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ST INTERNATIONAL HOLDINGS COMPANY LIMITED

智紡國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8521)

2020 FINAL RESULTS ANNOUNCEMENT

The board (“**Board**”) of directors (“**Directors**”) of ST International Holdings Company Limited (“**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce the audited results of the Group for the year ended 31 December 2020. This announcement, containing the full text of the 2020 annual report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of final results.

On behalf of the Board

ST International Holdings Company Limited

Wong Kai Hung Kelvin

Chairman

Hong Kong, 25 March 2021

As at the date of this announcement, the Board comprises two executive Directors, namely, Mr. Wong Kai Hung Kelvin and Mr. Xi Bin; one non-executive Director, namely Mr. Hung Yuk Miu; and three independent non-executive Directors, namely Mr. Ng Wing Heng Henry, Mr. Sze Irons, BBS JP and Mr. Fong Kin Tat.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least seven days after the date of publication and on the Company’s website at www.smart-team.cn.

ST International Holdings Company Limited 智紡國際控股有限公司

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Annual
Report

2020

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

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*This report, for which the directors (the “**Directors**”) of ST International Holdings Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company.*

The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Wong Kai Hung Kelvin (*Chairman*)
Mr. Xi Bin

Non-executive Director

Mr. Hung Yuk Miu

Independent non-executive Directors

Mr. Sze Irons, *BBS JP*
Mr. Fong Kin Tat
Mr. Ng Wing Heng Henry

AUDIT COMMITTEE

Mr. Ng Wing Heng Henry (*Chairman*)
Mr. Sze Irons, *BBS JP*
Mr. Fong Kin Tat

REMUNERATION COMMITTEE

Mr. Fong Kin Tat (*Chairman*)
Mr. Wong Kai Hung Kelvin
Mr. Ng Wing Heng Henry

NOMINATION COMMITTEE

Mr. Sze Irons, *BBS JP* (*Chairman*)
Mr. Wong Kai Hung Kelvin
Mr. Ng Wing Heng Henry

COMPLIANCE OFFICER

Mr. Wong Kai Hung Kelvin

COMPANY SECRETARY

Mr. Chan Chi Yeung, CPA

AUTHORISED REPRESENTATIVES

Mr. Wong Kai Hung Kelvin
Mr. Chan Chi Yeung

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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181-185 Gloucester Road,
Wan Chai, Hong Kong

HONG KONG BRANCH SHARE REGISTRAR

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

AUDITOR

SHINEWING (HK) CPA Limited
Certified Public Accountants
43/F, Lee Garden One,
33 Hysan Avenue Causeway Bay,
Hong Kong

LEGAL ADVISOR

LCH Lawyers LLP
Room 702,
Admiralty Centre Tower One,
18 Harcourt Road,
Admiralty,
Hong Kong

COMPLIANCE ADVISER

First Shanghai Capital Limited
19/F, Wing On House,
71 Des Voeux Road Central,
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
HSBC Main Building,
1 Queen's Road,
Central, Hong Kong

Industrial and Commercial Bank of China
(Asia) Limited
1/F, 9 Queen's Road Central,
Hong Kong

China Construction Bank
Shop A1-001 to A1-003,
First International H5 Block Area A shops,
New Town Center District,
Nancheng District, Dongguan,
Guangdong Province, PRC

COMPANY'S WEBSITE

www.smart-team.cn

STOCK CODE

8521

Financial Summary

For the five years ended 31 December 2016, 2017, 2018, 2019 and 2020

	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Revenue	120,683	191,180	173,461	125,275	80,250
Cost of sales	(92,205)	(129,912)	(109,659)	(80,379)	(45,034)
Gross profit	28,478	61,268	63,802	44,896	35,216
Other income	2,415	1,836	1,570	1,734	502
Selling and distribution expenses	(3,399)	(5,286)	(4,740)	(2,931)	(3,380)
Administrative and other expenses	(19,762)	(19,192)	(30,494)	(17,714)	(9,828)
Reversal of impairment loss/(impairment loss) on trade receivables	-	57	(98)	-	-
Finance costs	(616)	(338)	(343)	(215)	(94)
Profit before tax	7,116	38,345	29,697	25,770	22,416
Income tax	(1,005)	(3,353)	(5,530)	(5,595)	(3,872)
Profit for the year	6,111	34,992	24,167	20,175	18,544

	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
ASSETS AND LIABILITIES					
Non-current assets	33,974	30,717	13,721	3,780	2,840
Current assets	185,815	152,962	151,418	98,874	58,316
Non-current liabilities	1,647	820	1,030	1,070	105
Current liabilities	39,332	15,555	27,214	44,958	27,675
Net assets	178,810	167,304	136,895	56,626	33,376

	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
CASH FLOWS					
Net cash (used in)/generated from operating activities	(28,751)	14,161	15,128	(7,549)	8,501
Net cash used in investing activities	(5,398)	(12,674)	(9,990)	(1,013)	(3,316)
Net cash generated from/(used in) financing activities	14,799	(6,126)	54,229	(5,711)	572
Net (decrease)/increase in cash and cash equivalents	(19,350)	(4,639)	59,367	(14,273)	5,757
Cash and cash equivalents at beginning of the year	55,155	61,026	3,119	16,657	11,984
Effect of exchange rate changes	2,329	(1,232)	(1,460)	735	(1,084)
Cash and cash equivalents at end of the year	38,134	55,155	61,026	3,119	16,657

Chairman Statement

Dear Shareholders,

On behalf of the board of directors (the “**Board**”) of the Company, I am pleased to present the audited consolidated financial statements of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2020 (“**FY2020**”).

With regards to our financial performance for FY2020 as compared with the year ended 31 December 2019 (“**FY2019**”), our revenue decreased by HK\$70,497,000 or 36.9% from HK\$191,180,000 to HK\$120,683,000.

The profit for the year of the Group in FY2020 was HK\$6,111,000, representing a decrease of HK\$28,881,000 or 82.5% from the profit of HK\$34,992,000 in FY2019.

As reflected by the financial performance, the Group recorded a significant decrease in profits in FY2020. The significant decline in FY2020 was mainly attributed to the decrease in revenue as a result of the global outbreak of the novel coronavirus pandemic (“**COVID-19**”) since early 2020 which is still subsisting today. As a result of the implementation of various aggressive preventive control measures by the government of the People’s Republic of China (the “**PRC**”) to curb COVID-19, the Group and its customers had experienced a temporary suspension of operation in the first quarter of 2020. The weakened economy in general caused a decrease in purchase orders received from customers of the Group during 2020. The challenging market environment also caused a decrease in gross profit margin in FY2020.

Notwithstanding that COVID-19 is still prevalent, the directors of the Company remain positive that the disruptions caused by and the impact of COVID-19 outbreak will not be permanent in nature and the economy in the PRC is recovering, the management of the Company will continue to strengthen the Group’s position in research and development of new functional fabrics as well as expand into different market segments by strengthening the marketing and sales efforts.

In the long run, the Group is positioned to capture the growing business opportunities and steady long-term growth momentum of the functional fabrics market in the PRC and overseas by continuing development of new functional fabrics and upgrading our standards of quality on the functional fabrics.

Finally, on behalf of the Board, I would like to, once again, express my sincere thanks to all business partners, customers and suppliers for their ongoing support, as well as our dedicated staff for their strong contributions throughout this challenging year.

Wong Kai Hung, Kelvin
Chairman

Hong Kong, 25 March 2021

Management Discussion and Analysis

BUSINESS REVIEW

The Group is principally engaged in the provision of functional knitted fabrics in the PRC. The products are primarily sold directly to (i) lingerie and apparel brand owners; (ii) sourcing agents; and (iii) garment manufacturers. The Group continues to design functional knitted fabrics through its product innovation capabilities, source its raw materials comprising primarily synthetic fibres and yarns and engage third party factories to carry out production processes comprising yarn spinning, knitting and dyeing, for its direct sales of functional knitted fabrics to the customers. With a view to diversifying the Group's source of revenue and creating cross-selling opportunity, the Group also engages in the sales of apparel to its customers which are lingerie and apparel brand owners.

During FY2020, the Group has continued to grow its business through promoting existing functional knitted fabrics and yarns and introducing new customers. The Group has also continued to recruit new talented sales and marketing executives to develop new markets during FY2020.

OUTLOOK AND PROSPECTS

The management of the Company is of the view that the Group's business and operation have been affected by the outbreak and the continual spread of COVID-19 since January 2020. The global epidemic has continuously resulted in lockdowns and disruption of transportations in various countries and regions as well as economic downturn in the global economy. However, the economy in the PRC is already on the path of recovery from the pandemic and there has also been certain rebound in demand of our products from our customers since the second half of 2020. The Board expects the recovery of demand for our products will continue in the first half of 2021 and the management of the Group is closely monitoring the market situation and continuously evaluating the impact of the epidemic to the Group's operation and financial performance and will make adjustments to the Group's business plan and operations, if necessary, so as to capture the momentum of economic recovery for the Group. The Group will continue to devote more resources towards the research and development of functional knitted fabrics as well as the dyeing methodology. The Group will focus on the following business strategies: (i) to strengthen the Group's market position in the PRC by improving its product offering; (ii) to expand into different market segments by strengthening the Group's marketing efforts; and (iii) to recruit talents to support the Group's future growth.

FINANCIAL REVIEW

Revenue

The following table sets forth an analysis of our revenue by products during FY2020 and FY2019.

	2020 HK\$'000	2019 HK\$'000
Sales of functional knitted fabrics	104,821	142,528
Sales of apparel	11,033	17,487
Sales of yarns	4,829	31,165
	120,683	191,180

Management Discussion and Analysis

FINANCIAL REVIEW *(Continued)*

Revenue *(Continued)*

The Group's revenue decreased by HK\$70,497,000 or 36.9%, from HK\$191,180,000 for FY2019 to HK\$120,683,000 for FY2020. The decrease was mainly due to the outbreak of COVID-19 since early 2020 which is still subsisting at the date of this report. As a result of the pandemic, the Group and its customers experienced a temporary suspension of operation in the first quarter of 2020. As the market and the economy is weakened in general, the customers of the Group were more prudent in placing orders with the Group. In particular, there was a decrease in revenue from sales of functional knitted fabrics which was resulted from the decrease in sales orders from the existing major customers during FY2020. Thanks for the effort of management of the Group in actively looking for new customers, the Group has secured purchase orders from new customers in the second half of 2020 and the revenue of the Group has improved accordingly when compared to the first half of 2020.

Gross profit and gross profit margin

Our gross profit decreased by HK\$32,790,000, or 53.5% from HK\$61,268,000 for FY2019 to HK\$28,478,000 for FY2020. The decrease was mainly due to (i) the decrease in sales orders and average selling price as a result of the challenging market environment, (ii) the increase in research and development expenses to enhance the Group's innovation capability so as to remain competitive; (iii) the continuous incurrence of other overhead costs which were invariable in nature; and (iv) the increase in written down of inventories for slow-moving and obsolete inventories of the Group. Our gross profit margin decreased from 32.0% for FY2019 to 23.6% for FY2020.

Other income

Our other income increased by HK\$579,000 or 31.5% from HK\$1,836,000 for FY2019 to HK\$2,415,000 for FY2020. Other income mainly comprises of (i) bank interest income; (ii) government grants; (iii) rental income; and (iv) exchange gain. The increase in other income for FY2020 was mainly due to increase in government grants received by the subsidiaries of the Company in the PRC and Hong Kong.

Selling and distribution expenses

The Group's selling and distribution expenses decreased by HK\$1,887,000, or 35.7%, from HK\$5,286,000 for FY2019 to HK\$3,399,000 for FY2020 which was mainly due to the decrease in advertising and exhibition, transportation, travelling and entertainment expenses since there was a temporary suspension of the Group's operation in the first quarter of 2020 and fewer marketing activities were held in 2020 compared with FY2019 due to the outbreak of COVID-19.

Administrative and other expenses

The Group's administrative and other expenses increased slightly by HK\$570,000, or 3.0%, from HK\$19,192,000 for FY2019 to HK\$19,762,000 for FY2020. The increase was mainly due to the combined effects of (i) increase in bank charge for application of bank loan of approximately HK\$251,000; (ii) increase in training expenses for sales team and senior management of the Group of HK\$1,033,000; offset by (iii) the decrease in travelling expenses of HK\$658,000 due to fewer business related activities during pandemic throughout FY2020; and (iv) the decrease in professional fee of HK\$228,000.

Finance costs

Our finance costs increased by HK\$278,000 or 82.2% from HK\$338,000 for FY2019 to HK\$616,000 for FY2020 due to increase the bank borrowing during FY2020, compared with FY2019.

Management Discussion and Analysis

FINANCIAL REVIEW *(Continued)*

Taxation

Our income tax expenses decreased significantly from HK\$3,353,000 for FY2019 to HK\$1,005,000 for FY2020; and our effective tax rate increased from 8.7% for FY2019 to 14.1% for FY2020, which can be attributed to (i) the recognition of deferred tax assets for tax loss by two subsidiaries in the PRC for FY2019 while the deferred tax assets partially utilised by the subsidiaries for FY2020; and (ii) the loss incurred by a subsidiary in the PRC reducing the group's profit before tax.

Profit for the year attributable to owners of the Company

As a result of the foregoing, the profit for FY2020 attributable to owners of the Company decreased by HK\$28,881,000 or 82.5% from HK\$34,992,000 for FY2019 to HK\$6,111,000 for FY2020.

Cash flows

The net cash used in operating activities during FY2020 was about HK\$28,751,000 while the net cash generated from operating activities during FY2019 was about HK\$14,161,000. The change from cash generated from operating activities to cash used in operating activities was mainly due to decrease in revenue and profit for the year and increase in trade receivables not yet settled before the 2020 year end.

The net cash used in investing activities in FY2020 was about HK\$5,398,000 while the net cash used in investing activities in FY2019 was about HK\$12,674,000. The decrease was mainly due to a deposit for the acquisition of plant and equipment of HK\$14,000,000 paid during FY2019 while the additions of plant and equipment decreased significantly during FY2020.

The net cash generated from financing activities was HK\$14,799,000 in FY2020 while the net cash used in financing activities in FY2019 was HK\$6,126,000. The change from net cash used in financing activities to net cash generated from financing activities was mainly due to increase in bank borrowing in FY2020 when compared with repayment of bank borrowing in FY2019.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

We financed our operation mainly through cash generated from our operating activities and bank borrowings. As at 31 December 2020 and 2019, we had cash and cash equivalents of HK\$38,134,000 and HK\$55,155,000 respectively.

As at 31 December 2020, the Group had HK\$21,387,000 of outstanding bank borrowing and HK\$862,000 of bank overdraft (2019: nil outstanding bank borrowing and bank overdraft). As at 31 December 2020, the Group's borrowings were denominated in Renminbi ("RMB").

The Group's gearing ratio, which is calculated based on the total debt (defined as the sum of bank borrowings and overdrafts) as at the respective year end divided by total equity as at the respective year end was 12.4% and nil in percentage as at 31 December 2020 and 2019 respectively.

CAPITAL STRUCTURE

As at 31 December 2020, the capital structure of the Company comprised issued share capital and reserves.

COMMITMENTS

As at 31 December 2020 and 2019, the Group did not have any capital commitment.

SEGMENT INFORMATION

An analysis of the Group's revenue of customers is set out in note 6 to the consolidated financial statements.

SIGNIFICANT INVESTMENTS HELD

The Group did not hold any significant investment during FY2020.

Management Discussion and Analysis

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the prospectus of the Company dated 30 April 2018 (the “Prospectus”), the Group does not have other plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies during FY2020.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group has no material contingent liabilities.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The Directors are aware that the Group is exposed to various types of principal risks and uncertainties as discussed below.

Foreign Exchange Risk

The Group’s reporting currency is Hong Kong dollar and most of the business transactions are denominated in other currencies including Renminbi (“RMB”) and US Dollar (“USD”). Hence, exchange rate fluctuation can affect the profit margin of the Group. Our foreign exchange gains or losses primarily arise from settlement of trade payables denominated in USD and receipt of our trade receivables denominated in RMB and USD. The Group did not use any hedging contracts to engage in speculative activities during FY2020.

Credit Risk

The Group is subject to credit risks of our customers and our liquidity can be affected by timely settlement of our customers. If our customers fail to settle our trade and bill receivables in full or timely within their respective credit period, the Group may incur impairment losses and therefore can adversely affect the financial performance and position. Our senior management manages the credit risks by assessing the credit limits and credit terms granted to customers under the internal control system and works with sales and finance departments to monitor closely the financial health and settlement status of our customers.

Competition Risk

The functional knitted fabrics market in the PRC is fragmented. Our Group faces intense competition, in terms of pricing, product quality, product innovation, product diversity, research and development and cost efficiency, from existing players and new entrants based in the PRC and other countries. The Group believes that the strong product innovation capabilities on functional knitted fabrics and stringent quality assurance and control measures for product quality will continuously strengthen our competitive advantages in the market.

Risks Pertaining to Outbreaks of COVID-19

The Group’s business has been, to a certain extent, affected by the global outbreak of COVID-19 in 2020. The global epidemic has resulted in lockdowns and disruptions of transportations in the PRC, and various other countries and regions which has further led to an economic downturn in the global economy during FY2020. Some of the Group’s suppliers have suffered a reduction in their productivity in the first half of 2020. There has also been a significant reduction in the demand of our products from the Group’s customers during FY2020. In the event that the outbreak of COVID-19 is not successfully controlled in Hong Kong, China or globally in the near future, the economic activity across many industries in the PRC, Hong Kong or worldwide, will be further adversely affected, which could in turn sustain or enlarge its negative impact on the overall economy in the PRC, Hong Kong and worldwide. The economic downturn may continuously and adversely affect the consumer sentiment, weakening the demands for our products, and in turn may result in a further reduction of purchase orders for our products by our customers.

Management Discussion and Analysis

CHARGES ON GROUP'S ASSETS

As at 31 December 2020, the Group had HK\$21,387,000 bank borrowings secured by personal guarantee provided by Mr. Xi Bin, the executive Director of the Company (31 December 2019: nil). During FY2020, the Group's bank facilities were secured by the pledged bank deposits as set out in note 24 to the consolidated financial statements. During FY2020, the Group had lease arrangement in respect of a motor vehicle. The Group's obligation under the lease arrangement was secured by the lessor's title to the leased motor vehicle as set out in note 17(l) to the consolidated financial statements.

INFORMATION ON EMPLOYEES

As at 31 December 2020, the Group had 79 employees (31 December 2019: 74) and most of them were working in the Dongguan headquarters. We incurred staff costs inclusive of performance related bonus, bonus and directors' emoluments in the aggregate of HK\$17,189,000 and HK\$17,898,000 for FY2020 and FY2019, respectively. We regularly review the performance of our employees and make reference to such performance reviews in our salary review and promotional appraisal in order to attract and retain talented employees. For our sale staffs, we offer a remuneration package comprising basic salary and performance-based bonus.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's business plan as set out in the Prospectus with actual business progress up to 31 December 2020.

Business objectives up to 31 December 2020 as set out in the Prospectus	Actual implementation plan up to 31 December 2020
Expand our current operations in Beijing and Shanghai	– The Group has purchased office equipment for sales office in Beijing.
Engage in marketing activities through participation in trade shows, industry exhibitions and networking events	– The Group has participated in trade exhibitions and networking events.
	– The Group has recruited and retained one sales director and four sales and marketing executives.
Enhance our research and development resources	– The Group has cooperated with our equipment supplier to develop a new research and development machine.
	– The Group has recruited and retained five research and development technicians to support our strategy to improve and widen our product offerings.

Management Discussion and Analysis

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS *(Continued)*

Business objectives up to 31 December 2020 as set out in the Prospectus	Actual implementation plan up to 31 December 2020
Upgrade product testing facilities, expand testing centre and cooperate with research institutions and university	<ul style="list-style-type: none">– The Group has cooperated with research institutions and university for research and development.– The Group has retained two product testing personnel.– The Group has acquired certain product testing facilities.
Enhance our information technology infrastructure	<ul style="list-style-type: none">– The Group is developing a new ERP and other supporting system.

Use of Proceeds from the Share Offer and Change in Use of Proceeds

The shares of the Company (“**shares**”) were listed on GEM on 16 May 2018 (“**Listing Date**”) by way of share offer (“**Share Offer**”). The net proceeds from the Share Offer (after deducting the underwriting fees and related expenses) amounted to HK\$39,900,000 with intended purposes as set out in the section headed “Future Plans and Use of Proceeds” of the Prospectus. The unutilised use of proceeds as at 31 December 2020 amounted to HK\$7,600,000.

As disclosed in the announcement of the Company dated 11 August 2020, the Directors updated the shareholders of the Company in relation to the revised expected timeline (“**Revised Timeline**”) for utilising the remaining unutilised net proceeds.

