination of commercial buildings (Note (d))	**—**	12,500
Prepayments for construction costs	**—**	19,604
	—	32,104

Reconciliation of deposits, prepayments and other receivables:

	2019 RMB'000	2018 RMB'000
At 1 January	**464,468**	406,759
(Decrease) increase in deposits, prepayments and other receivables	**(5,988)**	80,069
Impairment loss on prepayment for commercial buildings	**—**	(22,360)
Deconsolidation of subsidiaries (Note 32)	**(457,856)**	—
At 31 December	**624**	464,468

25. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes

(a) During the year ended 31 December 2018, the Group entered into certain advertising and promotion agreements with several service providers in order to expand the PRC market, promote new products and stimulate sales.

(b) During the year ended 31 December 2017, certain assets classified as held for sale amounting to RMB89,752,000 have been resumed by the local government of Quanzhou and was reclassified as other receivables. As at 31 December 2018, the compensation amounting to RMB54,210,000 has not yet been received by the Group.

(c) On 31 October 2017, the Group entered into a sales and purchase agreement with a related party to sell a land use right with a consideration of RMB17,353,000 in Quanzhou, the PRC and the balance has not yet been received by the Group as at 31 December 2018. The amount was unsecured, non-interest bearing, denominated in RMB and approximate at the fair value.

(d) The balance represented the prepayment to purchase commercial buildings and the respective land use rights from an independent third party ("the developer") with a consideration of RMB272,360,000 on 23 November 2015. As at 31 December 2018, the construction of the commercial buildings has not yet been completed.

(e) On 28 November 2014, the Group entered into a sales and purchase agreement ("the agreement") with an independent third party ("the seller") to purchase certain land use rights and buildings in Quanzhou, the PRC, with a total consideration of RMB98,000,000. On 3 December 2014, the Group paid RMB49,000,000 as a prepayment to the seller. During the year ended 31 December 2018, the Group was still in negotiation with the seller and the local government on the transferral of land use rights certificate.

26. BANK AND CASH BALANCES

As at 31 December 2019 and 2018, the bank balances carried at average market interest rates ranged from 0.01% to 0.53% per annum. Remittance of funds out of the PRC is subject to the PRC's Foreign Exchange Control Regulations.

27. TRADE AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	—	14,997
Other tax payable	—	1,876
Salary and welfare payables	1,204	4,589
Retention fee payables	—	2,790
Interest payables	5,915	2,244
Others	3,239	4,032
	10,358	30,528

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

	2019 RMB'000	2018 RMB'000
0–30 days	—	3,687
31–60 days	—	2,235
61–90 days	—	3,662
Over 90 days	—	5,413
	—	14,997

28. BORROWINGS

	2019 RMB'000	2018 RMB'000
Bonds (Note (a))	139,443	138,614
Bank borrowings (Note (b))	—	30,000
	139,443	168,614

28. BORROWINGS (Continued)

An analysis of the Group's borrowings into principal amounts is as follows:

	2019 RMB'000	2018 RMB'000
On demand or within one year	**139,443**	159,724
In the third to fifth years, inclusive	**—**	8,890
	139,443	168,614
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(139,443)**	(159,724)
Amount due for settlement after 12 months	**—**	8,890

Notes

(a) Bonds comprise principal amounts of:

(i) HKD7,000,000 (equivalent to approximately RMB5,722,000) due in 2023 issued by the Company to an independent third party in March 2016. The bond is unsecured and bears interest at a fixed rate of 6% per annum. Subsequent to the reporting date, the Company failed to pay the bond interests. As a result, the bond became immediately repayable if requested by the bond holder as at the date of this report. Therefore, the bond was classified as current liabilities as at 31 December 2019;