Management Discussion and Analysis

The following table shows the allocation of the total net proceeds from the Share Offer, the planned and actual use of such net proceeds up to 31 December 2020 and the Revised Timeline:

	Allocation of the total net proceeds from the Share Offer HK\$'million	Actual use of the net proceeds up to 31 December 2020 HK\$'million	Unutilised net proceeds up to 31 December 2020 HK\$'million	Revised Timeline
Expand the current operations in Beijing and Shanghai	5.2	0.9	4.3	31 December 2021
Engage in marketing activities through participation in trade shows, industry exhibitions and networking events	3.7	3.7	–	31 December 2021
Enhance our research and development resources	15.2	15.2	–	31 December 2021
Upgrade product testing facilities, expand testing centre and cooperate with research institutions and university	8.9	6.9	2.0	31 December 2021
Enhance our information technology infrastructure	3.8	2.5	1.3	31 December 2021
General working capital	3.1	3.1	–	31 December 2020
Total	39.9	32.5	7.6	

As shown in the table above, as at 31 December 2020, there is an unutilised net proceeds in the amount of HK\$4.3 million intended to use for the expansion of the current operations of the Group in Beijing and Shanghai. However, due to the COVID-19 pandemic and the current highly uncertain economy, the Directors considered that it is not an appropriate timing to further the expansion plan of the Group in Beijing and Shanghai. Instead, the Directors considered that it would be more beneficial to the Group if more resources were to be allocated for engaging in more marketing activities to promote the products of the Group and to further enhance the Group's research and development ability so as to remain competitive.

Management Discussion and Analysis

The unutilised net proceeds up to 31 December 2020, the revised allocation of unutilised net proceeds and the further updated expected timeline for utilising the remaining unutilised net proceeds from the Share Offer is set out below:

	Unutilised net proceeds up to 31 December 2020 HK\$'million	Revised allocation of unutilised net proceeds HK\$'million	Expected timeline for utilising the remaining unutilised net proceeds from the Share Offer (Note)
Expand the current operations in Beijing and Shanghai	4.3	–	N/A
Engage in marketing activities through participation in trade shows, industry exhibitions and networking events	–	1.8	31 December 2022
Enhance our research and development resources	–	1.4	31 December 2021
Upgrade product testing facilities, expand testing centre and cooperate with research institutions and university	2.0	2.0	31 December 2021
Enhance our information technology infrastructure	1.3	1.3	31 December 2021
General working capital	–	1.1	31 December 2021
	7.6	7.6	

Note:

The expected timeline for utilising the remaining unutilised proceeds is based on the best estimation of the present and future business conditions in Hong Kong and the PRC made by the Board.

The Board considers that the revised allocation of unutilised net proceeds and the updated timetable enables the Board to have more flexibility in making major business and investment decisions in this highly uncertain period of time. The Board therefore considers that it is in the best interests of the Company and its shareholders as a whole.

To the extent of the net proceeds of the Share Offer have not been utilised as at 31 December 2020, such unutilised net proceeds were deposited with licensed banks in Hong Kong.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wong Kai Hung Kelvin (黃繼雄), aged 45, founded our Group in October 2011. He was appointed as a Director on 21 February 2017 and became the chairman of our Board and executive Director on 1 April 2017. Mr. Wong is responsible for the overall business strategies, planning, management and operational development of our Group. Mr. Wong is also a director of various subsidiaries of the Company.

Mr. Wong has over 20 years of experience in business administration. From July 1999 to March 2004, Mr. Wong was the general manager of Leahander Group Limited (利興強集團有限公司), an investment holding company, where he was responsible for managing staff, and establishing and accomplishing business objectives. From January 2002 to January 2016, Mr. Wong worked in K&T Investments Limited, a company engaging in manufacturing and distribution of knitted fabrics and an investment holding company, with his last position as the general manager, responsible for managing staff, and establishing and accomplishing business objectives.

Mr. Wong graduated from the University of Southern California in the United States with a Bachelor of Science (business administration) (major in science (business administration) and minor in architecture) in May 1999. Mr. Wong was an executive member of the 10th Executive Committee of The Y. Elites Association (香港菁英會). In October 2013, he was awarded the honorary citizenship of Jiangmen of Guangdong Province (廣東省江門市榮譽市民). In 2020, he was awarded the Young Industrialist Awards of Hong Kong (香港青年工業家獎).

During the year ended 31 December 2020 and up to the date of this report, Cosmic Bliss Investments Limited (“Cosmic Bliss”), a company wholly owned by Mr. Wong, is interested in 360,000,000 Shares. By virtue of the provision of Part XV of the SFO, Mr. Wong is deemed to be interested in all the Shares held by Cosmic Bliss.

Mr. Xi Bin (奚斌), aged 45, joined our Group in October 2011. He was appointed as a Director on 31 March 2017 and became our executive Director on 1 April 2017. He is responsible for managing and overseeing the operations and sales function of our Group and is the chief executive officer of our Group. Mr. Xi is a director of various subsidiaries of the Company.

Mr. Xi has over 21 years of experience in the textile industry. From April 1997 to November 2007, Mr. Xi worked as the merchandising manager of Dongguan Julong Textile Company Limited* (東莞聚龍製衣有限公司), a company engaging in textile-related business, responsible for sales and marketing. From January 2007 to November 2016, Mr. Xi worked as general manager in Zhuhai Zhaotian Trading, a sourcing agent, responsible for its overall operation. Mr. Xi graduated from Xidian University (西安電子科技大學) in the PRC with a Bachelor of Business Administration in March 2011. Mr. Xi was awarded the degree of Master of Business Administration in November 2016 by China Europe International Business School (中歐國際工商學院) in the PRC.

NON-EXECUTIVE DIRECTOR

Mr. Hung Yuk Miu (洪育苗), aged 40, was appointed as a Director on 31 March 2017 and became our executive Director on 1 April 2017. Mr. Hung has been re-designated from an executive Director to a non-executive Director with effect from 30 April 2019 primarily due to reallocation of responsibilities amongst the Group’s management team. Mr. Hung joined our Group in May 2014 and, prior to re-designation as a non-executive Director, was the chief financial officer of our Group responsible for managing and overseeing the financial management of our Group.

From August 2004 to October 2006, Mr. Hung worked at Deloitte Touche Tohmatsu, Hong Kong branch, an accountancy firm, and his last position was senior accountant, responsible for external audit works. From October 2006 to May 2014, he worked at Deloitte Touche Tohmatsu Certified Public Accountants LLP, Shenzhen branch, an accountancy firm, and his last position was manager in audit department, responsible for external audit works.

Mr. Hung graduated from Curtin University of Technology in Australia with a Bachelor of Commerce (double major in accounting and finance) in September 2004. In November 2007, Mr. Hung was admitted as a certified practising accountant of the Certified Practising Accountant of CPA Australia Ltd. Since January 2011, he has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

* The English translation of the name is for reference only. The official name of the entity is in Chinese.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Wing Heng Henry (伍永亨), aged 38, was appointed as an independent non-executive Director on 23 April 2018. He is primarily responsible for bringing an independent judgment to ensure the continuing effectiveness of management of our Company. Mr. Ng has over 11 years of experience in accounting, auditing and corporate governance. From January 2008 to March 2010, Mr. Ng worked at PricewaterhouseCoopers, an accountancy firm, as the senior associate at Assurance of Financial Services Practice, responsible for the auditing and accountancy procedures of Hong Kong companies. Since September 2010, he has worked at Tony Kwok Tung Ng & Co., an accountancy firm, and was appointed as a principal in January 2013, responsible for reviewing statutory audit files of both local and multinational companies, managing the audit teams and leading the non-audit projects and consulting services.

In May 2005, Mr. Ng was awarded a Bachelor of Science (accounting) degree by the University of Southern California in the United States. In August 2007, he was admitted as a member of the American Institute of Certified Public Accountants. In May 2012, he was admitted as a practising member in Washington State Board of Accountancy. Since January 2015, he has been a practising certified public accountant of the HKICPA.

Mr. Ng is also a member of the Appeal Panel (Housing) under section 7A of the Housing Ordinance (Cap. 283); a member of Appeal Board Panel under section 27 of the Urban Renewal Authority Ordinance (Cap. 563); an adjudicator of Immigration Tribunal established under section 53F of the Immigration Ordinance (Cap. 115); and an advisor of Panel of Advisors established under the Film Censorship Ordinance (Cap. 392).

Mr. Sze Irons, BBS JP (施榮懷), aged 59, was appointed as an independent non-executive Director on 23 April 2018. He is primarily responsible for bringing an independent judgment to ensure the continuing effectiveness of management of our Company. Mr. Sze has extensive experience in investment and corporate management. He is also the director of 4 other listed companies in Hong Kong.

Mr. Sze graduated with a Bachelor of Science from the University of Wisconsin-La Crosse in the United States in May 1985. Mr. Sze was the vice supervisor of the Population, Resources and Environment Committee of the National Committee (全國政協—人口資源環境委員會副主任) and an executive member of the Beijing Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議北京市委員會常務委員), and currently the permanent honorary president of the Chinese Manufacturers' Association of Hong Kong. Mr. Sze has been a member of the HKSAR Election Committee since 2006; and is a member of the HKSAR Labour Advisory Board during 2019 to 2020.

Mr. Fong Kin Tat (方建達), aged 46, was appointed as an independent non-executive Director on 23 April 2018. He is primarily responsible for bringing an independent judgment to ensure the continuing effectiveness of management of our Company.

Mr. Fong has extensive experience in corporate management. From August 1997 to July 2000, Mr. Fong worked at IBM, a multinational technology company, as an advisory IT specialist, responsible for pitching the IT solution concept to IBM clientele. From August 2000 to August 2004, he worked at AGENDA (H.K.) Limited (now under Wunderman, formerly PNM Solutions), a digital marketing company, as a sales and marketing manager, responsible for sourcing customers in Hong Kong and China. From August 2004 to November 2011, he worked at Sun Tze Swimwear Printing Co., Ltd., a specialised printer for stretch fabrics, as the managing director, responsible for overall operation and management. Since December 2011, he has been the managing director of Times Swimwear Printing Co., Ltd., a company engaging in printing of swimwear, responsible for marketing and overall management.

In June 1997, Mr. Fong graduated from the University of Toronto in Canada with a Bachelor of Science.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Li Yanmin (李彥敏), aged 55, joined our Group in May 2015 as deputy general manager and human resources controller. He is responsible for operating and overseeing the human resources department of our Group.

From November 2004 to July 2010, he was employed by Fu Yu Precision Component (Kun Shan) Co., Ltd.* (富鈺精密組件(昆山)有限公司), a company engaging in electronic research & processing, with his last position as human resources officer, responsible for human resources management. From July 2010 to February 2012, he worked at PanAsialum (China) Company Limited* (滎陽鋁業(中國)有限公司), a company engaging in aluminium trading, as the assistant chief executive officer, responsible for overall operation support to the management.

Mr. Li graduated from Central South University of Technology (中南工業大學) with a Bachelor of Engineering (Mining Engineering), specialising in engineering surveying in July 1988.

Mr. Chan Chi Yeung (陳智揚), aged 37, joined the Group in April 2019 and has been appointed as the chief financial officer of the Group responsible for overseeing the Group's finance, accounting, investor relations and capital market functions. He was also appointed as the company secretary of the Company (the "**Company Secretary**") on 30 April 2019.

From July 2006 to April 2019, prior to joining the Group, Mr. Chan worked in KPMG Hong Kong, an accountancy firm, and his last position was senior manager, responsible for audit and accounting advisory.

Mr. Chan graduated from The Chinese University of Hong Kong with a bachelor's degree in business administration (double major in finance and marketing) in June 2006. Since January 2010, he has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants. He has been a chartered certified accountant of the Association of Chartered Certified Accountants since August 2017.

COMPANY SECRETARY

Mr. Chan Chi Yeung (陳智揚), was appointed as the Company Secretary on 30 April 2019. Please see the paragraph headed "Senior Management" of this section for further details of the biography of Mr. Chan.

* *The English translation of the name is for reference only. The official name of the entity is in Chinese.*

Corporate Governance Report

INTRODUCTION

The Group is committed to ensuring high standards of corporate governance and business practices. The Company's corporate governance practices are based on the principles of good corporate governance as set out in the Corporate Governance Code and Corporate Governance Report in Appendix 15 to the GEM Listing Rules (the "**CG Code**"). During FY2020 and up to the date of this report, the Company has complied with all the applicable code provisions of the CG Code.

THE BOARD

Responsibilities

The Board is entrusted with the overall responsibility for promoting the success of the Company by providing effective leadership and direction to its business, and ensuring transparency and accountability of its operations. The Board is responsible for all decision-making in respect of all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control systems, risk management systems, material transactions (in particular those may involve conflict of interests), financial information, change of Directors, ad hoc projects and other significant financial and operational matters. The Board has the full support of the management of the Group to discharge its responsibilities.

The day-to-day management, administration and operation of the Company are currently delegated to the executive Directors by the Board and the senior management of the Group. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions. All Directors have full and timely access to all relevant information of the Company, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each Director is normally able to seek independent advice in appropriate circumstances at the Company's expense, upon making request to the Board.

In addition, the Board has also delegated various responsibilities to the board committees of the Company. Further details of the board committees of the Company are set out below in this corporate governance report.

The Company has arranged appropriate liability insurance coverage for all the Directors and officers of the Group, including company securities, employment practices, regulatory crisis event, investigation, litigation, tax liabilities and public relation, etc., which is reviewed by the Board on a regular basis.

Corporate Governance Report

THE BOARD *(Continued)*

Composition

The nomination committee of the Company (the “**Nomination Committee**”) ensures the composition of the Board a balance of skills, experiences, qualifications and diversity of perspectives appropriate to the requirements of the business and development of the Company. The current composition of the Board consists of two (2) executive Directors, one (1) non-executive Director (“**NED**”) and three (3) independent non-executive Directors (“**INED(s)**”). INEDs are responsible for exercising independent judgment on various Board decisions. The Directors during the year ended 31 December 2020 were set out below:

Executive Directors

Mr. Wong Kai Hung Kelvin (*Chairman*)

Mr. Xi Bin (*Chief Executive Officer*)

Non-executive Director

Mr. Hung Yuk Miu

Independent non-executive Directors

Mr. Sze Irons, *BBS JP*

Mr. Fong Kin Tat

Mr. Ng Wing Heng, Henry

The current term of appointment of each of the executive Directors is for a term of three (3) years commencing from the 1 April 2020, subject to retirement and re-election in accordance to the articles of association of the Company (the “**Articles**”) and the GEM Listing Rules and terminable by either the Company or the executive Director giving each other three-month notice in writing. Each of the INEDs has entered into a letter of appointment with the Company for an initial term of three (3) years commencing from 23 April 2018 respectively. The current term of appointment of the NED is for a term of three years commencing from 1 November 2020.

Pursuant to the Article 84(1) and 84(2) of the Articles, each of Mr. Wong Kai Hung Kelvin and Mr. Xi Bin will retire from the office of Director by rotation and shall, being eligible for re-election at the forthcoming annual general meeting of the Company to be held on Thursday, 28 May 2021 (the “**2021 AGM**”), offer himself for re-election at the 2021 AGM. The Board and the Nomination Committee of the Company have recommended the re-election of all the retiring Directors standing for re-election at the 2021 AGM.

Corporate Governance Report

THE BOARD *(Continued)*

Composition *(Continued)*

The participation of INEDs in the Board brings a diverse range of expertise, skills and independent judgment on issues relating to the Group's strategies, performance, conflicts of interests and management process to ensure that the interests of all shareholders of the Company (the "**Shareholders**") have been duly considered. Each of the INEDs has confirmed in writing his independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules and the Board and the Nomination Committee considered that all INEDs are independent.

There is a balance of skills and experiences for the Board, which is appropriate for the requirements of the business of the Company. The Directors' biographical information is set out in the section headed "Biographical Details of Directors and Senior Management" of this report.

Each of the Board members has no financial, business, family or other material/relevant relationships with each other.

The list of current Directors (by category) is also disclosed in this report and all corporate communications are issued by the Company pursuant to the GEM Listing Rules from time to time. The Company also maintains on its website (www.smart-team.cn) and on the Stock Exchange's website (www.hkexnews.hk) an updated list of current Directors (by category) identifying their role and function.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to code provision A.6.5 of CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills as to ensure that their contribution to the Board remains informed and relevant.

Each newly appointed Director receives comprehensive, formal and tailored induction at time around the first occasion of his appointment, so as to ensure that he has appropriate understanding of the Group structure, Board and Board committee meetings procedures, business, management and operations of the Group, etc. and that he is fully aware of his responsibilities and obligations under the GEM Listing Rules and applicable regulatory requirements.

Besides, the Company keeps circulating information and materials to develop and update Directors' knowledge and skills as and when appropriate. All the information and materials are relevant to the Group's business, the economy, corporate governance, rules and regulations, accounting, financial or professional skills and/or directors' duties and responsibilities. There are also arrangements in place for providing continuing briefing and professional development to each Director. All Directors are encouraged to attend relevant training courses at the Company's expense. The Company Secretary is responsible for keeping records of training taken by each Director.

Corporate Governance Report

CONTINUOUS PROFESSIONAL DEVELOPMENT *(Continued)*

The individual training record of each Director received during the year ended 31 December 2020 is set out below:

	Attending training course(s) relevant to corporate governance	Reading materials relevant to corporate governance
Executive Directors		
Mr. Wong Kai Hung Kelvin	✓	✓
Mr. Xi Bin	✓	✓
Non-executive Director		
Mr. Hung Yuk Miu	✓	✓
Independent non-executive Directors		
Mr. Sze Irons, <i>BBS JP</i>	✓	✓
Mr. Fong Kin Tat	✓	✓
Mr. Ng Wing Heng, Henry	✓	✓

BOARD MEETINGS

Pursuant to code provision A.1.1 of the CG Code, the Board should meet regularly and Board meetings should be held at least four times a year for reviewing and approving financial statements, operating performance, budgets, rules and regulations, announcements and circulars issued by the Company and considering and approving the progress of the various on-going projects, the overall strategies and policies of the Company. Additional meetings would be arranged if and when required. Annual meeting schedules of each meeting of the Board and for the audit committee (the "**Audit Committee**"), the Nomination Committee, the remuneration committee (the "**Remuneration Committee**") and the corporate governance committee (the "**Corporate Governance Committee**") of the Company (each a "**Committee**" together (the "**Committees**")) are normally made available to Directors in advance. Board members are provided with all agenda and adequate information for their review before the meetings. The Board and Committee members are provided with comprehensive meeting papers and relevant materials within a reasonable period of time in advance of the intended meeting date (in any event no less than 3 days before the date of the meeting). All Directors and the Committee members are given opportunities to include matters in the agenda for regular Board and Committee meetings and/or their meetings, if required. To facilitate the decision-making process, the Directors and the Committee members are free to have access to management for enquiries and to obtain further information, when required.

After the meeting, draft minutes are circulated to all Directors and Committee members for comments. Minutes of Board meetings and Committees' meetings are kept by the Company Secretary and are available for inspection by the Directors at all times.

Corporate Governance Report

BOARD MEETINGS (Continued)

Directors and Committee members may participate either in person or through electronic means of communications. Directors and Committee members are free to contribute and share their views at meetings and major decisions will only be taken after deliberation at meetings. Directors and Committee members who are considered to have conflict of interests or material interests in the proposed transactions or issues to be discussed will not be counted in the quorum of meeting and will abstain from voting on the relevant resolutions. During the year ended 31 December 2020, the Board scheduled to have at least four regular meetings and at least one meeting for each of the Committees. The individual attendance records of each Director at these meetings are set out below:

Name of Directors	Attendance record of Directors at the meetings					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee	General meeting
Mr. Wong Kai Hung Kelvin	4/4	N/A	1/1	1/1	1/1	1/1
Mr. Xi Bin	4/4	N/A	N/A	N/A	N/A	1/1
Mr. Hung Yuk Miu	4/4	N/A	N/A	N/A	N/A	1/1
Mr. Sze Irons, <i>BBS JP</i>	4/4	4/4	1/1	1/1	N/A	0/1
Mr. Fong Kin Tat	4/4	4/4	1/1	N/A	1/1	1/1
Mr. Ng Wing Heng, Henry	4/4	4/4	N/A	1/1	1/1	1/1

Besides the above board meetings, the Chairman of the Board, Mr. Wong Kai Hung Kelvin held one directors' meeting with the INEDs without the presence of other directors during FY2020.

Apart from the said meetings, matters requiring Board approval were also arranged by means of circulation of written resolutions of all Board members.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the chairman of the Board and the chief executive officer to ensure a balance of power and authority. The responsibilities of the chairman of the Board and the chief executive officer are clearly defined. The roles of chairman and chief executive officer of the Company are separate and not performed by the same individual to avoid power being concentrated in any one individual. Mr. Wong Kai Hung Kelvin was the chairman of the Board. Mr. Xi Bin was the chief executive officer of the Company throughout the year.

Corporate Governance Report

BOARD COMMITTEES

The Board has established four Committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee, for overseeing different aspects of the Company's affairs. All Committees have been established with defined written terms of reference, which are posted on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.smart-team.cn. All Committees should report to the Board on their decisions or recommendations made. All Committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company's expense.

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference adopted on 23 April 2018. The terms of reference of the Audit Committee, which was updated on 1 January 2019, is currently made available on the Stock Exchange's website and the Company's website.

The Audit Committee is delegated with the authority from the Board to provide independent oversight of the Group's financial reporting and internal control systems, and the adequacy of the external audits.

The Audit Committee currently consists of three (3) INEDs, namely Mr. Ng Wing Heng Henry, Mr. Sze Irons, *BBS JP* and Mr. Fong Kin Tat. Mr. Ng Wing Heng Henry currently serves as the chairman of the Audit Committee, who holds the appropriate professional qualifications as required under Rules 5.05(2) and 5.28 of the GEM Listing Rules.

Pursuant to the terms of reference of the Audit Committee and code provision C.3.3 of the CG Code, the members of the Audit Committee should meet at least four times a year to consider the budget, revised budget, quarterly reports, interim report and annual report before submission to the Board and meet the external auditors at least twice a year.

For the year ended 31 December 2020, the members of the Audit Committee met the external auditors for twice, fulfilling the requirement of code provision C.3.3. During the year ended 31 December 2020, the individual attendance records of each member at the meeting of the Audit Committee is set out on page 19 of this annual report.

During the year ended 31 December 2020, four (4) meetings were held by the Audit Committee, two (2) of which with the presence of the external auditor. During the said two (2) meetings, the following major tasks were performed:

- a. reviewing and discussing the interim and annual financial statements, results announcements and reports, the related accounting principles and practices adopted by the Group and the relevant audit findings;
- b. reviewing and discussing the risk management and internal control system of the Group;
- c. discussing and recommending the re-appointment of external auditor; and
- d. reviewing the Company's continuing connected transactions for the year ended 31 December 2020 pursuant to the GEM Listing Rules.

Corporate Governance Report

AUDIT COMMITTEE *(Continued)*

The Board is of the view that the Audit Committee has properly discharged its duties and responsibilities during the year ended 31 December 2020 and up to the date of this report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2020, the fee paid/payable to auditor in respect of audit service and/or non-audit services provided by the auditor to the Group were as follows:

Nature of services	2020 HK\$'000	2019 HK\$'000
Audit services	600	700
Non-audit services	–	360

NOMINATION COMMITTEE

The Nomination Committee is delegated with the authority from the Board to formulate and implement the policy for nominating Board candidates for election by Shareholders and to assess INEDs' independence and commitment.

The Company also has a board diversity policy (the "**Board Diversity Policy**") and a nomination policy (the "**Nomination Policy**") in place. The Nomination Policy aims at applying the principles of the Board Diversity Policy and other provisions under the GEM Listing Rules to improve transparency around the process and criteria adopted by the Nomination Committee in selecting and recommending candidates as Directors (including NED and INED(s)).

In identifying suitably qualified candidates to become members of the Board, the Nomination Committee will give adequate consideration to the Board Diversity Policy and the Nomination Policy. While all Board appointments will continue to be made on a merit basis, number of factors will also be taken into account, including but not limited to age, skills, regional and industry experience, cultural and educational background, race, gender and other qualities so as to ensure that the Board was a balance of skills, experiences as well as a diversity of perspectives. In forming its perspective on diversity, the Nomination Committee will also take into account factors based on the Company's own business model and specific needs from time to time.

The Nomination Policy and the Board Diversity Policy are reviewed and shall continue to be reviewed on regular basis.

During the year ended 31 December 2020, the Nomination Committee was satisfied with the diversity of the existing Board composition and did not, for the time being, set up any measurable objective regarding board diversity.

As to the right to nominate, both the Directors and the Shareholders may nominate person(s) to be appointed as a Director. Upon assessing the merits and for INEDs, their independence by the Nomination Committee, the Nomination Committee will make recommendations to the Board. For detailed nomination procedures, please refer to the Nomination Policy and the nomination procedure of the Company uploaded on the Company's website and the Stock Exchange's website.

Corporate Governance Report

NOMINATION COMMITTEE *(Continued)*

The Nomination Committee consists of one (1) executive Director, namely Mr. Wong Kai Hung Kelvin, and two (2) INEDs, namely Mr. Sze Irons, *BBS JP* and Mr. Ng Wing Heng Henry. Mr. Sze Irons, *BBS JP* currently serves as the chairman of the Nomination Committee. The primary duties of the Nomination Committee include, among other things, making recommendations on any proposed changes to the Board to complement our Company's corporate strategies.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee is also responsible for, among others, performing the corporate governance duties as set out in the code provision D.3.1 of the CG Code, which include:

- a. to develop and review our Group's policies and practices on corporate governance and make appropriate recommendations to the Board;
- b. to review and monitor the training and continuous professional development of the Directors and senior management;
- c. to review and monitor our Group's policies and practices on compliance with legal and regulatory requirements;
- d. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Directors and employees; and
- e. to review our Group's compliance with the provisions of the CG Code and disclosure in the corporate governance report.

The Corporate Governance Committee currently consists of one (1) executive Director, Mr. Wong Kai Hung Kelvin and two (2) INEDs, namely, Mr. Ng Wing Heng Henry and Mr. Fong Kin Tat. Mr. Wong Kai Hung Kelvin currently serves as the chairman of the Corporate Governance Committee.

During the year, the members of the Corporate Governance Committee have fulfilled the requirement of code provision D.3.2, being responsible for, among other matters, reviewing and monitoring the training and continuous professional development of the Directors; reviewing and monitoring the code of conduct and compliance with legal and regulatory requirements and reviewing the Company's compliance with the CG Code and disclosure in this report.

Corporate Governance Report

REMUNERATION COMMITTEE

The Remuneration Committee is delegated with the authority from the Board to establish, review, and make recommendations to the Board on the Group's remuneration policy and practices. The Remuneration Committee ensures that all employees and Directors are appropriately remunerated in accordance with the Group's strategy as well as its long-term and short-term performance.

The Remuneration Committee consists of one (1) executive Director, namely Mr. Wong Kai Hung Kelvin, and two (2) INEDs, namely Mr. Fong Kin Tat and Mr. Ng Wing Heng Henry. Mr. Fong Kin Tat currently serves as the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee include, among other things, making recommendations to the Board on our Group'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 and on the remuneration packages of individual executive Directors and senior management. The Remuneration Committee is also responsible for assessing the performance of the Directors and approving the terms of their service contracts.

Pursuant to the code provision B.1.5 of the CG Code, the remuneration of the members of the Board and senior management by band for the FY2020 is set out below:

Remuneration Band	Number of Individuals
Nil to HK\$1,000,000	5
HK\$1,000,001 to HK\$2,000,000	3

Of the five individuals with the highest emoluments, two (2) of them (FY2019: 2) are our executive Directors. Details of the remuneration of each Director and the five individuals with the highest emoluments in the Group for the year ended 31 December 2020 are set out in notes 11 and 12 to the consolidated financial statements, respectively.

INTEREST OF THE COMPLIANCE ADVISER

As confirmed by First Shanghai, the Company's compliance adviser, save for the compliance agreement entered into between the Company and First Shanghai dated 28 May 2019, none of First Shanghai or its directors, employees or close associates (as defined in the GEM Listing Rules) had any interest in the Group as at 31 December 2020 and up to the date of this report, which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

Corporate Governance Report

COMPANY SECRETARY

The Company Secretary supports the Board by ensuring good information flow within the Board. The Company Secretary is responsible for advising the Board on the corporate governance matters and facilitating induction and professional development of the Directors. All Directors have access to the advice and services of the Company Secretary to ensure that the Board procedures and all applicable laws, rules and regulations, are followed.

Mr. Chan Chi Yeung was appointed as the Company Secretary in April 2019. For his professional qualifications, please refer to the section headed "Biographical Details Of Directors And Senior Management" in this report. He complied with all the required qualifications, experiences and training requirements under the GEM Listing Rules. During the year ended 31 December 2020, the Company Secretary has complied with the GEM Listing Rules by taking not less than 15 hours of relevant professional training.

Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2020.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The responsibilities of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements are set out in the Independent Auditor's Report on pages 62 to 67 in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code for dealing in securities of the Company by the Directors (the "**Securities Dealing Code**"). Having made specific enquiry, all Directors have confirmed that they have complied with the Securities Dealing Code for the year ended 31 December 2020 and up to the date of this report.

Besides, the Company has adopted internal control policy in relation to the disclosure of inside information of the Company (the "**Inside Information Policy**").

No incident of non-compliance of the Securities Dealing Code and/or the Inside Information Policy was noted by the Company for the year ended 31 December 2020 up to the date of this report.

Corporate Governance Report

INTERNAL AUDIT FUNCTION

The Group has not established a standalone internal audit department. However, the Board has put in place adequate measures to perform the internal audit function in relation to different aspects including (i) the Board has established formal policies to apply financial reporting and internal control principles in accounting and financial matters to ensure compliance with the GEM Listing Rules and all relevant laws and regulations and (ii) the Group engaged an external consultant to perform an internal review on certain scope. The internal audit review report is submitted to the Audit Committee for review.

The Group considers that the existing organization structure and close supervision by management and the abovementioned engagement of the external consultant can maintain sufficient risk management and internal control of the Group. The Board will review the need to set up an internal audit function by assessing the size, nature and complexity of the business of the Group from time to time and may set up an internal audit team if the need arises.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board acknowledges that it is its responsibility to ensure that the Company establishes and maintains sound risk management and internal control systems within the Group and to review the effectiveness of the systems. Such systems are designed to manage and mitigate risks inherent in the Group's business to an acceptable level, but not eliminating the risk of failure to achieve business objectives, and can only provide reasonable assurance against material misstatement, loss or fraud.

The Company does not have an internal audit function and the Board has entrusted the Audit Committee with the responsibility to oversee risk management and internal control systems of the Group on an on-going basis and to review the effectiveness of the systems annually. The review covered all material controls, including financial, operational, compliance controls and risk management functions. Under the Company's risk management and internal control structure, management is responsible for the design, implementation and maintenance of risk management and internal control systems to ensure, amongst others, (i) appropriate policies and control procedures have been designed and established to safeguard the Group's assets against improper use or disposal; (ii) relevant laws, rules and regulations are adhered to and complied with; and (iii) reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements.

With respect to the procedures and internal controls for the handling and dissemination of inside information, the Group has internal policy and procedures which strictly prohibit unauthorised use of inside information and has communicated that to all staff; the Board is aware of its obligations to announce any inside information in accordance with the GEM Listing Rules and conducts the affairs with reference to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012. In addition, only the Directors and delegated officers can act as the Group's spokesperson and respond to external enquiries about the Group's affairs.

During the year ended 31 December 2020, the Board has conducted its regular and annual review of the effectiveness of our risk management and internal control systems, in particular, the operational and financial reports, compliance control and risk management reports, budgets and business plans provided by management. The Audit Committee also performs regular review of the Group's performance, risk management and internal control systems and discusses with the Board, in order to ensure effective measures are in place to protect material assets and identify business risks of the Group. Such review during the year ended 31 December 2020 did not reveal any major issues and the Board considers the risk management and internal control systems effective and adequate.

Corporate Governance Report

INVESTOR RELATIONS

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies.

Shareholders are encouraged to attend the general meetings of the Company and the Directors always make efforts to fully address any questions raised by the Shareholders at the annual general meetings of the Company. The chairman of the Board will attend the annual general meetings to answer Shareholders' questions. The auditor of the Company will also attend the annual general meetings to answer questions about the conduct of the audit.

The 2021 AGM of the Company will be held on Friday, 28 May 2021, the notice of which shall be sent to the Company's shareholders in accordance with the Articles, the GEM Listing Rules and other applicable laws and regulations.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the GEM Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange after each general meeting.

Convening of extraordinary general meeting and putting forward proposals

Pursuant to Article 58 of the Articles, the Board may whenever it thinks fit call extraordinary general meetings. Any one or more members of the Company 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 (2) months after the deposit of such requisition. If within twenty-one (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.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Corporate Governance Report

SHAREHOLDERS' RIGHTS *(Continued)*

Putting Forward Enquiries to the Board *(Continued)*

The Shareholders may at any time send their enquiries and concerns to the Board in writing. Contact details are as follows:

Address: Room 1006, 10/F., Center Point, 181-185 Gloucester Road, Wan Chai, Hong Kong

Phone no.: (852) 3611 0268

Email: ir@smart-team.cn

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business, performance and strategies. The Company endeavors to maintain an ongoing dialogue with Shareholders and in particular, through annual general meetings and other general meetings. The chairman of the Board, the chairmen of Audit Committee, Remuneration Committee, Nomination Committee or, in their absence, other members of the respective committees, will make themselves available at the annual general meetings to meet Shareholders and answer their enquiries.

The Company has not made any changes to its Articles during the year ended 31 December 2020. An up-to-date version of the Articles is also available on the Company's website and the Stock Exchange's website.

DIVIDEND POLICY

The Company has adopted a dividend policy (the "**Dividend Policy**") with effect from 1 January 2019. Declaration and payment of dividends by the Company is subject to compliance with the applicable law and regulations including the laws of the Cayman Island and the articles of association of the Company. The Dividend Policy sets out the factors that the Board will take into account in deciding the declaration of interim dividends, special dividends and final dividends such as the level of cash and retained earnings, the actual and projected financial performance, the projected levels of capital expenditure and other investment plans etc. The Dividend Policy aims at enhancing transparency of the Company and facilitating the Shareholders and investors to make informed investment decisions relating to the Company.

Corporate Governance Report

DIVIDEND POLICY *(Continued)*

The dividend that our Directors may recommend or declare in respect of any particular financial year or period will be subject to the factors outlined below as well as any other factors deemed relevant by the Board:

- the level of cash and retained earnings;
- the actual and projected financial performance;
- the projected levels of capital expenditure and other investment plans; and
- restrictions on payment of dividends imposed on our Group by its financing arrangement (if any).

CONSTITUTIONAL DOCUMENTS

A copy of the Articles is posted on the designated website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.smart-team.cn).

There had been no changes to the Articles during the year.

On behalf of the Board

Wong Kai Hung, Kelvin

Chairman and Executive Director

25 March 2021

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

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding and its subsidiaries are principally engaged in sales of functional knitted fabrics and apparel.

Details of the principal activities of the principal subsidiaries of the Company are set out in note 32 to the consolidated financial statements and an analysis of the Group's performance for the year ended 31 December 2020 is set out in the "Management Discussion and Analysis" section of this report. For future business development, the Group will strengthen its position in research and development of the new functional fabrics as well as expanding different markets and strengthening the marketing and sales efforts to attract new customers.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the five years ended 31 December 2016, 2017, 2018, 2019 and 2020, as extracted from the Prospectus and the consolidated financial statements is set out on page 4 of this report. This summary does not form part of the audited consolidated financial statements of the Group.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2020 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income of this annual report.

The Board did not recommend the payment of final dividend for the year ended 31 December 2020 (2019: HK\$1 cent per Share).

PLANT AND EQUIPMENT

Details of movements in plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements of this annual report.

Directors' Report

SHARE CAPITAL

Details of movements during the year ended 31 December 2020 in the share capital of the Company are set out in note 26 to the consolidated financial statements of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

RESERVE

Details of movements in the reserves of the Company and the Group are set out in note 35 to the consolidated financial statements and the consolidated statement of changes in equity of this report respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserves available for distribution to Shareholders comprised of the share premium, capital reserve and retained profits with an aggregate amount of approximately HK\$43,142,000 (2019: HK\$48,453,000).

REVIEW OF FINANCIAL INFORMATION

The Audit Committee comprises the three INEDs, namely, Mr. Ng Wing Heng Henry, Mr. Sze Irons, *BBS JP*, Mr. Fong Kin Tat. Mr. Ng Wing Heng Henry is the chairman of the Audit Committee. The Audit Committee has reviewed with management regarding the accounting principles and practices adopted by the Group and discussed the internal controls system, risk management system and financial reporting matters including the review of the audited consolidated financial statements and annual results of the Group for the year ended 31 December 2020.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2020, the aggregate sales attributable to the Group's largest customer and the five largest customers accounted for approximately 35.6% and 79.1% (2019: 30.9% and 59.2%) of the Group's total revenue for the year, respectively.

During the year ended 31 December 2020, the aggregate purchases attributable to the Group's largest supplier and the five largest suppliers accounted for approximately 31.4% and 79.0% (2019: 43.4% and 70.5%) of the Group's total purchase for the year, respectively.

At no time during the year under review, that any of the Directors, their close associates or any Shareholders (which to the best knowledge of the Directors who owns more than 5% of the Company's issued share capital), has any interests in any of the above five largest customers and suppliers of the Group for the year under review.

RELATIONSHIP WITH EMPLOYEES, SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its employees, suppliers, customers and other stakeholders to meet its immediate and long-term goals. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

During the year ended 31 December 2020, there were no material and significant dispute between the Group and its employees, suppliers, customers and/or other stakeholders.

DEED OF NON-COMPETITION

Mr. Wong Kai Hung Kelvin and Cosmic Bliss Investments Limited (together, the **"Controlling Shareholders"**), have confirmed to the Company of their compliance with the non-competition undertakings provided to the Company under a deed of non-competition (the **"Deed of Non-Competition"**) entered into between the Controlling Shareholders and the Company dated 23 April 2018 during the period under review.

The INEDs have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by the Controlling Shareholders during the period under review.

LOAN AGREEMENTS WITH COVENANT RELATING TO SPECIAL PERFORMANCE OF THE CONTROLLING SHAREHOLDERS

On 25 February 2021, Smart Team Textiles Technology Limited (**"Smart Team"**), a wholly-owned subsidiary of the Company, as borrower; Bank of China (Hong Kong) Limited, as lender (**"BOC Bank"**); and each of the Company and Mr. Wong Kai Hung Kelvin (**"Mr. Wong"**), an executive Director, chairman of the Board and a controlling shareholder of the Company, as guarantor, entered into a banking facility letter (**"Facility Letter"**) in relation to the general banking facilities granted under the SME Financing Guarantee Scheme guaranteed by the HKMC Insurance Limited. The Facility Letter is comprising of a revolving loan facility of up to HK\$10,000,000 and an overdraft facility of up to HK\$8,000,000. According to the terms of the Facility Letter, all amounts borrowed thereunder shall be repaid every 12 months after the date of each drawdown and the amount borrowed shall be used to finance the acquisition of assets or as general working capital for business operation.

Pursuant to the Facility Letter, certain specific performance covenants are imposed on Mr. Wong, (i) to remain as the chairman of the Board or an executive Director; and (ii) together with his family member(s) shall remain as the largest shareholder of the Company, directly or indirectly.

As at the date of this report, Mr. Wong's owns, indirectly, 75% of the issued share capital of the Company.

Please refer to the announcement of the Company dated 25 February 2021 for more details.

BREACH OF LOAN AGREEMENT

Under a loan agreement dated 20 April 2020 (**"Loan Agreement"**) entered into between Guangdong Smart Team Textiles Technology Co., Ltd (**"Guangdong Smart Team"**), a wholly-owned subsidiary of the Company as the borrower and 中國建設銀行股份有限公司東莞市分行 (Dongguan Branch of China Construction Bank*) (**"CCB"**) as the lender in relation to a loan with an aggregate principal amount of RMB18 million (**"Loan"**), Guangdong Smart Team is required to, among others, satisfy certain financial covenants, failure to perform or comply with any of those financial covenants entitles CCB to, among others, declare the outstanding principal amount, accrued interest and all other sums payable under the Loan Agreement immediately due and payable.

One of the covenants under the Loan Agreement stipulates that the net profit of Guangdong Smart Team for FY2020 shall not be lower than the net profit for FY2019 by 50% (**"Net Profit Undertaking"**). As the business performance of Guangdong Smart Team has been, to a certain extent, adversely affected by the coronavirus pandemic and the downward economy in FY2020, the net profit of Guangdong Smart Team for FY2020 decreased by around 73% as compared to FY2019. Guangdong Smart Team therefore failed to fulfill the Net Profit Undertaking for FY2020 and hence breached the Loan Agreement. According to the Loan Agreement, CCB is entitled to, among others, declare the outstanding principal amount, accrued interest and all other sums payable under the Loan Agreement immediately due and payable.

Directors' Report

Up to the date of this report, Guangdong Smart Team has yet to receive any waiver nor any demand for the immediate repayment from CCB in respect of the breach as mentioned above.

Notwithstanding the breach, the Group has not experienced any difficulties in obtaining financing with its banks for its working capital and the Company considers that the Group has sufficient financial resources to repay its indebtedness and there is no material adverse impact on the operation of the Group as a result of the breach.