(ii) HKD148,200,000 (equivalent to approximately RMB129,724,000) due in 2019 issued by the Company to independent third parties in April 2016. The bond is unsecured and bears interest at a fixed rate of 7% per annum. On 18 April 2019, the Company and serveral bond holders entered into an additional subscription agreement, pursuant to which the parties agreed that the maturity date of the bond with principal of HKD128,700,000 (equivalent to approximately RMB115,052,000 to be extended from 19 April 2019 to 18 April 2020. During the year and subsequent to the reporting date, the Company failed to pay the principals and related interest of the bond. As a result, the bond became immediately repayable if requested by the bond holder as at the date of this report. Therefore, the bond was classified as current liabilities as at 31 December 2019; and

(iii) HKD4,000,000 (equivalent to approximately RMB3,168,000) due in 2023 issued by the Company to an independent third party in July 2016. The bond is unsecured and bears interest at a fixed rate of 6% per annum. Subsequent to the reporting date, the Company failed to pay the bond interests. As a result, the bond became immediately repayable if requested by the bond holder as at the date of this report. Therefore, the bond was classified as current liabilities as at 31 December 2019.

(b) As at 31 December 2018, the bank borrowings were either repayable within one year or repayable on demand and with fixed interest rate.

As at 31 December 2018, the Group's bank borrowings were secured by land use rights with aggregate net book value of approximately RMB71,260,000, as set out in Note 20 to the consolidated financial statements.

As at 31 December 2019, the weighted average interest rate of Group's borrowings is 6.92% (2018: 8.19%).

In addition, subsequent to the reporting period, the Company received several writs of summons and a statutory demand from the bond holder creditors in relation to the overdue payments of the bonds' principals and interests.

29. DEFERRED TAX LIABILITIES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off and the deferred income taxes relate to the same tax jurisdiction.

The movement on the net deferred income tax is as follows:

	2019 **RMB'000**	2018 RMB'000
At 1 January	**(6,133)**	(6,133)
Deconsolidation of subsidiaries (Note 32)	**6,133**	—
At 31 December	**—**	(6,133)

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances, are as follows:

	Accelerated accounting depreciation RMB'000	**un-distributed earnings** RMB'000	**Total** RMB'000
At 1 January 2018, 31 December 2018 and 1 January 2019	1,700	(7,833)	(6,133)
Deconsolidation of subsidiaries (Note 32)	(1,700)	7,833	6,133
At 31 December 2019	—	—	—

The following is the analysis of the deferred tax balances (after offset) for presentation purpose in the consolidated statement of financial position:

	2019 **RMB'000**	2018 RMB'000
Deferred tax assets	**—**	1,700
Deferred tax liabilities	**—**	(7,833)
	—	(6,133)

30. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares of HK$0.0001 each (thousands)	Nominal value of ordinary shares HKD'000
Authorised:		
At 31 December 2018 and 2019	10,000,000	1,000

	Number of ordinary (thousands)	Nominal value of ordinary shares HKD'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Issued and fully paid:					
At 1 January 2018	2,080,000	208	164	702,809	702,973
Issue of new shares (Note (a))	90,000	9	7	14,509	14,516
At 31 December 2018, 1 January 2019 and 31 December 2019	2,170,000	217	171	717,318	717,489

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share and is not distributable but may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares or in providing for the premiums payable on repurchase of shares.

Note

(a) On 2 February 2018, the Company issued 90,000,000 ordinary shares of HKD0.0001 each at a premium of HKD0.1999 as a consideration for obtaining a distribution right for purebed air purifier (Note 22) at an aggregate consideration of approximately HKD18,000,000 (equivalent to approximately RMB14,516,000), of which approximately HKD9,000 (equivalent to RMB7,000) was credited to share capital and the remaining balance of HKD17,991,000 (equivalent to RMB14,509,000) was credited to share premium account.

31. RESERVES

(a) The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

(b) Nature and purpose of reserves

(i) Capital reserve

Capital reserve represents the cash contributions to the Group through capital injection to the companies now comprising the Group by the controlling shareholder.