Please refer to the announcement of the Company dated 10 March 2021 for more details. Further announcement(s) will be made by the Company as and when appropriate or as required under the GEM Listing Rules.

DIRECTORS

The Directors who held office during the year ended 31 December 2020 and up to the date of this annual report were:

Executive Directors

Mr. Wong Kai Hung Kelvin (*Chairman*)
Mr. Xi Bin

Non-executive Director

Mr. Hung Yuk Miu

Independent non-executive Directors

Mr. Sze Irons, *BBS JP*
Mr. Fong Kin Tat
Mr. Ng Wing Heng Henry

In accordance with the Articles, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. For details about the retirement and rotation of Directors, please refer to "Corporate Governance Report – The Board" of this report (page 17).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of all the Directors and senior management of the Company are set out on pages 14 to 16 of this report.

INDEPENDENCE CONFIRMATION

The Company has received, from each of the INEDs, a written confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and considers that all the INEDs as independent.

DIRECTORS' SERVICE CONTRACT

Each of the executive Directors has entered into a service contract with the Company for a term of three (3) years which is subject to termination by either party giving not less than three months' written notice and subject to retirement and re-election in accordance to the Articles and the GEM Listing Rules.

Each of the INEDs has entered into a letter of appointment with the Company, respectively. Each of the INED's appointment is for an initial term of three (3) years, commencing from the Listing Date, 23 April 2018, subject to retirement and re-election in accordance to the Articles and GEM Listing Rules and terminable by either party by giving at least three month's written notice to the other. The NED has entered into a letter of appointment with the Company for an initial term of six (6) months commencing from 30 April 2019 and the term of appointment was subsequently extended for one year with effect from 1 November 2019 and further extended for three years with effect from 1 November 2020.

All of the executive Directors' service contracts, the NED's letter of appointment and the INED's letters of appointment entered between the Company and the respective Director has been reviewed and ratified by the Nomination Committee. None of the Directors being proposed for re-election at the 2021 AGM has a service contract or letter of appointment with the Company, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

EMOLUMENT POLICY

As at 31 December 2020, the Group had 79 (2019: 74) employees. The emolument policy of the directors and senior management of the Group is formulated by the Remuneration Committee based on their merit, qualifications and competence. It is the Group's policy to compensate each employee fairly and equitably. The Group has a system for measuring employees' performance against agreed-upon goals with specific performance standards. Performance discussion is carried out on an ongoing basis and a formal evaluation is conducted at least once a year to review employees' overall performance, achievements, and areas in need of improvement. Salary review will be based on both Group's performance and individual performance and subject to the Group's discretion.

The emoluments of the Directors of the Company are generally recommended by the Remuneration Committee for approval by the Board, having regard to the Group's operating results, individual performance and comparable market statistics. All the emoluments of Directors have been reviewed and approved or ratified by the Remuneration Committee.

Details of the emoluments of the Directors of the Company are set out in note 11 to the consolidated financial statements of this annual report.

MANAGEMENT CONTRACTS

No contract, other than employment contracts, concerning management and administration of the whole or any substantial part of the Company's business was entered into or existed during the year ended 31 December 2020.

Directors' Report

FULLY EXEMPT CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Purchase of yarns

The Group entered into various purchase agreements with Zhongshan Da Chong Elastic Thread Factory Limited (中山市大涌線廠有限公司) (“**Da Chong**”) for the purchase of yarns of HK\$534,000 in FY2020 and HK\$1.2 million in FY2019. Da Chong, which is owned as to 15% by Mr. Wong Kai Hung Kelvin and 85% collectively by his close family members, is our connected person and the transactions contemplated under such purchase agreements constituted continuing connected transactions of the Group under Chapter 20 of the GEM Listing Rules.

As (i) all the transactions contemplated under the abovementioned purchase agreements were conducted on normal commercial terms and (ii) all the applicable percentage ratios under Chapter 20 of the GEM Listing Rules (other than the profit ratio) for the transactions under such purchase agreements, on an aggregated basis, are less than 5% and the annual amount was less than HK\$3 million, the continuing connected transactions contemplated thereunder are fully exempt from all annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. For details of such transactions, please refer to note 31 to the audited consolidated financial statements of the Company contained in this annual report.

Provision of personal guarantees by the executive Directors

Mr. Xi Bin, our executive Director and hence our connected person, has provided a personal guarantee for the bank facilities to the Group during the year ended 31 December 2020. For details, please refer to notes 24(a) and 31(d) to the consolidated financial statements. In February 2021, Mr. Wong an executive Director and hence our connected person, has provided a personal guarantee for the banking facilities of the Group granted by BOC Bank. Each of the personal guarantees constitutes a connected transaction of the Group under Chapter 20 of the GEM Listing Rules. However, as the personal guarantees provided by Mr. Xi and Mr. Wong were provided to the Group on normal commercial terms or better and not secured by the assets of our Group, they were fully exempt from all annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Provision of certain consultancy service by the non-executive Director

Proudy Limited, a company wholly owned by Mr. Hung Yuk Miu, has entered into an agreement with the Group to provide certain consultancy service (the “**Consultancy Service**”) to the Group from 1 January 2020 for a term of 2 years. Such Consultancy Service constitutes a continuing connected transaction of the Company under Chapter 20 of the GEM Listing Rules. As the Consultancy Service provided by Proudy Limited to the Group are on normal commercial terms and all the applicable percentage ratios under Chapter 20 of the GEM Listing Rules, on an annual basis, are less than 5% and the annual amount payable was less than HK\$3 million, the continuing connected transaction are fully exempted from all annual review, reporting, announcement and independent shareholders' approval under Chapter 20 of the GEM Listing Rules. The prepayment of HK\$286,000 made to Proudy Limited in FY2020 as set out in note 31(b) to the audited consolidated financial statements of the Company contained in this annual report represented the prepaid service fees as at 31 December 2020.

The Directors confirm that the related party transactions during FY2020 as disclosed in note 31 to the consolidated financial statements fall under the definition of “connected transaction” or “continuing connected transaction” (as the case may be) but are fully exempt from all annual review, reporting, announcement and independent shareholders' approval requirements in accordance with Chapter 20 of the GEM Listing Rules.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 31 to the audited consolidated financial statements, there were no transaction, arrangement, or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which any Director or any entities connected with a Director, the controlling Shareholder, the substantial Shareholders had a material interest, whether directly or indirectly, subsisted at the end of FY2020 or at any time during FY2020.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2020, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") which are (a) required 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 in which they are taken or deemed to have under such provisions of the SFO); (b) required to be recorded in the register required to be kept under section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the required standard dealings by directors of listed issuer as referred to in Rule 5.47 of the GEM Listing Rules were as follows:

Long Positions in the Shares or the ordinary shares of the associated corporations of the Company

Name of Director	Name of Group member/associated corporation	Capacity/nature of Interest	Total number of shares	Percentage of interest
Mr. Wong Kai Hung Kelvin ("Mr. Wong")	The Company	Interest in a controlled corporation	360,000,000 Shares (Note 1)	75.00%
Mr. Wong	Cosmic Bliss Investments Limited ("Cosmic Bliss") (Note 2)	Beneficial owner	1 share of US\$1.00	100.00%

Notes:

- These Shares are registered in the name of Cosmic Bliss, a company wholly owned by Mr. Wong. By virtue of the provisions in Part XV of the SFO, Mr. Wong is deemed to be interested in all the Shares held by Cosmic Bliss. Mr. Wong is the sole director of Cosmic Bliss.
- Cosmic Bliss is an associated corporation of our Company by virtue of its being the holding company of our Company. Cosmic Bliss is wholly owned by Mr. Wong.

Save as disclosed above, as at 31 December 2020, none of the Directors or chief executive of the Company nor their associates had registered an interest or short position in any shares or underlying shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of 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 or short positions in which they are taken or deemed to have under such provisions of the SFO) or that was required to be recorded in the register kept by the Company pursuant to section 352 of the SFO, or which are required to be notified to the Company and the Stock Exchange, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

Directors' Rights to Acquire Shares and Debentures

At no time during the year ended 31 December 2020 and up to the date of this report was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement which would enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Report

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

So far as is known to any Directors or chief executive of the Company, as at 31 December 2020, the following persons (other than Directors or chief executive of the Company whose interests are disclosed under the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" above) have interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as required to be recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the Shares of the Company

Name of person	Name of Group member	Capacity/nature of Interest	Number and class of securities	Percentage of interest
Cosmic Bliss (Note 1)	The Company	Beneficial owner	360,000,000 Shares	75.00%
Ms. Kwan, Vivian Wun-kwan (Note 2)	The Company	Interest of spouse	360,000,000 Shares	75.00%

Notes:

1. The entire issued share capital of Cosmic Bliss is wholly owned by Mr. Wong, our executive Director.
2. These Shares are registered in the name of Cosmic Bliss, a company wholly owned by Mr. Wong. Ms. Kwan, Vivian Wun-kwan is the spouse of Mr. Wong. By virtue of the provisions in Part XV of the SFO, Ms. Kwan, Vivian Wun-kwan is deemed to be interested in all the Shares Mr. Wong is interested or deemed to be interested.

Save as disclosed above, as at 31 December 2020, the Directors were not aware of any other person who had or deemed to have interests or short positions in the Shares and underlying Shares which has disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under section 336 of the SFO.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision (as defined in section 469 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) for the benefit of the existing Directors is currently in force and was in force throughout the year ended 31 December 2020. The Company has taken out directors' liability insurance that provides appropriate cover for the Directors.

COMPETING INTEREST

During the year ended 31 December 2020, none of the Directors or the controlling shareholders of the Company or their close associates (as defined in the GEM Listing Rules) is interested in any business which competes or may compete, either directly or indirectly, with the business of the Group nor any conflicts of interest which has or may have with the Group of interests with the Group for the year ended 31 December 2020.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the year end 31 December 2020 or subsisted at the end of the year.

PURCHASE, SALES OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any securities of the Company during the year ended 31 December 2020 and up to the date of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, as at the date of this annual report, the Company has maintained sufficient prescribed public float of not less than 25% of the issued Shares as required under the GEM Listing Rules.

CORPORATE GOVERNANCE

Details of the principal corporate governance practices as adopted by the Company are set out in the section headed "Corporate Governance Report" on pages 17 to 30 of this annual report.

Directors' Report

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to operate in compliance with the applicable environmental laws as well as protecting the environment by minimising the negative impact of the Group's existing business activities on the environment. For details, please refer to the sub-section headed "A. Environmental" under the section headed "Environmental, Social and Governance Report" on pages 42 to 61 of this annual report. To the best knowledge of the Directors, the Group has complied with all relevant laws and regulations regarding environmental protection for the year ended 31 December 2020.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. The Board reviews and monitors the Group's policies and practices on compliance with legal and regulatory requirements on a regular basis. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

During the year ended 31 December 2020 and up to the date of this annual report, to the best of the Company's knowledge, information and belief, having made all reasonable enquiries, the Group is not aware of any non-compliance in any material respect with the relevant laws and regulations that have a significant impact on the business and operation of the Group for the year ended 31 December 2020. Details of the Company's compliance with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in the GEM Listing Rules are provided in the Corporate Governance Report included in this annual report.

INTERESTS OF THE COMPLIANCE ADVISER

As confirmed by First Shanghai Capital Limited ("**First Shanghai**"), the Company's compliance adviser, save for the compliance agreement entered into between the Company and First Shanghai dated 28 May 2019, none of First Shanghai or its directors, employees or close associates (as defined in the GEM Listing Rules) had any interest in the Group as at 31 December 2020 and up to the date of this report, which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

BOARD COMMITTEES

The Board has established four Committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee for overseeing particular aspects of the Company's affairs. All Committees have been established with defined written terms of reference, which are posted on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.smart-team.cn. All the Committees should report to the Board on their decisions or recommendations made. All Committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company's expense.

EVENT AFTER THE REPORTING PERIOD

The global outbreak of COVID-19 since January 2020 has, to a certain extent, affected the business and operation of the Group. The global epidemic has continuously resulted in lockdowns and disruption of transportations in various countries and regions as well as led to economic downturn in the global economy. However, the economy in the PRC is already on the way of recovery from pandemic and there has also been certain rebound in demand of our products from our customers in the first quarter of 2021. The Board expects the recovery of demand for our products will continue in the second quarter of 2021 and the management of the Group is closely monitoring the market situation and continuously evaluating the impact of the epidemic to the Group's operation and financial performance and will make adjustments to the Group's business plan and operations, if necessary, so as to capture the momentum of economic recovery for the Group. As at the date of this report, the Board expect the Group's supply chains or sales to major customers will continue to recover from the adverse impact caused by COVID-19.

Other than the aforementioned event, the Board is not aware of any significant event after the reporting period of the Group that requires disclosure.

ANNUAL GENERAL MEETING

2021 AGM be held on Friday, 28 May 2021 and the notice of the 2021 AGM will be published and despatched to the shareholders of the Company in accordance with the Company's articles of association and the GEM Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

To ascertain the entitlement to attend and vote at the 2021 AGM, the register of members of the Company will be closed from Tuesday, 25 May 2021 to Friday, 28 May 2021, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to attend and vote at the 2021 AGM, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Monday, 24 May 2020 (Hong Kong time).

AUDITOR

The consolidated financial statements for the year ended 31 December 2020 have been prepared by SHINEWING (HK) CPA Limited ("**Shinewing**"), the auditor of the Company, who will retire at the conclusion of the 2021 AGM and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Shinewing as auditor of the Company will be proposed at the 2021 AGM.

Wong Kai Hung, Kelvin

Chairman

Hong Kong, 25 March 2021

Environmental, Social and Governance Report

INTRODUCTION, ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

ST International Holdings Company Limited (the “**Company**”) together with its subsidiaries (the “**Group**” or “**we**”), are principally engaged in the provision of functional knitted fabrics and apparel in the People’s Republic of China (the “**PRC**”).

The Group is pleased to present the Environmental, Social and Governance Report (the “**ESG Report**”) of the Group for the financial year ended 31 December 2020 (the “**Reporting Period**”). The ESG Report not only elaborates the Group’s commitments and strategies on corporate social responsibility but also summarises our Environmental, Social and Governance (“**ESG**”) initiatives, plans and performance in sustainable development.

The Group believes that sustainability is an essential element of continuous success, therefore we have integrated this key concept into our business strategy. In order to pursue a successful and sustainable business model, the Group has integrated different ESG aspects into our risk management system. We adhere to the ESG management direction in accordance with the concept of sustainable development and are committed to progressing effectively against ESG affairs of the Group.

The ESG Governance Structure

The Group established the ESG taskforce (the “**Taskforce**”) which comprises of core members from different departments of the Group. The Taskforce is responsible for collecting information relevant to the ESG aspects for the purpose of preparing the ESG Report. The Taskforce reports directly to the Board on a regular basis, assists in identifying and assessing ESG risks of the Group, and assesses the effectiveness of the Group’s ESG internal control mechanism. The Taskforce also examines and evaluates the Group’s performance in different aspects such as environment, safe workplace, labour standards, and product responsibility in the ESG perspectives. The Board sets the general direction of the Group’s ESG strategy and ensures the effectiveness of ESG risk management and internal control mechanism.

REPORTING SCOPE

This ESG Report generally covers the Company’s subsidiaries, including Dongguan Smart Union Textiles Technology Co., Ltd, Guangdong Smart Team Textiles Technology Co., Ltd (“**Smart Team**”), and Magic Team (Beijing) International Fashion Design Co., Ltd in the PRC, as well as the Group’s headquarters in Hong Kong. The Group will continue to assess the major ESG aspects of different businesses and extend the scope of disclosures when and where applicable.

REPORTING FRAMEWORK

The ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (“**ESG Reporting Guide**”) as set out in Appendix 20 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited.

Information relating to the Group’s corporate governance practices has been set out in the Corporate Governance Report on P. 17 to P. 30 of this annual report.

REPORTING PERIOD

The ESG Report specifies the ESG activities, challenges and measures being taken during the financial year ended 31 December 2020.

Environmental, Social and Governance Report

STAKEHOLDER ENGAGEMENT

We value our stakeholders and their feedback regarding our businesses and ESG aspects. To understand and address their key concerns, we have been maintaining close communication with our stakeholders. We will continuously increase the involvement of stakeholders via constructive conversation to chart a course for long-term prosperity. The Group's communication channels with the key stakeholders and their respective expectations are summarised as follows:

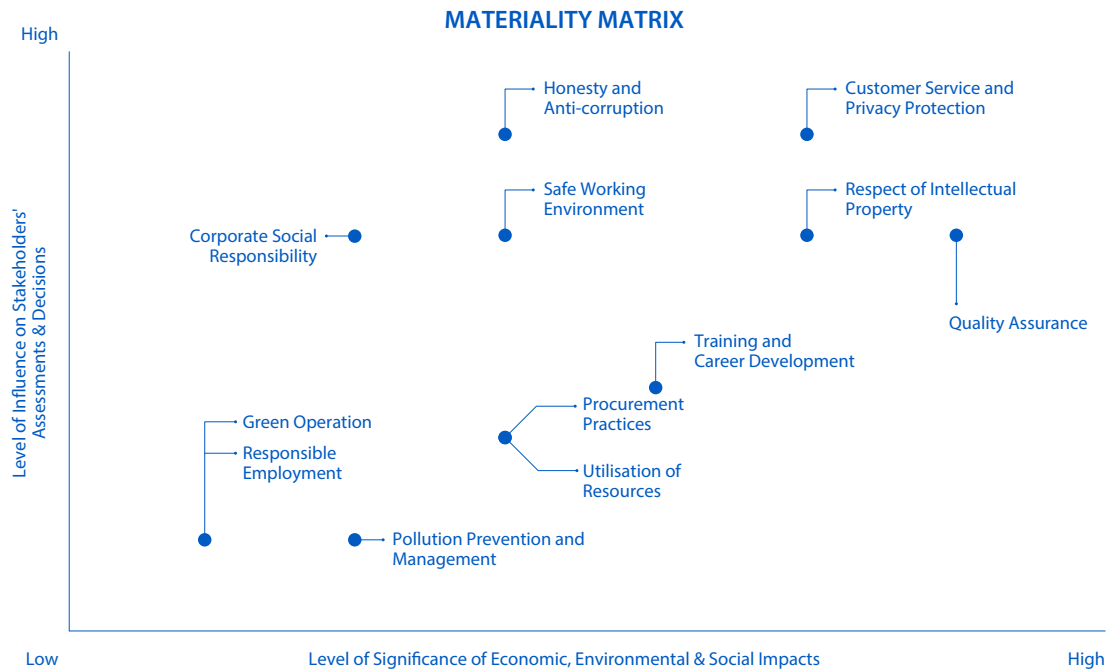
Stakeholders	Expectations	Communication Channels
Shareholders and investors	<ul style="list-style-type: none"> • Returns • Compliant operation • Growth in corporate value • Transparency and effective communication 	<ul style="list-style-type: none"> • General meetings • Financial reports • Announcements and circulars • Email, telephone communication and company website
Government and regulators	<ul style="list-style-type: none"> • Compliance with national or local policies, laws and regulations • Support for local economic growth • Driving local employment • Tax payment in full and on time • Ensuring production safety 	<ul style="list-style-type: none"> • Regular information reporting • Regular meetings with regulators • Dedicated reports • Examination and inspection
Business partners	<ul style="list-style-type: none"> • Operation with integrity • Fair competition • Performance of contracts • Mutual benefits 	<ul style="list-style-type: none"> • Review and appraisal meetings • Business communication • Exchanges and discussions • Engagement and cooperation
Customers	<ul style="list-style-type: none"> • Outstanding products and services • Health and safety • Performance of contracts • Operation with integrity 	<ul style="list-style-type: none"> • Customer service center and hotlines • Customer feedback surveys • Customer communication meetings • Social media platforms • Client review
Industry	<ul style="list-style-type: none"> • Establishment of industry standards • Driving industrial development 	<ul style="list-style-type: none"> • Participation of industrial forums • Visits and inspections
Employees	<ul style="list-style-type: none"> • Protection of rights • Occupational health and safety • Remuneration and benefits • Career development • Humanity care 	<ul style="list-style-type: none"> • Meetings with employees • House journals and intranet • Employee mailbox • Employee activities • Training and workshops
Community and the public	<ul style="list-style-type: none"> • Improvement in the community environment • Charity participation • Transparent information • Social medial platform 	<ul style="list-style-type: none"> • Company website • Announcements and circulars • Interview with media

We aim to collaborate with our stakeholders to improve our ESG performance and create greater value for the wider community on a continuous basis.

Environmental, Social and Governance Report

MATERIALITY ASSESSMENT

The management and employees in major functions of the Group are involved in the preparation of the ESG Report so as to assist the Group in reviewing its operations, identifying the relevant ESG issues and assessing the importance of those relevant matters to our business and stakeholders. We have compiled a survey to collect information from relevant departments, business units and stakeholders of the Group to identify material ESG issues. The following matrix summarises the Group's material ESG issues.