(ii) Statutory reserves

In accordance with the Laws of the PRC on Enterprises Operated Exclusively with Foreign Capital and the Articles of Association of the Group's subsidiaries incorporated in the PRC, an appropriation to the statutory reserves has to be made prior to profit distribution to the investor. The appropriation to the statutory reserve of these foreign investment enterprises shall be no less than 10% of the net profit until the accumulated appropriation exceeds 50% of the registered capital.

(c) Reserves of the Company

	Share premium RMB'000	**Capital reserve** RMB'000	**Retained earnings (accumulated losses)** RMB'000	**Total** RMB'000
At 1 January 2018	702,809	715,521	10,662	1,428,992
Loss and total comprehensive expense for the year	14,509	—	(25,420)	(10,911)
At 31 December 2018 and 1 January 2019	717,318	715,521	(14,758)	1,418,081
Loss and total comprehensive expense for the year	**—**	**—**	**(1,566,018)**	**(1,566,018)**
At 31 December 2019	**717,318**	**715,521**	**(1,580,776)**	**(147,937)**

32. DECONSOLIDATION OF SUBSIDIARIES

As described in note 2 of the consolidated financial statements, due to the obstructions faced by the Company in exercising control over and gathering information and documents from the Deconsolidated Subsidiaries, the Company regards that it has lost control over the Deconsolidated Subsidiaries. Under these circumstances, the Directors have not been able to obtain complete Books and Records of the Deconsolidated Subsidiaries to satisfy themselves regarding the accounting treatments and carrying values in respect of those transactions for the year ended 31 December 2019. As such, the assets and liabilities of the Deconsolidated Subsidiaries have not been included in the consolidated financial statements of the Group on 31 December 2019. The aggregate amounts of the assets and liabilities of the Deconsolidated Subsidiaries as at 31 December 2019 (immediate before deconsolidation) were set out below:

	Immediate before deconsolidation on 31 December 2019 RMB'000
Net assets deconsolidated:	
Property, plant and equipment	**471,432**
Investment property	**70,300**
Right-of-use assets	**174,990**
Inventories	**9,822**
Trade receivables	**35,654**
Deposits, prepayments and other receivables	**457,856**
Bank and cash balances	**942,015**
Trade and other payables	**(25,651)**
Borrowings	**(363,888)**
Current tax liabilities	**(3,592)**
Deferred tax liabilities	**(6,133)**
Net assets deconsolidated	**1,762,805**
Release of capital reserve	**(287,841)**
Release of statutory reserves	**(144,178)**
Release of revaluation reserve	**(1,642)**
Net loss arising on deconsolidation of subsidiaries	**1,329,144**
Analysis of net outflow of cash and cash equivalents arising from deconsolidation of subsidiaries	**942,015**

32. DECONSOLIDATION OF SUBSIDIARIES (Continued)

The results of the Deconsolidated Subsidiaries for the year ended 31 December 2019, which have been included in the consolidated statement of profit or loss and other comprehensive income, were as follow:

	Year ended 31 December 2019 RMB'000
Revenue	115,223
Cost of sales	(83,393)
Gross profit	31,830
Other income	10,207
Other losses - net	(1,364)
Selling and distribution expenses	(222,534)
Administrative and other operating expenses	(127,983)
Loss allowance for trade receivables	(1,980)
Loss from operations	(311,824)
Finance cost	(10,924)
Loss before tax	(322,748)
Income tax expense	—
Loss for the year	(322,748)

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 **RMB'000**	2018 RMB'000
Non-current asset		
Investments in subsidiaries	**—**	1,286,725
Current assets		
Amounts due from subsidiaries	**—**	275,632
Cash and cash equivalents	**1**	3
	1	275,635
Current liabilities		
Other payables	**8,324**	5,494
Borrowings	**139,443**	129,724
	147,767	135,218
Net current (liabilities) assets	**(147,766)**	140,417
Total assets less current liabilities	**(147,766)**	1,427,142
Non-current liability		
Borrowings	**—**	8,890
NET (LIABILITIES)ASSETS	**(147,766)**	1,418,252
Capital and reserve		
Share capital	**171**	171
Reserves	**(147,937)**	1,418,081
TOTAL (DEFICIT) EQUITY	**(147,766)**	1,418,252

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 19 January 2022 and are signed on its behalf by:

Wu Ming Fat, Simon
DIRECTOR

Ching Wan Wah, Kitty
DIRECTOR

34. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

The management of the Group reviews the capital structure periodically. The Group considers the cost of capital and the risks associated with the capital, and will balance its overall capital structure through payment of dividends, issuance of new shares and share buy-backs as well as the raising of new debts, if required.

35. COMMITMENTS

(a) Capital commitments

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

	2019 **RMB'000**	2018 RMB'000
Contracted but not provided for		
– Land use rights and property, plant and equipment	—	55,248

(b) Operating leases commitments

The Group leased offices and warehouses under non-cancellable operating lease agreements. The lease terms were between one to five years.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2019 **RMB'000**	2018 RMB'000
Within one year	—	1,142
In the second to fifth years, inclusive	—	48
	—	1,190

35. COMMITMENTS (Continued)

(c) Operating leases arrangement (as lessor)

The Group leased out investment property under operating leases. The future aggregate minimum lease rental receivable under non cancellable operating leases in respect of investment property as follows:

	2019 **RMB'000**	2018 RMB'000
Within one year	—	7,038
In the second to fifth years, inclusive	—	30,154
After five years	—	62,157
	—	99,349

36. RELATED PARTY TRANSACTIONS

Saved as disclosed in elsewhere in the consolidated financial statements, the Directors are of the view that the following person/companies were related parties that had transactions or balances with the Group during the year:

(a) Key management compensation

Key management includes directors and other key management of the Group. The compensation paid or payable to key management for employee services is shown below:

	2019 **RMB'000**	2018 RMB'000
Directors' fees	**1,669**	1,345
Basic salaries, housing allowances, other allowances and benefits in kind	**17,650**	3,742
Social security and pension costs	**208**	952
	19,527	6,039

37. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries as at 31 December 2019 and 2018 are as follows:

Name	Place of incorporation	Issued and paid up capital	Percentage of the ownership interest/ voting power Direct	Indirect	Principal activities
China Prosper Int'l Ltd. 華茂國際有限公司	The BVI	US$50,000	100%	—	Investment holding
Shine Ever Developments Limited 盛永發展有限公司	The BVI	US$100	100%	—	Investment holding
Allen International Holdings Limited 亞倫國際控股有限公司	Hong Kong	HK$10,000	—	100%	Investment holding
Allen China Co., Ltd (Note a) 亞倫 (中國) 有限公司.	The PRC	RMB159,099,845	—	100%	Manufacturing and sale of home decor products and properties rental
Allen Electronics Co., Ltd. Fujian (Note a) 福建亞倫電子電器科技有限公司	The PRC	HK$835,000,000	—	100%	Manufacturing and sale of electric fireplace
Quanzhou Allen Light Industry Co., Ltd. (Note a) 泉州亞倫輕工有限公司	The PRC	US$10,000,000	—	100%	Manufacturing and sale of home decor products and properties rental
Allen Electronics Co., Ltd. Anhui 安徽亞倫電子科技有限公司	The PRC	RMB100,000,000	—	100%	Manufacturing and sale of electric fireplace
Asia Solar Star Limited 亞洲日星有限公司	Hong Kong	HK$100	—	100%	Investment holding
China Creative Express (Shenzhen) Supply Chain Management Co., Limited (Note a) 中創運通(深圳)供應鏈管理有限公司	The PRC	Nil	—	100%	Supply chain management
Aoshiweilang Environmental Technology (Shanghai) Limited 奧士威朗環保科技(上海)有限公司	The PRC	RMB7,930,000	—	100%	Trading of air purifiers

Note a: The subsidiaries are established as wholly foreign owned enterprise under PRC Laws.