During the Reporting Period, the Group confirmed that it has established appropriate and effective management policies and internal control systems for ESG issues and confirmed that the disclosed contents in the ESG Report comply with the requirements of the ESG Reporting Guide.

CONTACT US

We welcome comments and suggestions from stakeholders. We are pleased to receive your valuable feedback on the ESG Report and/or our sustainability performance. Please feel free to share your feedback by email at yanminli@smart-team.cn.

Environmental, Social and Governance Report

A. ENVIRONMENTAL

A1. Emissions

The Group emphasises good environmental management and strives to protect the environment in order to fulfil the social responsibilities of the Group. Therefore, we have implemented an Environmental Management Policy and an environmental management system, with the aim to prevent pollution and to minimise any potential environmental impacts. One of our subsidiaries, Smart Team is accredited with ISO 14001:2015 Environmental Management System.

As all production processes of the Group have been out-sourced to third-party factories, the Group's daily operations have limited impact on the environment while its emissions are limited to air emissions from vehicles, greenhouse gas ("GHG") emissions and non-hazardous waste. However, we strive to minimise potential environmental impacts caused by third-party factories by ensuring that they have obtained relevant environmental permits mandatory for their manufacturing activities and have complied with relevant environmental laws and regulations before entering into business relationships with them. We are committed to promoting a green environment by implementing a variety of environmentally friendly business practices, educating our employees to enhance their environmental protection awareness and complying with relevant environmental laws and regulations.

During the Reporting Period, the Group was not aware of any material non-compliance with environmental related laws and regulations, including but not limited to the Environmental Protection Law of the PRC, the Prevention and Control of Atmospheric Pollution of the PRC, the Hong Kong Waste Disposal Ordinance, and the Water Pollution Control Ordinance that would have a significant impact on the Group.

Emission Prevention and Management

Exhaust Gas Emissions

The Group's major source of exhaust gas emissions was originated from petrol consumption by vehicles. In response to the above source, the following emission reduction measures are adopted to minimise the impacts:

- Conduct regular vehicle inspection and maintenance to maintain efficiency of vehicles;
- Remind employees to turn off the engines of idling vehicles;
- Encourage the use of public transportation for business travel;
- Reduce the number of business trips by utilising electronic communication means such as video conferences; and
- Actively adopt measures to reduce emissions, and relevant measures will be described in the section "GHG Emissions" under this aspect.

Environmental, Social and Governance Report

During the Reporting Period, the Group emitted 98.53 kg of Nitrogen Oxides (NOx), 0.11 kg of Sulphur Oxides (SOx) and 9.36 kg of Particulate Matter (PM).

GHG Emissions

The major sources of the Group's GHG emissions were generated from petrol consumption of vehicles (Scope 1), purchased electricity (Scope 2), and employee business-related air travels (Scope 3). We have adopted the following measures to reduce GHG emissions derived from business operation:

- Actively adopt environmental protection, energy conservation and water conservation measures which are described in the sections headed "Energy Management" and "Water Management" under aspect A2; and
- Actively adopt measures to reduce paper use in office which are described in the section headed "Waste Management" under this aspect.

During the Reporting Period, the Group's total GHG emissions intensity decreased by approximately 39%. The decrease was mainly resulted from the reduction of operation due to the outbreak of COVID-19. Summary of the Group's GHG emissions performance was as follows:

Indicator ¹	Unit	Emissions	
		2020	2019
Direct GHG emissions (Scope 1)	tCO ₂ e	21	28
Indirect GHG emissions (Scope 2)	tCO ₂ e	29	49
Other indirect – GHG emissions (Scope 3)	tCO ₂ e	18	28
Total GHG emissions (Scope 1, 2 and 3)	tCO ₂ e	68	105
Total GHG emissions intensity ²	tCO ₂ e/employee	0.86	1.42

Note:

1. GHG emissions data is presented in terms of carbon dioxide equivalent and based on, including but not limited to, The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards issued by the World Resources Institute and the World Business Council for Sustainable Development, How to prepare an ESG Report – Appendix II: Reporting Guidance on Environmental KPIs issued by the Stock Exchange of Hong Kong Limited, Global Warming Potential Values from the IPCC Fifth Assessment Report, 2014 (AR5), the latest emission factors of China's regional power grid basis, and 2019 Sustainability Report published by Hong Kong Electric Investments.
2. As at 31 December 2020, the Group had a total of 79 employees (as at 31 December 2019: 74 employees). This data has also been used for calculating other intensity data.

Environmental, Social and Governance Report

Sewage Discharge

As the Group has outsourced the production processes to third-party factories, sewage generated was mainly resulted from water consumed by employees. Since the sewage discharged by the Group are discharged into the municipal sewage pipe network to the regional water purification plant, water consumed by the Group is considered as sewage discharged. The data on water consumption and corresponding water conservation measures are described in the section headed "Water Management" under aspect A2.

Waste Management

Hazardous Wastes

Hazardous wastes generated by the Group consisted mainly of office supplies such as toner cartridges and light tubes. However, they were only consumed in a relatively small amount and were collected by the property management company, therefore they are considered as immaterial to the Group. Despite the Group has generated an insignificant amount of hazardous wastes, we have established guidelines in governing the management and disposal of hazardous wastes. In case there are any hazardous wastes produced, the Group is required to engage a qualified chemical waste collector to handle such wastes, and comply with relevant environmental rules and regulations.

Non-hazardous Wastes

The Group adheres to the principles of waste management, and is abiding by the principles of reduce, reuse and recycle to handling and disposing all wastes generated by our business activities. All of our waste management practices are in compliance with relevant environmental laws and regulations. The non-hazardous wastes disposed by the Group's business activities were mainly general wastes. We have taken the following measures to reduce non-hazardous wastes in our business operation:

- Use reusable products instead of one-off office supplies whenever possible;
- Extend stationery life cycle by reusing envelopes and refilling pens;
- Place recycling bins in office areas to improve employees' recycling habits;
- Distribute office memos to remind staff to only print necessary materials to avoid wastage;
- Use recycled paper for printing and copying; and
- Promote double-sided printing to utilise the use of paper efficiently.

With the above waste reduction initiatives in place, employees' waste reduction awareness has been increased. During the Reporting Period, the Group disposed 0.75 tonnes of paper, which approximates to 0.01 tonnes of paper per employee. In regard to general waste, since such waste was mainly collected and managed by the property management office, the Group does not have the record of general waste disposed during the Reporting Period. In addition, waste fabrics are generated in the course of operation due to the Group's business nature. However, all waste fabrics generated by the Group during the Reporting Period were sold to third party manufacturer.

Environmental, Social and Governance Report

A2. Use of Resources

The Group advocates and encourages the principle of effective utilisation of resources, and is devoted to the optimisation of the use of resources in all of its business operations. We promote a green office and operation environment and continue with initiatives to introduce resource efficiency and eco-friendly measures to the Group's operations.

The Group has established relevant policies and procedures in governing the use of energy and water so as to achieve higher efficiency and reduce unnecessary use of resources.

Use of Resources

Energy Management

The Group has developed related energy measures and initiatives on the efficient use of energy, and such measures and initiatives are formally documented in the Environmental Management Policy. Employees are required to follow and comply with the related measures and initiatives and assume responsibility for the Group's overall energy efficiency. To continuously enhance the Group's energy consumption performance, an energy management system has been established and we regularly review and assess our energy consumption objectives and targets. Unexpected increases in energy consumption will be investigated for the root causes, and corresponding preventive measures will be taken when deemed necessary.

In addition, the Group has introduced various measures and initiatives so as to achieve the goal of electricity saving and efficient consumption. Such measures and initiatives included but not limited to the following:

- Turn off all unnecessary lightings and use natural lightings as far as practicable;
- Set the air conditioning system at a minimum of 25.5°C;
- Clean filters of the air-conditioning system regularly to maintain its efficiency;
- Allow employees to dress light in hot weather and Fridays so as to reduce the use of air conditioning; and
- Set computers and other information and communication technology equipment to automatic standby mode or switch them off when not in use.

Environmental, Social and Governance Report

During the Reporting Period, the Group's total energy consumption intensity decreased by approximately 36%. Such decrease was mainly resulted from the reduction in operation due to the outbreak of COVID-19 during the Reporting Period. Summary of the Group's energy consumption performances was as follows:

Energy types	Unit	Consumption	
		2020	2019
Direct energy consumption	MWh	76	89
Indirect energy consumption	MWh	55	102
Total energy consumption	MWh	131	191
Total energy consumption intensity	MWh/employee	1.66	2.58

Water Management

The Group's water consumption comprised mainly of domestic water used within the office areas. We encourage all employees to develop the habit of water conservation. We have been strengthening our water-saving promotion, such as posting water saving reminders, and guiding employees to consume water reasonably. The following are some measures we have implemented to increase water use efficiency:

- Recycle and reuse grey water for cleaning and watering plants in offices;
- Reduce water pressure to the lowest practicable level; and
- Fix dripping taps to avoid further leakage and wastage.

During the Reporting Period, the Group's total water consumption intensity decreased by approximately 76%. Such decrease was mainly due to the reduction in operation due to the outbreak of COVID-19 during the Reporting Period. Summary of the Group's water consumption performance was as follows:

Indicator	Unit	Consumption	
		2020	2019
Water	m ³	277	1,091
Water consumption intensity	m ³ /employee	3.51	14.74

In view of the geographical location of the Group's operation and nature of business, there is no problem in sourcing water.

Use of Packaging Material

As the Group's production processes had been outsourced to third-party factories, the operation of the Group did not involve any use of packaging materials.

Environmental, Social and Governance Report

A3. The Environment and Natural Resources

The Group pursues the best practices for environmental protection and focuses on the Group's business impacts on the environment and natural resources. For the purpose of protecting the natural environment, as well as achieving environmental sustainability, the concepts of environmental protection and natural resource conservation have been integrated into our internal management and daily operations in addition to operating in compliance with relevant environmental laws and international standards. Although the core business of the Group only has a minor impact on the environment and natural resources, as an ongoing commitment to good corporate social responsibility, the Group is determined to minimise any negative environmental impacts in its business operations. The Group regularly assesses the environmental risks of its business and adopts preventive measures to reduce the risks and ensures compliance with relevant laws and regulations.

Green Operation

To enhance working efficiency, the Group is committed to providing employees a comfortable and green working environment. The Group maintains office order and environmental sanitation and keeps the office clean and tidy. In addition, the indoor air quality of the workplace is regularly monitored and measured. The indoor air quality is controlled and maintained by installing air purification equipment in the workplace and regularly cleaning air-conditioning systems to ensure its effectiveness in filtering pollutants and dust.

B. SOCIAL

B1. Employment

Human resource serves as the basis for the continuous development of the Group. The Group believes sustainable and continuous success relies heavily upon the ability to attract, develop and retain talents. Therefore, we adhere to a people-oriented principle, respect and protect the legitimate rights and interests of every employee. We regulate and manage the employment process, protect employees' occupational health and safety, strengthen democratic management style, safeguard the interests of employees and value employees' enthusiasm, initiative and creativity so as to build a harmonious labour relationship.

Relevant employment policies of the Group has been formally documented in the employee handbook of the Group ("**Employee Handbook**"), covering recruitment, promotion and dismissal, remuneration and benefits, diversity and equal opportunities, etc. Our policies and employment process are reviewed on a regular basis to ensure the continuous improvement of our employment standards.

During the Reporting Period, the Group was not aware of any material non-compliance with employment-related laws and regulations, including but not limited to the Labour Law of the PRC, the Labour Contract Law of the PRC, the Social Insurance Law of the PRC and the Hong Kong Employment Ordinance that would have a significant impact on the Group.

Environmental, Social and Governance Report

Responsible Employment

Recruitment, Promotion and Dismissal

The Group seeks to build an elite workforce by recruiting outstanding employees. We adhere to a transparent and fair principle to our robust recruitment process based on merit selection against the job criteria applied. Recruitment of individuals are based on their suitability for the positions and potential to fulfil the Group's current and future needs, regardless of their race, gender, religion, physical disability, marital status, sexual orientation, etc.

The Group offers promotion and development opportunities for outstanding employees through an open and fair assessment system so as to explore their capability, assist them on career development and contribute to the Group's sustainable growth. Staff performance reviews are carried out regularly to assess employees' work performance based on the principle of meritocracy, talents and competitiveness on an open and fair basis.

Furthermore, the Group does not tolerate the dismissal of employees under any unreasonable basis, and exit interviews are required to be conducted with the resigned staff to collect opinions for any possible improvements on the Group's policies.

Remuneration and Benefits

The Group has established a fair, reasonable and competitive remuneration system. Our basis to determine one's remuneration includes job-related skills, qualifications, experiences, capability, work performances, and prevailing market remuneration rate. Staff performance reviews are conducted regularly to assess performance of each employee so as to decide the salary adjustments. Employees' remuneration are composed of basic salary, performance bonus, overtime pay, full attendance award, related subsidies and various bonuses.

The Group signed and executed labour contracts with all employees in accordance with the Labour Contract Law of the PRC and the Employment Ordinance of Hong Kong. The Group pays five social insurances and one housing fund for its employees in the PRC in compliance with the relevant laws and regulations of the PRC, namely endowment insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing provident fund to ensure employees are covered by social insurance. We also remit contributions to the Mandatory Provident Fund retirement benefit scheme under the Hong Kong's Mandatory Provident Fund Schemes Ordinance for employees in Hong Kong.

Environmental, Social and Governance Report

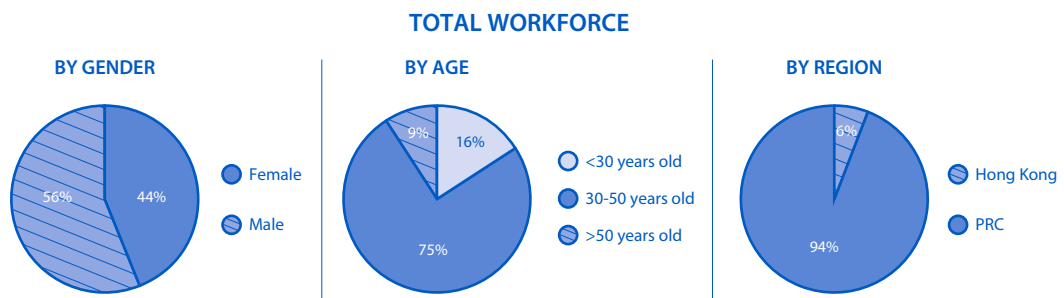
In addition to the remuneration package, there is an assortment of welfare offered by the Group. The benefit system of the Group is divided into three parts, which are statutory benefits, caring benefits and incentive benefits.

STATUTORY BENEFITS	CARING BENEFITS	INCENTIVE BENEFITS
<ul style="list-style-type: none"> • Five social insurances and one housing fund for employees in the PRC • MPF for employees in Hong Kong • All statutory holidays 	<ul style="list-style-type: none"> • Lunch allowance • High temperature allowance • Free accommodation • Paid annual leave, maternity leave, paternity leave, marriage leave, funeral leave, and sick leave • MPF for employees in Hong Kong • All statutory holidays 	<ul style="list-style-type: none"> • Wage for seniority • Long service allowance • Performance based salary • Year-end bonus

Equal Opportunities and Anti-discrimination

We are committed to creating and maintaining an inclusive and collaborative workplace culture in which all can thrive. We are dedicated to providing equal opportunities in all aspects of employment and maintaining workplace free from discrimination, physical or verbal harassment against any individual on the basis of age, colour, gender, marital status, physical or mental disability, place of origin, race, religion, and sexual orientation. We have zero tolerance on sexual harassment or abuse in the workplace in any form. Any employee who is intimidated, humiliated, bullied or harassed (including sexual harassment) may report to the employee's representative, or file complaints directly to the management representative or the general manager, and the Group will take a serious approach to resolve these issues upon receiving the said complaint.

As at 31 December 2020, the Group had a total of 79 full-time employees. The following graphs show our employees' diversity by age, gender and region.



Environmental, Social and Governance Report

Work-life Balance

The Group recognises the importance of maintaining a healthy lifestyle and work-life balance for our employees. Thus, the Group strives to establish a harmonious labour relationship and working environment which promote positive and healthy lifestyle and avoid overtime of employees working as far as reasonably practicable. We will also organise football games and matches on a regular basis.

B2. Health and Safety

The Group values the importance of employees' health and safety, and is committed to providing employees with a healthy, safe and comfortable working environment. We strive to eliminate potential workplace health and safety hazards, and safety management measures in all aspects are implemented to enhance employees' health and safety during work. We have established an occupational health and safety system and obtained the certificate of OHSAS 18001 Occupational Health and Safety Management System for Smart Team.

During the Reporting Period, there was no reported cases of work-related fatalities, and the Group was not aware of any material non-compliance with health and safety related laws and regulations, including but not limited to the Law of the PRC on the Prevention and Control of Occupational Diseases, and the Occupational Safety and Health Ordinance of Hong Kong that would have a significant impact on the Group.

Safe Working Environment

To pursue an injury-free working environment, the Group requires all employees to receive safety trainings before the commencement of work. We also emphasise to our employees that strict compliance with safety requirements is vital to protect themselves from accidents and injuries. Safety guidelines are provided to our employees who work in our third-party manufacturers' production facilities. When safety issues are spotted, employees are required to report in a timely manner. The Group has also formulated a series of emergency plans in case of any accidents and organised fire drills on a regular basis to further reinforce employees' safety awareness.

In response to the outbreak of COVID-19 pandemic, the Group has implemented a series of precautionary measures in accordance with regional laws and regulations to ensure the health and safety of our employees. An Epidemic Prevention and Control Team was established to implement the disease prevention and control measures and monitor their corresponding effectiveness. In addition to requiring employees to check their temperature daily, all personnel are required to wear a facial mask at all times within the Group's premise. The Group has also imposed measures to avoid the spreading of COVID-19, such as providing alcohol-based hand sanitisers to everyone and increasing the frequency of deep cleaning and disinfection in common areas.

B3. Development and Training

The Group considers our staff as one of the most precious assets and resources. We recognise the valuable contribution our talents made towards the continuing success of the Group. We are committed to investing in our human capital towards delivering excellence and striving to create an intellectually-stimulating environment within which employees do not only develop basic skills and knowledge but also specific talent and ability. This is achieved through the continuous development of training strategies that focuses and emphasises on creating values and serving the needs of our customers, our talents and society.

Environmental, Social and Governance Report

Training and Career Development

Relevant training procedures have been developed so as to standardise the management of employees' training. The Group has also formulated a training management system and is formally documented in the Employee Handbook.

New employees are required to attend mandatory induction courses to ensure that they are well-equipped with the necessary skills to perform their duties. The Group also provides regular trainings to our employees on areas including but not limited to technical know-how, industrial knowledge and hands-on skills. Training contents are updated regularly to ensure that the materials are up-to-date and thus able to enhance the skills, knowledge, and competency of our employees.

In addition to internal trainings, the Group encourages and supports employees to participate in external personal and professional trainings to fulfil the needs of the Group's development. To encourage employees in taking the initiative in learning and pursuing further career development, we offer reimbursements to our employees who have received relevant trainings and completed development programs that pertain to their respective work positions and skills. We also encourage our research and development personnel to participate in trainings provided by external research institutions, such as Donghua University, in order to maintain our capability and competitiveness in the product developing industry.

B4. Labour Standards

Child and forced labour are strictly prohibited throughout the recruitment process as defined by laws and regulations. The Group has established a sophisticated recruitment process to examine candidates' background and official reporting procedures to handle any exceptions. Personal data are collected during the employment process to assist in the selection of suitable candidates and to verify candidates' personal data. The human resources department of the Company nil that the identity documentations are carefully checked. If violation is involved, it will be dealt with in the light of circumstances.

Furthermore, employees overtime working are based on voluntary principle so as to avoid the violation of labour standards and safeguard the rights and interests of employees. Overtime salary or compensatory leave are also required to be provided afterwards. To prevent any form of forced labour, a job description outlining the principal responsibilities of employee is attached in the labour contract. The Group also prohibits any punitive measures, management methods and behaviours such as abusive, corporal punishment, violence, mental stress, sexual harassment (including inappropriate language, posture and physical contact) for any reason. At the same time, the Group also refrains from engaging with third-party factories and any suppliers who are aware of child labour or forced labour in their operations.

During the Reporting Period, the Group was not aware of any material non-compliance with laws and regulations related to the prevention of child labour and forced labour, including but not limited to the Labour Law of the PRC, the Labour Contract Law of the PRC and the Hong Kong Employment Ordinance that would have a significant impact on the Group.

Environmental, Social and Governance Report

B5. Supply Chain Management

As a socially responsible enterprise, the Group emphasises heavily on the management of potential environmental and social risks in our supply chain. We have established a rigorous and standardised procurement system that all suppliers are evaluated carefully and subjected to regular monitoring and assessments on a regular basis.