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or the future cash flows will be, classified in the Group's consolidated cash flows from financing activities.

	Interest Payable RMB'000	Borrowings RMB'000	Total RMB'000
At 1 January 2018	2,178	147,762	149,940
Changes in cash flows	(11,306)	12,000	694
Non-cash changes			
– interest charged	11,372	1,550	12,922
– exchange differences	—	7,302	7,302
At 31 December 2018 and at 1 January 2019	**2,244**	**168,614**	**170,858**
Changes in cash flows	**(16,947)**	**331,388**	**314,441**
Non-cash changes			
– interest charged	**20,557**	**628**	**21,185**
– exchange differences	**61**	**2,701**	**2,762**
– deconsolidation of subsidiaries (Note 32)	**—**	**(363,888)**	**(363,888)**
At 31 December 2019	**5,915**	**139,443**	**145,358**

39. EVENTS AFTER REPORTING PERIOD

On 15 October 2021, the Company entered into a sale and purchase agreement with an independent third party, Mr. Yip Chong Dar, Peter (the "Vendor") pursuant to which the Company has conditionally agreed to acquire 51% of the issued share capital of Gold Future Industrial Limited and its subsidiary from the Vendor at a consideration of HK$5,000,000 by the issue of convertible bonds. Up to the date of this report, the above transaction has not yet been completed.

40. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 19 January 2022.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the five financial years, as extracted from the audited financial statements, is set out below:

RESULTS

	Year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**115,223**	152,501	147,806	349,744	1,281,926
Cost of sales	**(83,393)**	(134,782)	(119,574)	(257,246)	(808,514)
Gross profit	**31,830**	17,719	28,232	92,498	473,412
Other income	**10,207**	12,227	12,336	4,662	10,747
Other gains or (losses)-net	**293**	(22,342)	(848)	(775)	23,368
Selling and distribution expenses	**(222,534)**	(17,160)	(13,778)	(27,466)	(52,099)
Administrative and other operating expenses	**(134,631)**	(67,362)	(71,280)	(79,467)	(84,892)
Impairment losses on property, plant and equipment	**—**	(10,831)	(53,100)	(54,039)	—
Impairment losses on investment in an associate	**—**	—	(10,335)	—	—
Impairment losses on prepayments	**—**	(22,360)	—	—	—
Impairment losses on goodwill and intangible asset	**(5,286)**	(15,650)	—	—	—
Fair value gain (loss) on investment property	**—**	300	(40,400)	(12,000)	300
(Loss allowance) reversal of loss allowance for trade receivables	**(1,980)**	582	(2,752)	—	—
(Loss) profit from operations	**(322,101)**	(124,877)	(151,925)	(76,587)	370,836
Finance costs	**(23,947)**	(20,224)	(3,584)	(16,254)	(3,612)
Share of loss of an associate	**—**	—	(13,285)	(533)	—
Net loss arising on deconsolidation of subsidiaries	**(1,329,144)**	—	—	—	—
(Loss) profit before tax	**(1,675,192)**	(145,101)	(168,794)	(93,374)	367,224
Income tax expense	**(792)**	(792)	(5,758)	(2,144)	(68,231)
(Loss) profit for the year attributable to owner of the Company	**(1,675,984)**	(145,893)	(174,552)	(95,518)	298,993
(Loss) earnings per share — Basic and diluted (RMB)	**(0.77)**	(0.07)	(0.09)	(0.05)	0.16

ASSETS, LIABILITIES AND EQUITY

	Year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**682**	2,167,924	2,287,987	2,474,997	2,600,661
TOTAL LIABILITIES	**153,472**	211,069	199,755	221,532	254,133
TOTAL (DEFICIT) EQUITY	**(152,790)**	1,956,855	2,088,232	2,253,465	2,346,528