Procurement Practices

The Group has established a meticulous supplier selection system. During the supplier selection process, we review not only suppliers' basic information, but also consider a number of other factors including but not limited to the delivery schedule, pricing, possession of requisite licenses, certifications, and the compliance to relevant industrial laws, regulations and standards. In addition, we place product quality as our priority, and the performances of our raw material suppliers are reviewed from time to time to ensure raw materials supplied are able to meet our quality standards.

In view of the growing social concern on environmental issues, the Group has also incorporated environmental and social considerations into the supplier selection process. We aim to maintain a good relationship with suppliers having remarkable records in environmental and social performance. Suppliers who fail to demonstrate a good standard or fail to meet the Group's supplier selection criteria are excluded from our list of suppliers for future engagements.

In addition to the supplier selection system, policies and procedures were formulated to ensure and facilitate suppliers to compete in a transparent and fair way. We do not discriminate against any suppliers, and we do not allow any forms of corruption or bribery. Employees and other individuals with interest in the suppliers are not allowed to participate in relevant procurement activities. The Group only selects suppliers with good track record in the past and no serious violations of business ethics.

B6. Product Responsibility

The Group actively monitors the quality of our products with our internal control process, and maintains on-going communication with our customers to ensure mutual understanding while fulfilling customers' needs and expectations. We aim to apprehend customers' need and expectations, and strive to continuously improve the quality of our products and services.

During the Reporting Period, the Group was not aware of any material non-compliance with laws and regulations concerning health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress, including but not limited to the Law of the PRC on the Protection of Consumer Rights and Interests, the Product Quality Law of the PRC, the Patent Law of the PRC, the Advertising Law of the PRC, and the Hong Kong's Personal Data (Privacy) Ordinance, Trade Descriptions Ordinance, Copyright Ordinance that would have a significant impact on the Group.

Environmental, Social and Governance Report

Quality Assurance

We recognise the importance of achieving and maintaining high product quality standard to the sustainable growth of the Group. One of the Group's subsidiaries, Smart Team has obtained the certificate of ISO 9001:2015 Quality Management System on research, design and sales of textiles. The Group was also accredited with the OEKO-Tex Standard 100, which guaranteed that our products meet the human-ecological requirements for baby clothing.

To maintain high product quality, great emphasis are attached on the quality management. We have established a quality control team led by a manager experienced in the textile industry, who is responsible for ensuring the quality standards of the raw materials, products manufactured by third-party factories at each stage of production processes, as well as our end products. Moreover, standardised technical checklists which prescribe specific technical requirements and guidance have been formulated to these third-party factories.

In addition, to ensure the scheduled production plans are well-executed, representatives from our production control team are assigned to station in the third-party factories to carry out on-site inspection, provide production instructions and guidance, monitor production progress, coordinate day-to-day work, and take immediate actions to remedy defects discovered.

Research and Development

The Group views that the effort in conducting research and development is indispensable so as to maintain a high product quality standard. We constantly seek to develop new products and enhance our existing products with special features through our research and development capabilities.

To expand our research and development capabilities, the Group has developed a sophisticated research and development team comprising of professional technicians and engineers. We have also built our own physical laboratory, chemical laboratory, and other research centres for research and quality control. In addition, we have established research centres with Donghua University, Toyobo Co., Ltd. and Lenzing Group, which allow us to possess the latest technology in global textile industry. By leveraging our strong capabilities of research and development, we have been recognised as a High and New Technology Enterprise since 2016.

Customer Services and Privacy Protection

The Group provides quality and warm service experience to customers through standardised service quality management. To minimise complaints from customers which may result in product recall or other adverse consequences, our sales executives are responsible for liaising with our customers during the ordering stage and maintain close contact with them after delivery to ensure the Group is being notified for any quality problem or customers' complaints.

Environmental, Social and Governance Report

The Group has also established a set of procedures for the handling of customers' feedback or complaints in a professional manner. When receiving product or service-related enquiries or complaints, our sales executives communicate with customers immediately to resolve the problems. We are committed to understanding the facts and root causes of each customers' complaint, identifying areas for improvement and ensuring that necessary improvements are made in order to enhance the quality of the Group's service and products. We believe that this does not only help to build customers' loyalty to the Group, but also retains a customer base for promoting future development of the Group.

Apart from handling complaints, the Group understands that the protection of customers' privacy also contributes towards excellent customer service experience. We are determined to protecting customers' personal data by handling them with the highest degree of confidentiality. Strict policies have been established for the collection and usage of customers' data, and they are documented in the Employee Handbook. Our employees are prohibited from revealing or capitalising on any confidential matters or customer's information regardless of the employment status at the time of usage. Any employee who is found to have divulged confidential information to any third-party without authorisation will be subjected to disciplinary actions.

Protection of Intellectual Property ("IP") Rights

We believe our know-how and IP rights are critical to the success of the Group, therefore we had developed an IP management system which is accredited with IPMS Management System Certification.

The Group has adopted a number of measures and policies to protect our IP rights from any misuse or leakage of our IP. A specialised team has been established to manage and handle trademarks and patents to protect our rights from infringement. Employees are also required to sign a nondisclosure agreement which prohibits the divulgence of any trade secrets of the Group to any third parties. Moreover, we have entered into data processing agreements with third-party factories to protect our IP rights. For any infringement of our IP, we will urge infringers to cease such action or further action will be taken.

Advertising and Labelling

The Group emphasises on the importance of appropriate advertising and compliance in regard to relevant requirements of media advertisements. We promote our products mainly through advertisements, trade shows, and industry exhibitions. We verify all information regarding our products and business before publication of promotion materials or product sales to prevent any false, misleading or deceptive information being publicised.

Environmental, Social and Governance Report

B7. Anti-corruption

The Group considers integrity an important and essential element to its continuing business development, therefore we value the importance of anti-corruption work and are committed to building an honest and transparent corporate culture.

During the Reporting Period, the Group was not aware of any material non-compliance with related laws and regulations of bribery, extortion, fraud and money laundering, including but not limited to the Criminal Law of the PRC, the Company Law of the PRC, and the Hong Kong's Prevention of Bribery Ordinance and Hong Kong's Anti-Money Laundering and Counter Terrorist Financing Ordinance that would have a significant impact on the Group.

Honesty and Anti-corruption

The Group strictly adheres to a high standard of business conduct and has established relevant policies to define appropriate measures in handling conflict of interests, leakage of confidential information, embezzlement of the Group's asset, etc. to comply with relevant laws and regulations. The Group has adopted a zero-tolerance approach towards all forms of corruption, including deception, bribery, forgery, extortion, conspiracy, embezzlement, money laundering and collusion. Disciplinary actions will be taken against any kind of misconduct or malpractice.

B8. Community Investment

Corporate Social Responsibility

The Group believes in shouldering the responsibility of contributing to society and strives to be a responsible corporate citizen. We have formulated the Community Investment Policy, and are committed to being an active member of the community by supporting and participating in various charitable community activities. The Community Investment Policy aims to provide guidance and standards to all employees who wish to support community activities as part of the Group.

We hope to foster employees' sense of social responsibility by encouraging them to participate in charitable activities so as to provide greater contributions back to the community. We believe that by actively participating in activities that contribute to the community, we are able to enhance the civic awareness of our employees and establish correct values for them.

Environmental, Social and Governance Report

THE ESG REPORTING GUIDE

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A1: Emissions General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to Exhaust Gas and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions – Emission Prevention and Management
KPI A1.1	The types of emissions and respective emissions data.	Emissions – Exhaust Gas Emissions
KPI A1.2	GHG emissions in total (in tonnes) and intensity.	Emissions – GHG Emissions
KPI A1.3	Total hazardous waste produced (in tonnes) and intensity.	Emission – Waste Management (Not applicable – Explained)
KPI A1.4	Total non-hazardous waste produced (in tonnes) and intensity.	Emission – Waste Management
KPI A1.5	Description of reduction initiatives and results achieved.	Emissions – Emission Prevention and Management
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emission – Waste Management
Aspect A2: Use of Resources General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Use of Resources – Energy Management
KPI A2.2	Water consumption in total and intensity.	Use of Resources – Water Management
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Use of Resources – Energy Management
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Use of Resources – Water Management
KPI A2.5	Total packaging material used for finished products (in tonnes) and with reference to per unit produced.	Use of Resources – Use of Packaging Material (Not applicable – Explained)

Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impacts on the environment and natural resources.	The Environment and Natural Resources
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Environment and Natural Resources – Green Operation
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Employment – Equal Opportunities and Anti-discrimination
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
KPI B2.1	Number and rate of work-related fatalities	Health and Safety
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training

Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B4: Labour Standards General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards
Aspect B5: Supply Chain Management General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
Aspect B6: Product Responsibility General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
Aspect B7: Anti-corruption General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
Aspect B8: Community Investment General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment

INDEPENDENT AUDITOR'S REPORT



SHINEWING (HK) CPA Limited
43/F, Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

**TO THE MEMBERS OF
ST INTERNATIONAL HOLDINGS COMPANY LIMITED**
智紡國際控股有限公司
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of ST International Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 68 to 134, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

Valuation of inventories

Refer to note 18 to the consolidated financial statements and the accounting policies on page 87.

The key audit matter

The Group has carrying value of inventories amounted to approximately HK\$36,543,000 as at 31 December 2020.

Inventories are valued at the lower of cost or net realisable value.

We have identified the estimated write down for inventories as a key audit matter because the assessment of write down for inventories involved significant management judgements and estimates regarding the net realisable value on inventories. Significant auditor's judgement will be involved during the review procedures.

How the matter was addressed in our audit

Our audit procedures were designed to assess the methodology and assumptions used by management in assessing the inventory provisions.

We have reviewed management's identification of slow moving and obsolete inventories, and critically assessed whether appropriate provisions had been established for slow moving and obsolete items. When considering management's assessment, we have also taken into account, the most recent prices achieved on sales across different products and by checking subsequent sales.

We have also assessed the reliability of management's assessment by considering the utilisation or release of previously recorded provisions.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Expected credit losses of trade receivables

Refer to note 19 to the consolidated financial statements and the accounting policies on pages 87 to 92.

The key audit matter

The Group's trade receivables amounted to approximately HK\$75,419,000, representing approximately 41% of the Group's current assets, as at 31 December 2020.

In general, the credit terms granted by the Group to the customers ranged between 30 to 120 days.

Management performed periodic assessment on the recoverability of the trade receivables and the sufficiency of provision for impairment based on information including credit profile of different customers, ageing of the trade receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant customers. Management also considered forward looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment.

We focused on this area due to the impairment assessment of trade receivables under the expected credit losses model involved the use of significant management judgements and estimates.

How the matter was addressed in our audit

Our audit procedures were designed to challenge the assumptions and critical judgements of the Group's forward-looking expected credit losses model on impairment assessment of trade receivables.

We have assessed the provision matrix used in the model by reference to the historical information together with other external available information. In particular, we have challenged the appropriateness of the default rate of various debtors that have similar loss patterns by taking into account the ageing at year end. We have also challenged the appropriateness of the assumptions used in forward-looking information by comparing credit worthiness of each debtor and macro economy and industry performance and checking historical and subsequent settlement records of and other correspondence with the customers.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Impairment of plant and equipment

Refer to note 4 to the consolidated financial statements and the accounting policies on page 86.

The key audit matter

The Group's plant and equipment amounted to approximately HK\$29,134,000, representing approximately 13% of the Group's total assets, as at 31 December 2020.

In view of the significant decrease in profit for the year from approximately HK\$34,992,000 in 2019 to approximately HK\$6,111,000 in 2020, there is an indication of impairment for plant and equipment. The Group's impairment assessment of plant and equipment involved the use of significant management judgements and estimates.

How the matter was addressed in our audit

Our audit procedures were designed to evaluate the management's assessment of the indicators of impairment and, where such indicators were identified, assessed the management's impairment testing.

We have discussed with the management on the key assumptions used in the management's assessment of the indicators of impairment. We have also performed check on sample basis by physically inspecting whether the plant and equipment are kept in a good condition.

We have assessed the appropriateness of their assessment methodology and challenged the data used as inputs for the impairment assessment.

OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

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

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

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.
- Conclude on the appropriateness of the Company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

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

(Continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ms. Chan Ka Wai.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Chan Ka Wai

Practising Certificate Number: P07328

Hong Kong

25 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Revenue	5	120,683	191,180
Cost of sales		(92,205)	(129,912)
Gross profit		28,478	61,268
Other income	7	2,415	1,836
Selling and distribution expenses		(3,399)	(5,286)
Administrative and other expenses		(19,762)	(19,192)
Reversal of impairment loss on trade receivables		–	57
Finance costs	8	(616)	(338)
Profit before tax		7,116	38,345
Income tax expenses	9	(1,005)	(3,353)
Profit for the year	10	6,111	34,992
Other comprehensive income (expense) for the year			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences arising on translation of foreign operations		10,314	(4,583)
Fair value loss on equity investments designated at fair value through other comprehensive income	20	(119)	–
Other comprehensive income (expense) for the year		10,195	(4,583)
Total comprehensive income for the year		16,306	30,409
Earnings per share – basic and diluted (HK\$ cents)	14	1.27	7.29

Consolidated Statement of Financial Position

As at 31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current assets			
Plant and equipment	15	29,134	6,682
Deposit paid for acquisition of plant and equipment	16	–	20,000
Deferred tax asset	25	2,056	2,367
Right-of-use assets	17	2,315	1,668
Financial asset at fair value through other comprehensive income	20	469	–
		33,974	30,717
Current assets			
Inventories	18	36,543	39,305
Trade and bills receivables	19	75,419	34,903
Deposits, prepayments and other receivables	19	31,886	20,808
Pledged bank deposits	22	2,971	2,791
Bank balances and cash	22	38,996	55,155
		185,815	152,962
Current liabilities			
Trade payables	23	4,640	1,590
Other payables and accruals	23	8,309	7,100
Contract liabilities	21	2,241	2,414
Lease liabilities	17	880	1,206
Bank borrowing	24	21,387	–
Bank overdraft	24	862	–
Tax payable		1,013	3,245
		39,332	15,555
Net current assets		146,483	137,407

Consolidated Statement of Financial Position

As at 31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current liabilities			
Deferred tax liability	25	400	400
Lease liabilities	17	1,247	420
		1,647	820
NET ASSETS		178,810	167,304
Capital and reserves			
Share capital	26	4,800	4,800
Reserves		174,010	162,504
Total equity		178,810	167,304

The consolidated financial statements on pages 68 to 134 were approved and authorised for issue by the board of directors on 25 March 2021 and are signed on its behalf by:

Mr. Wong Kai Hung, Kelvin
Director

Mr. Xi Bin
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to owners of the Company							Total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 <i>(Note a)</i>	Statutory reserve HK\$'000 <i>(Note b)</i>	Retained earnings HK\$'000	Fair value reserve HK\$'000	Exchange reserve HK\$'000 <i>(Note c)</i>			
At 1 January 2019	4,800	53,389	2,235	5,797	74,551	–	(3,466)	137,306	(411)	136,895
Profit for the year	–	–	–	–	34,992	–	–	34,992	–	34,992
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	(4,583)	(4,583)	–	(4,583)
Total comprehensive income (expense) for the year	–	–	–	–	34,992	–	(4,583)	30,409	–	30,409
Changes in ownership interest in a subsidiary <i>(note a (iv))</i>	–	–	(411)	–	–	–	–	(411)	411	–
At 31 December 2019 and 1 January 2020	4,800	53,389	1,824	5,797	109,543	–	(8,049)	167,304	–	167,304
Profit for the year	–	–	–	–	6,111	–	–	6,111	–	6,111
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	10,314	10,314	–	10,314
Fair value loss on financial assets at fair value through other comprehensive income <i>(note 20)</i>	–	–	–	–	–	(119)	–	(119)	–	(119)
Total comprehensive income (expense) for the year	–	–	–	–	6,111	(119)	10,314	16,306	–	16,306
Dividend declared <i>(note 13)</i>	–	(4,800)	–	–	–	–	–	(4,800)	–	(4,800)
Transfer to PRC statutory reserve	–	–	–	129	(129)	–	–	–	–	–
At 31 December 2020	4,800	48,589	1,824	5,926	115,525	(119)	2,265	178,810	–	178,810

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

Notes:

(a) Capital reserve

Capital reserves represents (i) the difference between the consideration for acquisition of non-controlling interest of Dongguan Smart Union Textiles Technology Co., Ltd. (東莞聯兆紡織科技有限公司) ("Smart Union") and the carrying amount of the non-controlling interest, (ii) the contribution from the shareholder due to a deed of waiver dated 23 April 2018 executed by the shareholder and director of the Company, Mr. Wong Kai Hung Kelvin ("Mr. Wong") and a subsidiary of the Company, Smart Team Textiles Technology Limited ("Smart Team"), pursuant to which an outstanding sum in the amount of HK\$2,000,000 owed by Smart Team to Mr. Wong as at 30 April 2018 was irrevocably and unconditionally waived by Mr. Wong and (iii) the nominal value of the share issued to acquire Smart Team; and (iv) the difference between the consideration for the acquisition of the non-controlling interest of Magic Team (Beijing) International Fashion Design Co., Ltd. (幻天(北京)國際服裝設計有限公司) and the carrying amount of the non-controlling interests.

(b) Statutory reserve

According to The People's Republic of China (the "PRC") Company Law, companies in the PRC are required to transfer 10% of their respective after-tax profits, calculated in accordance with the relevant accounting principles and financial regulations applicable to entities established in the PRC, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The statutory reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of these companies, provided that such fund is maintained at a minimum of 25% of the registered capital. The statutory reserve is not distributable as cash dividends and must be made before distribution of dividend to equity owners.

(c) Exchange reserve

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Hong Kong dollars) are recognised directly in other comprehensive income and accumulated in the exchange reserve. Such exchange differences accumulated in the exchange reserve are reclassified to profit or loss on the disposal of the foreign operations.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	2020 HK\$'000	2019 HK\$'000
OPERATING ACTIVITIES		
Profit before tax	7,116	38,345
Adjustment for:		
Depreciation of plant and equipment	1,919	1,579
Depreciation of right-of-use assets	1,122	1,118
Reversal of impairment loss on trade receivables	–	(57)
Bank interest income	(498)	(430)
Finance costs	616	338
Loss on disposal of plant and equipment	47	–
Write-down of Inventories	3,539	–
Government grants	(1,218)	(865)
Operating cash flows before movements in working capital	12,643	40,028
Decrease (increase) in inventories	1,471	(16,703)
Increase in trade and bills receivables	(36,244)	(3,377)
(Increase) decrease in deposits, prepayments and other receivables	(9,518)	5,890
Increase (decrease) in trade payables	2,792	(1,688)
Increase in other payables and accruals	2,481	1,361
Decrease in contract liabilities	(311)	(5,175)
Cash (used in) generated from operations	(26,686)	20,336
PRC income tax refunded	769	–
PRC income tax paid	(2,834)	(6,175)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(28,751)	14,161

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	2020 HK\$'000	2019 HK\$'000
INVESTING ACTIVITIES		
Deposit paid for acquisition of plant and equipment	–	(14,000)
Acquisition of plant and equipment	(5,840)	(2,440)
Withdrawal of pledged bank deposits	–	3,336
Acquisition of financial asset at fair value through other comprehensive income	(563)	–
Proceeds from disposal of plant and equipment	507	–
Interest received	498	430
NET CASH USED IN INVESTING ACTIVITIES	(5,398)	(12,674)
FINANCING ACTIVITIES		
Dividend paid	(4,800)	–
Government grants received	1,218	865
Proceeds from bank borrowing	20,254	–
Repayment of bank borrowing	–	(5,535)
Repayment of lease liabilities	(1,327)	(1,227)
Interest paid	(546)	(229)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	14,799	(6,126)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(19,350)	(4,639)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	55,155	61,026
Effect of foreign exchange rate changes	2,329	(1,232)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	38,134	55,155
Analysis of Components of Cash and Cash Equivalents:		
Bank balances and cash	38,996	55,155
Bank overdraft	(862)	–
	38,134	55,155

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

1. GENERAL INFORMATION

ST International Holdings Company Limited (the “Company”) was incorporated in the Cayman Islands, under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 21 February 2017 and its shares were listed on GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 16 May 2018.

The parent and the ultimate holding company of the Company is Cosmic Bliss Investments Limited (“Cosmic Bliss”), a company incorporated in the British Virgin Islands (the “BVI”). The ultimate controlling party is Mr. Wong Kai Hung, Kelvin (“Mr. Wong”).

The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of the principal place of business of the Company in Hong Kong is Room 1006, Centre Point, 181-185 Gloucester Road, Wan Chai, Hong Kong.

The Company is an investment holding company and its principal subsidiaries are principally engaged in sales of functional knitted fabrics and apparel.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company and its Hong Kong subsidiary. Renminbi (“RMB”) is the functional currency of the PRC subsidiaries of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied, for its first time, the Amendments to References to the Conceptual Framework in Hong Kong Financial Reporting Standards (“HKFRSs”) and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) which are effective for the Group’s financial year beginning 1 January 2020:

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

In addition, the Group has early applied Amendment to HKFRS 16, COVID-19-Related Rent Concessions, which is effective for annual periods beginning on or after 1 June 2020.

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRSs and the amendments to HKFRSs in the current year has had no material effect on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

Early application of Amendment to HKFRS 16, COVID-19 Related Rent Concessions

The amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. A lease applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 as if the changes were not lease modifications. Forgiveness or waiver of lease payments is accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs. The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the year. During the current year, the COVID-19-related rent concessions recognised in the profit or loss amounted to approximately HK\$24,000. There is no impact on the opening balance of equity at 1 January 2020.

New and amendments to HKFRSs issued but not yet effective

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

HKFRS 17	Insurance Contracts and related Amendments ⁴
Amendments to HKFRS 3	Reference to Conceptual Framework ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5(2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ⁴
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use ³
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ³
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ³
Accounting Guideline 5 (Revised)	Merger accounting for common control combinations ⁵

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

² Effective for annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or after 1 January 2022

⁴ Effective for annual periods beginning on or after 1 January 2023

⁵ Effective for common control combinations that occur on or after the beginning of the first annual reporting period on or after 1 January 2022

The directors of the Company anticipate that the application of these new and amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market at the measurement date under current market condition (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company.

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns.

The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of subsidiaries 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 component of other comprehensive income of subsidiaries 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.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing 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 interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. 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.

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognised 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 customers.

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 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 asset is created and enhanced; 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 goods or services.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Contract assets and contract liabilities

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.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

The Group recognised revenue from sales of goods.

Sales of goods

Revenue from sales of goods is recognised at the point when the control of the goods is transferred to the customers (generally on delivery of goods).

Leasing

Definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessor

The Group enters into lease agreements as a lessor with respect to some of its machineries. 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 of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When a contract includes both lease and non-lease components, the Group applies HKFRS 15 to allocate the consideration under the contract to each component.

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

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

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

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

The Group as lessee (Continued)

Lease liabilities (Continued)

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured 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.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and accumulated losses and adjusted for any remeasurement of lease liabilities. They are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The Group presents right-of-use assets as a separate line in the consolidated statement of financial position. The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

The Group as lessee (Continued)

COVID-19-Related Rent Concessions

For rental concessions relating to lease contracts that occurred as a direct consequence of the COVID-19 pandemic, the Group has elected to apply the practical expedient not to assess whether a COVID-19-Related Rent Concession for lease contracts is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 that meets all of the following conditions:

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefits cost

Payments to state managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the "MPF") are recognised as an expense when employees have rendered service entitling them to the contributions.

Short term employee benefits

A liability recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

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 profit before tax as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 difference 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 of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, 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.

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 by the same taxation authority on either (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Current and deferred taxes are recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured on the same basis as intangible assets acquired separately.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Plant and equipment

Plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to allocate the cost of items of plant and equipment 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.

An item of 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 plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment on plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its plant and equipment and right-of-use assets to determine whether there is any indication that those assets have suffered impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, 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 for which the estimates of future cash flows have not been adjusted.

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. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the 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. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Bank balances and cash in the consolidated statements of financial position comprise cash at banks and on hand and short-term bank deposits with a maturity of three months or less.

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of bank balances and cash, as defined above, net of outstanding bank overdraft.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

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 at fair value through other comprehensive income ("FVTOCI")) are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date 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 marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and FVTOCI.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (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) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased or originated credit-impaired financial assets, 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. If, in subsequent reporting periods, 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.

Interest income is recognised in profit or loss and is included in "Other income" (note 7).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the fair value reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends from investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income".

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime expected credit loss ("ECL") for trade and bills receivables. The expected credit losses on these financial assets are estimated using a provision matrix 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 as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has 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 increase in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument 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. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

Significant increase in credit risk (Continued)

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- 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;
- significant increases in credit risk on other financial instruments of the same 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 on a financial asset 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.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- 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).

The Group considers that default has occurred when a financial asset is more than 180 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

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 of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. 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 12 months 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. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses 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 as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only 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 party.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity 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 a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities subsequently measured at amortised costs

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Fair value measurement

When measuring fair value except for the Group's leasing transactions, net realisable value of inventories and value in use of plant and equipment and right-of-use assets for the purpose of impairment assessment, 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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Fair value measurement (Continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated 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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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 trade receivables

The impairment provisions for trade receivables are based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, bases on the number of days that an individual receivable is overdue as well as the Group's historical experience and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss. At 31 December 2020, the carrying amount of trade receivables is approximately HK\$75,419,000 (2019: HK\$34,903,000) and impairment loss of trade receivables is approximately HK\$41,000 (2019: HK\$41,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimated write-down for inventories

The management of the Group reviews an ageing analysis of inventories at the end of each reporting period and makes write-down of inventories for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Group makes write-down for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices, the costs necessary to make the sale and current market conditions. As at 31 December 2020, the carrying amount of inventories was approximately HK\$36,543,000 (2019: HK\$39,305,000).

Impairment of prepayment

The management of the Group determines the provision for impairment of prepayment. This estimate is based on the credit history of its suppliers and current market conditions. Management reassesses the provision on a regular basis by reviewing the utilisation of prepayment balance based on past credit history and prior knowledge of supplier insolvency and market volatilities. As at 31 December 2020, no impairment loss has been recognised (2019: nil).

Deferred taxes

As at 31 December 2020, the Group has unused tax losses of approximately HK\$24,709,000 (2019: HK\$19,934,000). As at 31 December 2020, deferred tax asset of HK\$2,056,000 (2019: HK\$2,367,000) have been recognised in respect of approximately HK\$10,892,000 (2019: HK\$12,135,000) of such losses. No deferred tax asset had been recognised in respect of remaining tax losses of approximately HK\$13,817,000 (2019: HK\$7,799,000) due to the unpredictability of future profit streams. The realisability of deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which a reversal takes place.

Estimated impairment of plant and equipment and right-of-use assets

Plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the assets belong.

As at 31 December 2020, the carrying amounts of right-of-use assets, plant and equipment, were HK\$2,315,000 and HK\$29,134,000 (2019: HK\$1,668,000 and HK\$6,682,000) respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

5. REVENUE

Revenue represents the amounts received and receivable from sales of goods in the normal course of business, net of sales related tax.

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	2020 HK\$'000	2019 HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products line		
– Sales of functional knitted fabrics	104,821	142,528
– Sales of apparel	11,033	17,487
– Sales of yarns	4,829	31,165
	120,683	191,180

Disaggregation of revenue by timing of recognition

	2020 HK\$'000	2019 HK\$'000
Timing of revenue recognition		
At a point in time	120,683	191,180

The manufacturing contracts are with an original expected duration of less than one year. Accordingly, the Group has elected the practical expedient and has not disclosed the amount of transaction price for the performance obligations that are unsatisfied as at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

6. SEGMENT INFORMATION

Operating segments and the amounts of each segment item reported in the consolidated financial statements are identified from the financial information provided regularly to the executive management of the Group, being the chief operating decision maker, for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

The Group is organised into a single operating segment as sales of functional knitted fabrics, apparel and yarns primarily in the PRC and all revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to this single segment. Accordingly, no segment analysis by business and geographical information is presented.

Information about major customers

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

	2020 HK\$'000	2019 HK\$'000
Customer A	42,911	N/A
Customer B	33,320	59,244

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

7. OTHER INCOME

	2020 HK\$'000	2019 HK\$'000
Bank interest income	498	430
Government grants (note)	1,218	865
Rental income	146	–
Sundry income	426	541
Net exchange gain	127	–
	2,415	1,836

Note:

Government grants of approximately HK\$948,000 have been received by the subsidiaries in the PRC for the year ended 31 December 2020 (2019: HK\$865,000). The amounts have been included in other income for the year. During the year ended 31 December 2020, the Group recognised government grants of HK\$270,000 in respect of COVID-19-related subsidies, related to Employment Support Scheme provided by the Government of the Hong Kong Special Administrative Region under the Anti-Epidemic Fund. There are no unfulfilled conditions or contingencies related to these grants.

8. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Interests on:		
– Bank borrowing	546	229
– Lease liabilities	70	109
	616	338

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

9. INCOME TAX EXPENSES

	2020 HK\$'000	2019 HK\$'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	897	5,538
Overprovision of PRC EIT in prior years	(203)	(930)
Deferred taxation (<i>note 25</i>)	311	(1,255)
	1,005	3,353

Hong Kong Profits Tax was calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the year ended 31 December 2020 and 2019. No provision for Hong Kong Profits Tax has been made as there are no assessable profits for the years ended 31 December 2020 and 2019.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

One of the Group's subsidiaries established in the PRC is recognised as a High and New Technology Enterprise ("HNTE") which has been granted tax concessions by the PRC tax bureau and is entitled to PRC EIT at concessionary rate of 15%.

One of the Group's subsidiaries registered in the PRC is qualified under the Notice of Comprehensive Tax Relief for Small and Micro Enterprises recognised as a small and micro enterprise which has been granted tax concession by PRC tax bureau and is entitled to PRC enterprise income tax at concessionary rate of 5% for the first portion of less than RMB1 million taxable income and 10% for the second portion of more than RMB1 million but less than RMB3 million taxable income during the reporting period.

Pursuant to the rules and regulation of the British Virgin Islands ("BVI") and the Cayman Islands, the Group is not subject to any income tax in these jurisdictions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

9. INCOME TAX EXPENSES (Continued)

The income tax expense can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2020 HK\$'000	2019 HK\$'000
Profit before tax	7,116	38,345
Tax at the applicable tax rate at 25% (2019: 25%)	1,779	9,586
Tax effect of preferential tax rate	(1,112)	(4,485)
Tax effect of super deduction of research and development expenses	(965)	(902)
Tax effect of income not taxable for tax purpose	(84)	(307)
Tax effect of expense not deductible for tax purposes	320	292
Overprovision in respect of prior years	(203)	(930)
Utilisation of tax losses previously not recognised	(364)	(456)
Tax effect of tax loss not recognised	993	1,136
Tax effect of tax loss previously not recognised	–	(625)
Reversal of withholding tax on undistributed earnings of a PRC subsidiary	–	(600)
Effect of different tax rates of subsidiaries operating in other jurisdictions	641	644
Income tax expense for the year	1,005	3,353

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 175% (2019: 175%) of their eligible research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the year ("Super Deduction"). The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits for relevant periods ended.

Details of the deferred taxation are set out in note 25.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

10. PROFIT FOR THE YEAR

	2020 HK\$'000	2019 HK\$'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments (<i>note 11</i>)	3,432	3,553
Salaries, allowances and other benefits (excluding directors' emoluments)	13,330	13,444
Contributions to retirement benefits scheme (excluding directors' emoluments)	427	901
Total staff costs	17,189	17,898
Auditor's remuneration	620	880
Depreciation of plant and equipment	1,919	1,579
Depreciation of right-of-use assets	1,122	1,118
Loss on disposal of plant and equipment	47	–
Research and development costs recognised as an expense (<i>note</i>)	7,201	4,310
Cost of inventories recognised as an expense	79,416	123,095
Write-down of inventories	3,539	–
Expenses relating to short-term leases	192	112
Net foreign exchange (gain) losses	(127)	249

Note:

The research and development expenses disclosed here excluded salaries, allowances and other benefits of approximately HK\$1,972,000 (2019: HK\$3,366,000), and contributions to retirement benefits scheme of approximately HK\$77,000 (2019: HK\$200,000) for the year ended 31 December 2020 which had been included in salaries, allowances and other benefits disclosed above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 6 (2019: 6) directors and the chief executive were as follows:

	Year ended 31 December 2020				Total HK\$'000
	Fees HK\$'000	Salaries, allowances and benefits in kind Note (a) HK\$'000	Discretionary bonuses HK\$'000	Retirement benefit scheme contributions Note (a) HK\$'000	
Executive directors:					
Mr. Wong Kai Hung, Kelvin	-	1,440	-	18	1,458
Mr. Xi Bin	-	1,461	-	23	1,484
	-	2,901	-	41	2,942
Non-executive director:					
Mr. Hung Yuk Miu	80	50	-	-	130
	80	50	-	-	130
Independent non-executive directors:					
Mr. Ng Wing Heng, Henry	120	-	-	-	120
Mr. Fong Kin Tat	120	-	-	-	120
Mr. Sze Irons	120	-	-	-	120
	360	-	-	-	360
Total	440	2,951	-	41	3,432

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

	Year ended 31 December 2019				Total HK\$'000
	Fees	Salaries, allowances and benefits in kind Note (a)	Discretionary bonuses	Retirement benefit scheme contributions Note (a)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Executive directors:					
Mr. Wong Kai Hung, Kelvin	–	1,187	–	18	1,205
Mr. Xi Bin	–	1,188	–	35	1,223
	–	2,375	–	53	2,428
Non-executive director:					
Mr. Hung Yuk Miu (Redesignated from executive director to non-executive director on 30 April 2019)	115	644	–	6	765
	115	644	–	6	765
Independent non-executive directors:					
Mr. Ng Wing Heng, Henry	120	–	–	–	120
Mr. Fong Kin Tat	120	–	–	–	120
Mr. Sze Irons	120	–	–	–	120
	360	–	–	–	360
Total	475	3,019	–	59	3,553

Notes:

- Salary and retirement benefit scheme contributions paid to a director is generally an emolument paid or payable in respect of that person's other services in connection with management of the affairs of the Company or its subsidiary undertakings.
- Mr. Xi Bin is the chief executive officer of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive officer.
- Neither the chief executive officer nor any of the directors waived any emoluments during the years ended 31 December 2020 and 2019.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

Aggregate emoluments paid to or receivable by directors in respect of their services as directors, whether of the Company or its subsidiaries undertaking		Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of affairs of the Company or its subsidiaries undertaking		Total	
2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
440	475	2,992	3,078	3,432	3,553

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2019: three) were directors and the chief executive officer of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining three (2019: two) individuals were as follows:

	2020 HK\$'000	2019 HK\$'000
Salaries and other allowances	1,749	1,062
Retirement benefit scheme contributions	41	27
	1,790	1,089

Their emoluments were within the following bands:

	Number of individuals	
	2020	2019
Nil to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	1	–

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

13. DIVIDENDS

Dividends payable to owners of the Company attributable to the year

	2020 HK\$'000	2019 HK\$'000
Final dividend proposed after the end of the reporting period of HK\$1 cents per ordinary share (2019: HK\$1 cents per ordinary share)	–	4,800
Final dividend in respect of previous financial year, approved and paid during the year	4,800	–

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2020	2019
Profit for the year attributable to owners of the Company (HK\$'000)	6,111	34,992
Weighted average number of ordinary shares in issue ('000)	480,000	480,000
Basic earnings per share (HK cents per share)	1.27	7.29

Diluted earnings per share was the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2020 and 2019.

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15. PLANT AND EQUIPMENT

	Machineries <i>HK\$'000</i>	Office Equipment <i>HK\$'000</i>	Motor Vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST				
At 1 January 2019	3,766	3,034	2,308	9,108
Additions for the year	–	788	1,652	2,440
Exchange realignment	(81)	(66)	(92)	(239)
At 31 December 2019 and 1 January 2020	3,685	3,756	3,868	11,309
Additions for the year	22,950	380	–	23,330
Disposals for the year	(546)	–	(201)	(747)
Exchange realignment	1,490	259	152	1,901
At 31 December 2020	27,579	4,395	3,819	35,793
ACCUMULATED DEPRECIATION				
At 1 January 2019	377	1,286	1,466	3,129
Charge for the year	826	310	443	1,579
Exchange realignment	(31)	(37)	(13)	(81)
At 31 December 2019 and 1 January 2020	1,172	1,559	1,896	4,627
Charge for the year	1,185	437	297	1,919
Written back for disposals	(138)	–	(55)	(193)
Exchange realignment	134	121	51	306
At 31 December 2020	2,353	2,117	2,189	6,659
CARRYING VALUES				
At 31 December 2020	25,226	2,278	1,630	29,134
At 31 December 2019	2,513	2,197	1,972	6,682

The above items of plant and equipment are depreciated on a straight-line basis over their estimated useful lives, taking account into their estimated residual values as follow:

Machineries	10 to 15 years
Office equipment	2 to 5 years
Motor vehicles	3 years

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

15. PLANT AND EQUIPMENT (Continued)

The Group leased out a machinery under operating leases which was acquired during the year with cost of approximately HK\$18,286,000 and accumulated depreciation of approximately HK\$102,000. The lease runs for a period of 1 year. Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in the future period are approximately HK\$1,609,000 in the coming year.

16. DEPOSIT PAID FOR ACQUISITION OF PLANT AND EQUIPMENT

As at 31 December 2019, HK\$20,000,000 was paid to a supplier to manufacture the machine, being a dyeing and finishing machinery which incorporates the nanotechnology and dyeing techniques developed by the Group.

During the year ended 31 December 2020, the machine was completed and delivered by the supplier and was therefore recognised under plant and equipment.

17. LEASES

(i) Right-of-use assets

	2020 HK\$'000	2019 HK\$'000
Leased properties	1,834	959
Motor vehicle	481	709
	2,315	1,668

The Group has lease arrangements for its leased properties and a motor vehicle. The lease terms are generally ranged from two to three years.

Right-of-use assets included HK\$1,834,000 (2019:HK\$633,000) of leased properties in the PRC and nil (2019:HK\$326,000) of lease property located in Hong Kong.

In respect of the lease arrangement for renting motor vehicle, the Group has option to purchase motor vehicle for a nominal amount at the end of the lease term. The Group's obligation is secured by the lessor's title to the leased asset for such lease.

Additions to the right-of-use assets for the year ended 31 December 2020 amounted to HK\$1,737,000 (2019: HK\$1,682,000), due to the newly leased properties.

Notes to the Consolidated Financial Statements

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17. LEASES (Continued)

(ii) Lease liabilities

	2020 HK\$'000	2019 HK\$'000
Non-current	1,247	420
Current	880	1,206
	2,127	1,626

The remaining contractual maturities of the Group's lease liabilities are shown as follow.

	31/12/2020 HK\$'000	31/12/2019 HK\$'000
Within one year	880	1,206
After one year but within two years	658	354
After two years but within five years	589	66
	2,127	1,626
Less: Amount due for settlement within 12 months (shown under current liabilities)	(880)	(1,206)
Amount due for settlement after 12 months	1,247	420

During the year ended 31 December 2020, the Group entered into three (2019: two) new lease agreements in respect of renting properties and recognised lease liabilities in aggregate of HK\$1,737,000 (2019: HK\$1,682,000).

Rent concessions

During the year, the Group received rent concessions in the form of a discount on fixed payments during the period of severe social distancing and travel restriction measures introduced to contain the spread of COVID-19.

As disclosed in note 2, the Group has early adopted the Amendment to HKFRS 16, COVID-19-Related Rent Concessions. These rent concessions occurred as a direct consequence of COVID-19 pandemic, which met all of the conditions in HKFRS 16.46B, and the Group applied the practical expedient not to assess whether the changes constitute lease modifications. Accordingly, during the current year, rent concessions totalling approximately HK\$24,000 have been accounted as negative variable lease payments and recognised in the profit or loss, with a corresponding adjustment to the lease liabilities.

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17. LEASES (Continued)

(iii) Amounts charge/(credit) in profit or loss

	31/12/2020 HK\$'000	31/12/2019 HK\$'000
Depreciation expense on right-of-use assets	1,122	1,118
Expense relating to short-term leases	192	112
Interest expense on lease liabilities	70	109
Rent concession related to COVID-19 (note)	(24)	-

Note: Due to the outbreak of COVID-19, the Group has received certain rent concessions from lessors through rent forgiveness. The Group has early adopted Amendment to HKFRS 16 and applied the practical expedient not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification.

(iv) Others

As at 31 December 2020 and 2019, all committed lease agreements have been commenced.

During the year ended 31 December 2020, the total cash outflow for leases amount to HK\$1,519,000 (2019: HK\$1,339,000).

18. INVENTORIES

	2020 HK\$'000	2019 HK\$'000
Work in progress	30,420	32,647
Finished goods	6,123	6,658
	36,543	39,305

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19. TRADE AND BILLS RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Trade receivables	75,460	34,325
Bills receivables	–	619
Gross amount of total trade and bill receivables arising from contracts with customer	75,460	34,944
Less: allowance for impairment of trade receivables	(41)	(41)
	75,419	34,903
Other receivables	5,035	4,671
Prepayments	26,698	16,015
Deposits	153	122
	31,886	20,808

The Group allows credit period of 30 to 120 days to its trade customers. The Group does not hold any collateral over its trade and bills receivables. The following is an aged analysis of the gross trade and bills receivables, presented based on the invoice date, which approximates the respective revenue recognition dates, at the end of the reporting period.

	2020 HK\$'000	2019 HK\$'000
Within 30 days	39,048	33,792
31 to 60 days	32,608	808
61 to 90 days	3,222	–
91 to 180 days	–	–
181 to 365 days	–	344
More than 1 year	582	–
Total	75,460	34,944

The Group measures the loss allowance for trade and bills receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

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19. TRADE AND BILLS RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

The Group recognised lifetime ECL for trade receivables based on individually significant customer or the ageing of customers by due date collectively that included as follows:

As at 31 December 2020	Weighted average expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000
Within 90 days	0.035%	74,878	26
More than 90 days	2.58%	582	15
Total		75,460	41

As at 31 December 2019	Weighted average expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000
Within 90 days	0.075%	34,600	26
More than 90 days	4.36%	344	15
Total		34,944	41

Movements of the provision for impairment loss on trade receivables are as follows:

	2020 HK\$'000	2019 HK\$'000
At the beginning of the year	41	98
Reversal of impairment loss for the year	–	(57)
At the end of the year	41	41

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19. TRADE AND BILLS RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Included in trade and other receivables are the following amounts denominated in foreign currency other than the functional currency of relevant group entities:

	2020 HK\$'000	2019 HK\$'000
United States Dollars ("USD")	4,404	–

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets at FVTOCI comprise:

	2020 HK\$'000	2019 HK\$'000
Equity instruments designated at FVTOCI – Unlisted	469	–
Analysed for reporting purposes as: – Non-current assets	469	–

The above unlisted equity investment represent investment in unlisted equity securities issued by a private entity established in the PRC. The investment in equity instrument are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the Group has elected to designate the investment in equity instrument as at FVTOCI as it is believed that recognising short-term fluctuations in the investment fair value in profit or loss would not be consistent with the Group's strategy of holding these investment for long-term purposes and realising their performance potential in the long run.

According to the valuation as at 31 December 2020 by an independent professional valuer, the fair value of the equity security was approximately HK\$469,000, a fair value loss approximately HK\$119,000 was recognised under other comprehensive income.

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For the year ended 31 December 2020

21. CONTRACT LIABILITIES

	2020 HK\$'000	2019 HK\$'000
Current Manufacturing arrangements	2,241	2,414

Contract liabilities include prepayments received for the sales of goods.

For certain customers, the Group receives range from 20% to 30% of the contract values as deposits from customers when they sign the sale and purchase agreements for the sales of goods.

Revenue recognised during the year ended 31 December 2020 that was included in the contract liabilities at the beginning of the year is HK\$2,406,000 (2019: HK\$7,613,000). There was no revenue recognised in the current year that related to performance obligations that were satisfied in the previous year.

22. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances represented short-term deposits with a maturity of three months or less. At 31 December 2020, bank balances carried at prevailing market rates range from 0.01% to 0.10% per annum (2019: from 0.01% to 0.30% per annum). At 31 December 2020, the pledged bank deposits carry fixed interest rate range at 0.60% per annum (2019: at 0.60% per annum). The pledged bank deposits will be released upon the settlement of relevant bank borrowing and termination of bank facilities.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group and also pledged to secure short-term bank borrowing and therefore are classified as current assets.

Included in the pledged bank deposits and bank balances and cash are the following amounts denominated in foreign currencies other than the functional currency of relevant group entities:

	2020 HK\$'000	2019 HK\$'000
RMB	3,008	2,810
USD	17	492

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23. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2020 HK\$'000	2019 HK\$'000
Trade payables	4,640	1,590
Other payables and accruals:		
Accrued expenses	1,774	1,452
Other payables	255	333
Other tax payables	6,280	5,315
	8,309	7,100

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

	2020 HK\$'000	2019 HK\$'000
Within 30 days	3,930	1,589
31 to 60 days	577	–
61 to 90 days	25	–
91 to 180 days	1	1
More than 180 days	107	–
Total	4,640	1,590

The credit period granted is ranging from 30 to 90 days. The Group has financial risk management in place to ensure that all payables are settled within the credit timeframe.

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24. BANK OVERDRAFT/BORROWING

	2020 HK\$'000	2019 HK\$'000
Bank overdraft	862	–
Secured bank borrowing	21,387	–
	22,249	–

Carrying amounts of bank borrowing repayable (based on scheduled repayment dates set out in loan agreements):

	2020 HK\$'000	2019 HK\$'000
On demand and within one year	22,249	–

This loan was secured by personal guarantees provided by Mr. Xi Bin, a director of the Company.

During the year ended 31 December 2020, one of the subsidiaries of the Company has breached a loan covenant under the loan agreement with a principal amount of approximately HK\$21,387,000 granted by a bank to the Group and the subsidiary has yet to receive any waiver nor any demand for the immediate repayment from the lender. The directors of the company are of the opinion that, the Company is able to repay the loan when the lender demands for repayment.

(a) The amounts of banking facilities utilisation at 31 December 2020 and 2019 are set out as follows:

	2020 HK\$'000	2019 HK\$'000
Facilities amount	10,000	10,000
Utilisation – Secured bank borrowing	–	–

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For the year ended 31 December 2020

24. BANK OVERDRAFT/BORROWING (Continued)

- (b) As at 31 December 2020, there was interest-bearing borrowing carried interest at variable market interest rate based on PRC Loan Prime Rate plus 0.5% per annum as follows (2019: no interest-bearing borrowing).

	2020	2019
Variable-rate borrowing	4.35%	–

25. DEFERRED TAXATION

The following is the analysis of the net deferred tax (asset) liability:

	2020 HK\$'000	2019 HK\$'000
Net deferred tax asset	(2,056)	(2,367)
Net deferred tax liability	400	400
	(1,656)	(1,967)

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25. DEFERRED TAXATION (Continued)

The following are the components of deferred tax (assets) liabilities recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Withholding tax on undistributed earnings of a PRC subsidiary <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2019	30	(1,742)	1,000	(712)
Credited to profit or loss (<i>note 9</i>)	(30)	(625)	(600)	(1,255)
At 31 December 2019 and 1 January 2020	–	(2,367)	400	(1,967)
Charged to profit or loss (<i>note 9</i>)	–	311	–	311
At 31 December 2020	–	(2,056)	400	(1,656)

Deferred tax assets not recognised

As at 31 December 2020, the Group has unused tax losses of approximately HK\$24,709,000 (2019: HK\$19,934,000). As at 31 December 2020, deferred tax asset of HK\$2,056,000 (2019: HK\$2,367,000) have been recognised in respect of approximately HK\$10,892,000 (2019: HK\$12,135,000) of such losses. No deferred tax asset had been recognised in respect of the remaining tax losses of approximately HK\$13,817,000 (2019: HK\$7,799,000) due to the unpredictability of future profit streams.

As at 31 December 2020, HK\$13,817,000 (2019: HK\$7,799,000) tax loss was not recognised as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax loss does not expire under current tax legislation.

Deferred tax liabilities not recognised

Under the EIT law, withholding tax of 10% is imposed on dividends declared in respect of profits earned by a PRC subsidiary from 1 January 2008 onwards. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. Deferred taxation has been provided in respect of the temporary differences associated with certain undistributed profit earned by a PRC subsidiary at the applicable withholding tax of 5%.

At 31 December 2020, the aggregate amount of temporary difference associated with undistributed earnings of the subsidiary for which deferred tax liability has not been recognised amounted to approximately HK\$118,008,000 (2019: HK\$78,094,000). No deferred tax liability has been recognised in respect of these undistributed earnings because the Company is in a position to control the timing of the reversal of the temporary differences and it is probable that such difference will not reverse in the foreseeable future.

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26. SHARE CAPITAL

	Number of ordinary shares '000	Share capital HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised		
As at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	10,000,000	100,000
Issued and fully paid		
As at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	480,000	4,800

27. RETIREMENT BENEFITS PLAN

Hong Kong

The Group operates the MPF under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. Under the MPF, the Group is required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the scheme vest immediately. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs, capped at HK\$1,500 per month, to the MPF Scheme, in which the contribution is matched by the employee.

PRC

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute a state-managed retirement plan for all its employees at a certain percentage of the basic salaries of its employees, subject to a certain ceiling. The state-managed retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-managed retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

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28. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities within 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 remained unchanged from prior year.

The capital structure of the Group consists of bank borrowing, bank overdraft, pledged bank deposits, bank balances and cash and equity attributable to owners of the Company, comprising issued share capital and reserves.

The Group reviews its capital structure periodically and considers the cost of capital and risks associated with each class of capital. The Group may balance its overall capital structure through new share issues and may also consider the raise of new borrowings as additional capital.

The Group also endeavours to ensure the steady and reliable cash flows from the normal business operation.

29. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	At 31 December	
	2020 HK\$'000	2019 HK\$'000
Financial assets		
Financial asset at amortised cost (including bank balances and cash)	122,574	97,642
Financial assets at FVTOCI	469	–
	123,043	97,642
Financial liabilities		
At amortised cost	28,918	3,375

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29. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies

The Group's major financial instruments include financial asset at FVTOCI, trade and bills receivables, deposits and other receivables, pledged bank deposits, bank balances and cash, trade payables, other payables and accruals, bank borrowing and bank overdraft.

Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group's operational activities are mainly denominated in RMB. The Group is exposed to foreign currency risk primarily arising from the sales and purchases which give rise to receivables and payables denominated in foreign currencies and bank deposits denominated in foreign currencies other than the functional currency of relevant group entity. The Group currently does not have a foreign currency hedging policy. However, the management of the Company closely monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amounts of the Group's monetary assets that are denominated in currencies other than the functional currencies of relevant group entities at the end of the reporting periods are as follows:

	Asset	
	2020 HK\$'000	2019 HK\$'000
RMB	3,008	2,810
USD	4,421	4,883

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29. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

Foreign currency sensitivity

The following table details the Group's sensitivity to a 5% changes in HK\$ against the foreign currency. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A positive number indicates an increase in profit before tax where HK\$ weakening against RMB. For a 5% strengthening against the respective currency, there would be an equal and opposite impact on the profit before tax.

The management of the Company considered that since the currency between HK\$ and USD is pegged under linked-exchange rate system, the effect of change is not significant, accordingly, it is not included in this sensitivity analysis.

	2020 HK\$'000	2019 HK\$'000
Increase in profit after tax	150	140

This is mainly attributable to the exposure for outstanding RMB receivables.

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29. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to pledged bank deposits, bank balances (note 22), bank borrowing and bank overdraft (note 24). The Group currently does not have any interest rate hedging policy. It is the Group's policy to keep pledged bank deposits, bank balances and bank borrowing at floating rate as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the prevailing market rates on bank balances, variable-rate bank borrowing.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstandings were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2019: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit would increase/decrease by approximately HK\$177,000 (2019: HK\$252,000) for the year ended 31 December 2020.

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29. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2020, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The credit risk of our Group mainly arises from trade and bills receivables, deposits and other receivables, pledged bank deposits and bank balances. The carrying amounts of these balances represent our Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

For trade and bills receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL collectively by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For deposits and other receivables, pledged bank deposits and bank balances, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

Management considered deposits and other receivables to be low credit risk and thus the impairment provision recognised during the year was limited to 12-month ECL.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

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29. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies *(Continued)*

Credit risk (Continued)

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- 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 debtor

The Group's exposure to credit risk

In order to minimise credit risk, the Group has tasked its management to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

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29. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group's exposure to credit risk (Continued)

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

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29. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group's exposure to credit risk (Continued)

The tables below detail the credit quality of the Group's financial assets as well as the Group's maximum exposure to credit risk by credit risk rating grades.

	Internal credit rating	12-month or lifetime ECL	31 December 2020			31 December 2019		
			Gross carrying amount	Loss allowance	Net carrying amount	Gross carrying amount	Loss allowance	Net carrying amount
			HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade and bills receivables	N/A	Lifetime ECL	75,460	(41)	75,419	34,944	(41)	34,903
Deposits and other receivables	Performing	12-month ECL	5,188	-	5,188	4,793	-	4,793
Pledged bank deposits	Performing	12-month ECL	2,971	-	2,971	2,791	-	2,791
Bank balances and cash	Performing	12-month ECL	38,996	-	38,996	55,155	-	55,155

The Group's concentration of credit risk by geographical location is mainly in the PRC, which accounted for 100% and 99% of the total trade receivables as at 31 December 2020 and 2019.

As at 31 December 2020 and 2019, the Group has concentration of credit risk as 68% and 21% of the total trade and bills receivables was due from the Group's largest customer while 81% and 49% of the total trade and bills receivables was due from the Group's top five largest customers, respectively.

Liquidity risk

The Group monitors and maintains a level of bank balances and cash deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowing and ensures compliance with loan covenants.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowing with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for the non-derivative financial liabilities are based on the agreed repayment dates.

The tables include both interest and principal cash flows. To the extent that interest cash flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

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29. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity risk tables

	On demand or within one year <i>HK\$'000</i>	More than one year but less than five years <i>HK\$'000</i>	Total undiscounted cash flows <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
At 31 December 2020				
Trade payables	4,640	–	4,640	4,640
Other payables and accruals	2,029	–	2,029	2,029
Lease liabilities	978	1,309	2,287	2,127
Bank borrowing	21,775	–	21,775	21,387
Bank overdraft	862	–	862	862
	30,284	1,309	31,593	31,045

	On demand or within one year <i>HK\$'000</i>	More than one year but less than five years <i>HK\$'000</i>	Total undiscounted cash flows <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
At 31 December 2019				
Trade payables	1,590	–	1,590	1,590
Other payables and accruals	1,785	–	1,785	1,785
Lease liabilities	1,255	445	1,700	1,626
	4,630	445	5,075	5,001

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30. FAIR VALUE MEASUREMENTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The carrying amounts of financial instruments that are measured at fair value at the end of the reporting period for recurring measurement, based on the degree to which the fair value is observable in accordance to the Group's accounting policy are as follows:

	2020 Level 3 HK\$'000
Financial asset at FVTOCI	469

There were no transfers between levels of fair value hierarchy in the current year. The valuation technique and input used in the fair value measurement are set out below:

Financial instruments	Fair value as at 31/12/2020	Fair value hierarchy	Valuation technique	Significant unobservable inputs	Relationship of key inputs and significant unobservable inputs to fair value
Unlisted equity securities	HK\$469,000	Level 3	2020: Income approach 2019: N/A	2020: Marketability discount of 15.8% 2019: N/A	2020: The higher the marketability discount the lower the fair value of the unlisted equity securities 2019: N/A

The Group considers that the carrying amounts of the current financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements, approximate to their fair values due to their short-term maturities.

Reconciliation of level 3 fair value measurements of financial asset on recurring basis:

	Unlisted equity securities HK\$'000
At 1 January 2020	–
Total losses: – in other comprehensive income	(119)
Purchase	563
Exchange realignment	25
At 31 December 2020	469

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31. RELATED PARTY TRANSACTIONS

During the years ended 31 December 2020 and 2019, transactions with the following parties are considered to be related parties transactions:

Name of related party	Relationship with the Group
Mr. Wong	Director and Controlling Shareholder of the Group
Mr. Xi Bin	Director of the Company
Mr. Hung Yuk Miu (“ Mr. Hung ”)	Non-executive Director of the Group
Zhongsan Da Chong Elastic Thread Factory Ltd. (中山市大涌線廠有限公司) (note)	Owned as to 15% by Mr. Wong and as to 85% collectively by the close family members of Mr. Wong
Proudy Limited	Wholly owned by Mr. Hung

Note: The English translation of the name is for reference only. The official name of this entity is in Chinese.

- (a) Save as disclosed elsewhere in the consolidated financial statements, during the years ended 31 December 2020 and 2019, the Group has entered into transactions with related parties as follows:

Related party	Nature of transaction	2020 HK\$'000	2019 HK\$'000
Zhongsan Da Chong Elastic Thread Factory Ltd. (note)	Purchase of yarns	534	1,239
Proudy Limited	Consultancy services	734	–

Each of the above transactions was conducted at terms determined on a basis mutually agreed with the Group and the respective related party.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

31. RELATED PARTY TRANSACTIONS (Continued)

(b) Balance with related company

The following balances were outstanding at the end of the reporting period:

	2020 HK\$'000	2019 HK\$'000
Prepayment		
Proudy Limited	286	286

The balance represented prepayment of certain consultancy service.

The above transaction was conducted at terms determined on a basis mutually agreed with the Group and the related party.

(c) Compensation to key management personnel

The key management personnel are the directors of the Company. Details of the remuneration paid to the directors are set out in note 11.

(d) Personal guarantee provided by executive director to secure bank borrowing

Mr. Xi Bin, an executive director, has provided personal guarantee for the bank borrowings with principal amount of approximately HK\$21,387,000 for the year ended 31 December 2020.

All of the above related party transactions fall under the definition of connected transaction or continuing connected transactions as defined in chapter 20 of the GEM Listing rule.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

32. SUBSIDIARIES OF THE GROUP

Name of subsidiary	Place of incorporation/ operation	Class of shares held	Paid up issued registered ordinary share capital	Proportion of ownership interest held by the Company				Proportion of voting power held by the Company		Principal activities
				Directly		Indirectly		31 December		
				2020	2019	2020	2019	2020	2019	
				%	%	%	%	%	%	
World Vantage Investments Limited ("World Vantage")	BVI	Ordinary shares	USD1	100%	100%	N/A	N/A	100%	100%	Investment holdings
Smart Team Textiles Technology Limited ("Smart Team")	Hong Kong	Ordinary shares	HK\$10	N/A	N/A	100%	100%	100%	100%	Sales of functional knitted fibres and yarns
Guangdong Smart Team Textiles Technology Co., Ltd.** ("Guangdong Smart Team") 廣東兆天紡織科技有限公司	PRC	Contributed capital	RMB10,000,000	N/A	N/A	100%	100%	100%	100%	Sales of functional knitted fabric
Dongguan Smart Union Textiles Technology Limited ** ("Smart Union") 東莞聯兆紡織科技有限公司	PRC	Contributed capital	RMB1,000,000	N/A	N/A	100%	100%	100%	100%	Sales of functional knitted fabric
Magic Team (Beijing) International Fashion Design Co., Ltd.** ("Magic Team") 幻天(北京) 國際服裝設計有限公司	PRC	Contributed capital	RMB500,000	N/A	N/A	100%	100%	100%	100%	Design and sales of apparel

* The English name is for identification only. The official name of the company is in Chinese.

Those subsidiaries are wholly foreign owned enterprises.

None of the subsidiaries had issued any debt securities during both years or at the end of both years.

33. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2020, the Group entered into new lease arrangements in respect of certain leased properties. Right-of-use assets and lease liabilities of HK\$1,737,000 (2019: HK\$1,682,000) were recognised at the commencement date of the leases.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Non-cash changes					31/12/2019 HK\$'000
	1/1/2019 HK\$'000	Financing cash flows HK\$'000	New lease arrangement HK\$'000	Finance costs incurred HK\$'000	Foreign exchange movement HK\$'000	
Bank borrowing	5,535	(5,535)	–	–	–	–
Lease liabilities	1,082	(1,227)	1,682	109	(20)	1,626
	6,617	(6,762)	1,682	109	(20)	1,626

	Non-cash changes					31/12/2020 HK\$'000
	1/1/2020 HK\$'000	Financing cash flows HK\$'000	New lease arrangement HK\$'000	Finance costs incurred HK\$'000	Foreign exchange movement HK\$'000	
Bank borrowing	–	20,254	–	–	1,133	21,387
Lease liabilities	1,626	(1,327)	1,737	70	21	2,127
	1,626	18,927	1,737	70	1,154	23,514

Notes to the Consolidated Financial Statements

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35. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Notes	2020 HK\$'000	2019 HK\$'000
Non-current assets		
Investment in a subsidiary	100	100
Current assets		
Amount due from a subsidiary (a)	47,885	53,096
Bank balances and cash	57	57
	47,942	53,153
Current liabilities		
Amount due to a subsidiary	100	–
	100	–
NET CURRENT ASSETS	47,842	53,153
NET ASSETS	47,942	53,253
Capital and reserves		
Share capital 26	4,800	4,800
Reserves (b)	43,142	48,453
Total equity	47,942	53,253

Notes:

- (a) The amount due from a subsidiary is unsecured, non-interest bearing and repayable on demand. The directors of the Company expect repayments from subsidiary within next twelve months from the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

35. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes: (Continued)

(b) Movements in reserves

	Share premium HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2019	53,389	(4,264)	49,125
Loss for the year	–	(672)	(672)
Total comprehensive expense for the year	–	(672)	(672)
At 31 December 2019 and 1 January 2020	53,389	(4,936)	48,453
Loss for the year	–	(511)	(511)
Total comprehensive expense for the year	–	(511)	(511)
Cash dividend paid	(4,800)	–	(4,800)
At 31 December 2020	48,589	(5,447)	43,142